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DRN 2022-00632

SUMMARY

DIALOGUE FORUM E-KRONA

DATE: 28 September 2023
DOCUMENT RB PUBLIC
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Meeting 9. The Digital Euro legislative package

This ninth meeting of the e-krona's external dialogue forum was about the European Commission's digital euro legislative package. On 28 June 2023, the European Commission submitted a package of three proposals for regulations aimed at providing legal support for the establishment of a digital central bank currency in euros (digital euro), among other things¹. The meeting dealt with selected parts of the first of the three regulations – the Regulation on the establishment of the digital euro.

Prior to the meeting, participants had received questions about distribution, control instruments, business model and fees, accessibility and use outside the euro area with reading references to the articles that specifically concerned these areas.

Mandatory for credit institutions but optional for payment service providers – the right balance or not?

The European Commission propose that it would be mandatory for credit institutions but voluntary for payment service providers to offer digital euro.

The following challenges with the proposal were discussed:

- The proposal is not competition-neutral, as some payment service providers (credit institutions) are obliged to offer the digital euro while it is voluntary for others.

¹ [The EU Digital Euro legislative Package - Regeringen.se](https://www.regeringen.se/491000/2023/06/28/the-eu-digital-euro-legislative-package)

- The proposal lacks clear incentives that encourage voluntary participation and innovation for all participants in the distribution chain, not least incentives for end-users.
- It is challenging to promote innovation while providing a socially beneficial service.

The following advantages with the proposal were discussed:

- An obligation for payment service providers and retailers to offer and receive digital euros may be necessary to ensure their use.
- The digital euro creates opportunities for innovation and cost harmonisation in the market.

Multiple digital euro accounts with different payment service providers can be challenging

According to the proposal, an end-user should be able to open more than one digital euro account with one or more credit institutions and payment service providers.

The following challenges with the proposal were discussed:

- The proposal may make the exchange of information between the parties involved complex.
- The proposal may make it difficult for end-users to obtain an overview of the entire holdings.
- Although the responsibility for, and administration of, digital euro accounts are delegated from the central bank to intermediaries, the costs of the system as a whole risk increasing as controls need to be carried out in different places, compared to a central account solution. In the event of crisis and war in particular, a solution with one account would be easier to administrate.

Control instruments are necessary but limits will affect their use

The European Commission's proposal is to use limits as a control instrument to limit the use of the digital euro.

The following advantages with the proposal were discussed:

- It is important that there are control instruments to limit the holdings of digital euro to ensure financial stability in the market. Without control instruments there's a risk that, during times of uncertainty or low-interest environments, end-users will move assets from their bank accounts to their digital euro accounts, causing so called 'bank runs'.
- It is important to investigate the consequences of the introduction of different types of instruments and of changes in these instruments over time.
- It is important to have a function that provides information on the user's total holdings of digital euros.

- It is reasonable to support automatic replenishment and emptying of the digital euro account (waterfall function).
- The possibility for the public to move their money to the digital euro can improve competition.

The following challenges with the proposal were discussed:

- It is important for the retailers that limits in the form of amount limits do not make it difficult to make returns.
- Amount limits or other new rules that differ from today's payment methods could make it difficult for consumers to understand the product.
- Limits may restrict the use of the digital euro which may lead to problems in the event of crisis and war and also limit the possibility of innovation.
- It is unclear how the waterfall function will work for those who cannot or do not want to open a bank account to which the surplus can be moved.

The business model should be reviewed

The European Commission's proposal is that it should be free for individuals to connect to, acquire and use the basic functions of the digital euro. However, fees may be charged from the retailer side, although the ECB shall be able to limit the size of these fees, taking into account the costs of the payment service provider and given a reasonable profit margin.

The following advantages with the proposal were discussed:

- A cap on fees can stimulate innovation around how distribution and usage can be managed efficiently.

The following challenges with the proposal were discussed:

- Retailers will be obliged to accept digital euros and pay fees to payment service providers, but will not be able to charge its customers any fees.
- This model is similar to the current model for card payments, which has emerged over a long period of time. It is not certain that this model is best suited for something completely new as digital euro. One alternative that was discussed was that the digital euro should be completely free of charge for purchases of small amounts and that the fee would be a fixed fee per transaction for larger amounts.

The accessibility directive is good but has not been incorporated

The European Commission's proposal is that credit institutions should ensure that the digital euro is accessible to people with disabilities by complying with the accessibility requirements laid down in the so-called Accessibility Directive (Annex I to Directive 2019/882/EC of the European Parliament and of the Council).

The following advantages with the proposal were discussed:

- If the Commission's proposal eventually resulted in the Accessibility Directive being followed and complied with it would be a major step forward.
- It is important that there is a plan for those who cannot or do not want to be a customer of a credit institution. The public authorities need to take greater responsibility than what they do today. Local authorities might be a good solution.

The following challenges with the proposal were discussed:

- The Accessibility Directive was adopted in 2019, but there are still problems with compliance.
- It must be made clear who is responsible for supervising and following up on actual compliance with the directive.
- Identification is the biggest challenge today from an accessibility perspective. The Commission's proposal includes that the digital euro should support a future European identity wallet, which is a challenge as it is still under development.

Use outside the euro area is a political issue

The Commission's proposal is that payment service providers may only distribute the digital euro to natural persons and legal entities resident or established in a member state whose currency is not the euro if the European Central Bank and the national central bank of that Member State have signed an agreement to do so. As there was no uniform opinion at the meeting on the consequences of signing or not signing an agreement as described above, there was more general discussion of the matter.

It was noted that distributing the digital euro to the Swedish public in Sweden is a political issue. One possible interpretation is that the wording is for those member states who are keen to join the euro but who do not yet meet the access conditions.

It was said that it would probably not be particularly technically demanding for retailers operating within the European Union to adapt their Swedish payment solutions if they already have done so for their operations in the euro area.

The participants perceived it as unclear how digital euro payments should be handled in EU countries that have not adopted the euro and who choose not to sign agreement with the ECB related to digital euro acceptance. It was pointed out that it will be difficult for Sweden to have a different technical solution for a future e-krona that deviates to a large degree from that of the digital euro, as this would create challenges with interoperability and drive costs for payment service providers and retailers.

It was said that retailers are able to accept payments in currencies other than SEK today and that it may be necessary to be able to offer the opportunity to pay in digital euro in Sweden to avoid losing competitiveness in the future.

Planning ahead

The next meeting of the dialogue forum is scheduled for 30 November 2023. This is expected to be the final meeting of the dialogue forum. Participants would like the dialogue to continue, but in a more formalised format with the representation of trade organisations, for example integrated into the Swedish retail payments council.

Participants pointed out that there is a risk that the user perspective will be lost if discussions only happen between trade associations via the retail payment council and that it is important not to lose the user perspective.