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To:	Ms Thérèse BLANCHET, Secretary-General of the Council of the European Union
No. Cion doc.:	SWD(2023) 234 final
Subject:	COMMISSION STAFF WORKING DOCUMENT EXECUTIVE SUMMARY OF THE IMPACT ASSESSMENT REPORT Accompanying the documents Proposal for a Regulation of the European Parliament and of the Council on the establishment of the digital euro and Proposal for a Regulation of the European Parliament and of the Council on the provision of digital euro services by payment services providers incorporated in Member States whose currency is not the euro and amending Regulation (EU) 2021/1230 of the European Parliament and the Council and Proposal for a Regulation of the European Parliament and of the Council on the legal tender of euro banknotes and coins

Delegations will find attached document SWD(2023) 234 final.

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COMMISSION STAFF WORKING DOCUMENT

EXECUTIVE SUMMARY OF THE IMPACT ASSESSMENT REPORT

Accompanying the documents

Proposal for a Regulation of the European Parliament and of the Council on the establishment of the digital euro

and

Proposal for a Regulation of the European Parliament and of the Council on the provision of digital euro services by payment services providers incorporated in Member States whose currency is not the euro and amending Regulation (EU) 2021/1230 of the European Parliament and the Council

and

Proposal for a Regulation of the European Parliament and of the Council on the legal tender of euro banknotes and coins

{COM(2023) 364 final} - {COM(2023) 368 final} - {COM(2023) 369 final} -
{SEC(2023) 257 final} - {SWD(2023) 233 final}

Need for action

Digitalisation and new technologies are increasingly shaping European people' lives and the European economy, and this trend is also reflected in payments. Cash is the only form of central bank money available to the public so far, yet it cannot be used in the digital sphere. This means that for an increasing share of payments, people and businesses do not have the possibility to opt for central bank money anymore. Furthermore, people and businesses are increasingly shifting towards private digital means of payment, also in situations where cash is usable. The absence of a retail central bank digital currency in the euro area may gradually undermine the monetary sovereignty of the Eurosystem. The lack of a widely available and usable central bank money in the digital age could also diminish trust towards private money, which relies on convertibility at par with public central bank money. Finally, the digital economy also needs a risk-free central bank digital currency to support industry 4.0 and web3.

Possible solutions

Existing or planned EU public (e.g. instant payments) or private initiatives are predicated on the use of private forms of money and therefore do not address the underlying issue regarding the form and availability of central bank money. In contrast, the problem can be addressed by a digital version of central bank money, i.e. a digital euro to be made available for retail payments.

A new form of central bank money available to the general public, alongside the euro banknotes and coins, shall be established and regulated in its essential features by an EU Regulation based on Article 133 of the TFEU.

The present analysis assesses the impact of establishing a digital euro and of regulating its key features in relation to the general objective of ensuring that the central bank money issued by the European Central Bank (ECB) can support the EU's economy in the digital age, while safeguarding the role of cash. It furthermore takes into account two specific objectives: 1) reinforcing the euro's monetary anchor in the digital age by ensuring that central bank money in both its physical and future digital form is widely available to and accepted by users in the euro area and tailored to their needs, while preserving financial stability, and 2) strengthening the EU's open strategic autonomy by increasing the euro's competitiveness vis-à-vis other currencies, third country CBDCs and other privately issued means of payment not denominated in euro.

Several options are possible for implementing a digital euro. The proposed options examine how the digital euro could be regulated to achieve the policy objectives while balancing key trade-offs: (i) enabling wide usage while ensuring fair competition with private payment solutions, (ii) protecting privacy while ensuring traceability, (iii) ensuring wide usage while protecting financial stability and credit provision and (iv) supporting international use while mitigating risks for non-euro countries and the Eurosystem.

Impacts of the preferred option

Based on the comparison of effectiveness, efficiency and coherence, the below combination of options is found to be the preferred one:

- Providing legal tender status to the digital euro with an obligation for all payees to accept it, though with justified and proportional exceptions (Option 1c) and voluntary or targeted mandatory distribution arrangements (Option 1e/f). To avoid overcharging merchants, maximum mandatory caps should be determined on the basis of a methodology set by the legislature and developed by the ECB. (Option 1h). To ensure coherence between all forms of public money, it is furthermore suggested to regulate the legal tender status of cash in a parallel legislative proposal.
- Providing for a high level of privacy for low-value offline proximity payments by processing personal data related to users' identity at the moment of opening digital euro accounts with payment service providers but not disclosing transaction data to payment service providers, while online payments would be treated like private digital means of payment in consistency with current consistently with AML/CFT requirements (Option 2c, 2d).
- Reducing the risk to financial disintermediation and financial stability by allowing the European Central Bank define and implement tools to limit the digital euro's store of value function (Option 3b).
- Making the digital euro first available to natural and legal persons residing or established in the euro area, as well as visitors (Option 4c), but possibly expand it at a later stage to non-euro area Member States and third countries, subject to agreements and/or arrangements with the Union and/or the European Central Bank, so as to mitigate risks to the financial stability and monetary sovereignty of both the Eurosystem and countries outside the euro area. (Option 4b).

This combination of options would result in several benefits. Users would have more choice and security in their payment decisions as they also could use central bank money, not only commercial bank money, in digital payments. Furthermore, they would benefit from the maintained trust in the monetary system that is provided by a digital monetary anchor, which ultimately also supports the conduct and effectiveness of its monetary policy and thus contributes to financial stability and a stable macroeconomic environment. An easy-to-use digital euro would strengthen financial inclusion in a digitalised society. Merchants would likewise enjoy an increased choice and benefit from more competition on the pan-European payment market, especially when negotiating with private payment providers. Payment services providers (PSPs) could distribute the digital euro to their customers, generate fees and offer additional innovative services built on the digital euro. Moreover, a digital euro would support open strategic autonomy by creating a new payment scheme that would be more resilient against potential external disruption. A digital euro could also support European businesses for future use cases in industry 4.0 and web 3 by giving them a public alternative for conditional payments. In relation to the international role of the euro, while a digital euro would in a first step focus on the euro area, at a later stage use outside the euro

area could be envisioned, provided that financial stability and monetary sovereignty risks are sufficiently contained. This could then promote trade and reduce exchange rate risks.

The implementation costs of the initiative would fall on the Eurosystem, merchants and PSPs. The Eurosystem would have to invest in setting up the digital euro infrastructure (both online and offline), including the network and settlement infrastructure. PSPs' one-off costs would include adapting front-end systems (apps, online banking, ATMs), back-end systems (including both the payer and payee (acquiring) side and integration with settlement and account management systems), and adapting AML/KYC, anti-fraud, accounting and other business processes. Merchants would have to pay the costs of making their terminals capable of accepting digital euro payments as well. For proportionality reasons, the preferred option foresees exceptions to the mandatory acceptance for some categories of payees on the understanding that merchants and NGOs accepting private electronic means of payment would have to also accept digital euro payments. There might be also some learning costs for consumers, similarly to the learning costs associated with online banking or new apps.

The initiative would also trigger some operating (recurrent) costs. The Eurosystem is expected to incur costs in relation to e.g. running the digital euro scheme, marketing the initiative, educating consumers and merchants, providing customer support and operating the IT infrastructure. PSPs would have to bear the costs of operations such as related customer support, AML/CFT and fraud checks, and transaction management. PSPs' fee and interest income may also be affected. Merchants would have to pay the transaction fees and the annual maintenance and license fees of their POS terminals. However, it is reasonable to assume that these costs will not be higher than the fees/costs of existing payment means (mostly cash and debit cards) that the digital euro would replace. People could benefit from 'basic use' digital euro services for free and pay transaction fees for additional services, which are also expected to be comparable with the costs of existing payment means. Particular attention will be paid in the legislation to ensure that the fees levied on merchants are proportionate.

Payments with digital euro will face similar cyber, IT and other operational risks as existing payment systems. In addition, the Eurosystem may face increased cyber and operational risks as issuer of a digital euro. Issues pertaining to cyber security are addressed by existing and upcoming legislation that digital euro payments would also be subject to. This includes requirements under PSD2, the Digital Operational Resilience Act (DORA)[1] that PSPs would be subject to, and the Cyber Resilience Act. Furthermore, the Eurosystem is expected to be subject to the new Cybersecurity Regulation proposed in March 2022 by the Commission.[2]

[1] Proposal for a REGULATION OF THE EUROPEAN PARLIAMENT AND OF THE COUNCIL on digital operational resilience for the financial sector and amending Regulations (EC) No 1060/2009, (EU) No 648/2012, (EU) No 600/2014 and (EU) No 909/2014 EUR-Lex - 52020PC0595 - EN - EUR-Lex (europa.eu)

[2] Proposal for a REGULATION OF THE EUROPEAN PARLIAMENT AND OF THE COUNCIL laying down measures for a high common level of cybersecurity at the institutions, bodies, offices and agencies of the Union. https://commission.europa.eu/publications/proposal-cybersecurity-regulation_en

Overall, the assessment concludes that the long-term benefits of a well-designed digital euro with appropriate safeguards outweigh its costs. What is more, the costs of no action can potentially be very large.