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## Consultation on a digital euro

### - Swedish Bankers' Association's Response

#### Question 5

**What role do you see for banks, payment institutions and other commercial entities in providing a digital euro to end users?**

Banks and other PSPs could serve as intermediaries to provide digital euros and transfer customers deposits in banks to digital euros (in account form or token/app based) and digital euro holdings into bank account deposits. This role would imply that the present “commercial bank money” payment systems (credit transfers, instant payments, direct debits, card payments) would have to be connected to the CBDC system for both debtor and creditor account reach. If not, the CBDC needs to build a new payment system for end user access that would fulfil all the service needs that are managed in the present European payment services.

Under normal market conditions the existence of a CBDC could have negative impact on availability of funding sources for banks. If this would result in increased funding rates, this could negatively impact the banks’ ability to provide credits to households and companies. In periods of financial stress where customers are concerned about the financial situation of a particular bank or of the whole banking system, the demand for CBDCs may lead to a quick outflow of deposits from the commercial banks. This would negatively impact the banks’ possibility to fulfil liquidity requirements and become a financial stability concern more generally. In addition, the loss of liquidity on the bank’s balance sheet, concentrating it on a central banks balance sheet, could have negative and possibly detrimental effects on the banking systems’ ability to provide credits and resist stress to the economy and is in contradiction with the rules of net stable funding ratio (NSFR).

This could lead to that banks would need to finance the entire lending book from the commercial loan market increasing the cost level and thus price for both mortgages and unsecure loans. This could also lead to reduced competition in the lending area with fewer institutions providing loans to households and corporates. Even if the liquidity is lent back from the central bank to the banking systems through monetary

policy operations, this would require additional collateral (legal requirement) to be posted by the banks, subsequently making credits more costly.

Banks and other PSPs could also potentially act as CBDC intermediaries and perform the KYC, at onboarding and ongoing on behalf of the central bank, as well as transaction monitoring and SARs reporting for AML/CTF purposes. However, it should be recognised that transactions in digital euro (or another CBDC) would not be part of transactions taking place over accounts of the bank. In the current situation, banks are responsible for KYC and other CDD requirements of their own customers and the transaction monitoring of transactions done over their own accounts. Transactions with CBDCs would not be done over accounts of the bank, and would, if banks or other PSPs decide to act as intermediaries, require separate AML/CTF control systems and controls to be set up, in addition to a central system at the central bank that registers transactions and the ownership of the CBDC. It also raises questions of i.a responsibilities and liability. Banks have over the last years invested significant amounts in strengthening their capabilities to detect and combat financial crime. To also take on the responsibility on behalf of other parties, also central banks, to perform KYC at onboarding, ODD, transaction monitoring including SARs reporting would entail a significant liability burden and challenge for banks.

The Swedish Bankers' Association would also like to point to the challenges of anonymous CBDCs, also in offline transactions. Even if they would be limited to the regulatory maximum monthly holding (150 EUR) and limit per payment (50 EUR), an individual could potentially hold several accounts or token-based apps to access a higher amount of anonymous CBDCs which could result in the breach of AMLD 5. As noted in the EU Commissions' Supranational Risk assessment, as well in many other reports by authorities, cash (and in this case cash-like) payments pose challenges as regards financial crime. The Swedish Bankers' Association is very hesitant to the issuance of anonymous CBDCs and each bank and other PSPs would have to decide whether handling of anonymous CBDCs would be in line with their respective regulatory risk appetite.

## Question 6

**A digital euro may allow banks and other entities to offer additional services, on top of simple payments, which could benefit citizens and businesses.  
What services, functionalities or use cases do you think are feasible and should be considered when developing a digital euro?**

The Swedish Bankers' Association would like to stress that all services that are developed should benefit the customers; private individuals and corporates. Taking into account that the digital euros would not be a deposit with the bank, and consequently not on the accounts of the individual bank, it would be difficult for a bank

to add other banking services on top of a digital euro (or any CBDC) without shifting the CBDC into a deposit in commercial bank money with the bank. Looking at the pricing issues of the CBDC, the Digital Euro Report assumes that the CBDC users would not pay for the access and use of it and then an intermediary cannot charge the end users for the “intermediation”. With the “no fees” ambition for CBDC users it will be difficult to convince users to pay for servicers claimed to be additional. One option, as indicated in the response to question 14 below, could be to leverage the provisions in PSD 2. The account holder of the CBDC (i.e. the central bank) would then serve as an ASPSP and the individual bank would access the account /app in CBDC by using APIs as in the current open banking platforms and thus be able to utilise the existing solutions. This would of course mean that a banking license is not necessary as private banks would act as payment initiators and that the central bank would need to establish links to payment and clearing systems. It is likely that banks acting as intermediaries could build additional values on their intermediary services and not on the CBDC:s and this would add to the competition for end users while the CBDC:s would remain the same for all users.

In the case of the potential issuance of anonymous CBDCs, this would become difficult to manage since the payment initiator is to log strong customer authentication of the user and at the same time complying with legislative and regulatory requirements in e.g. AML/CFT regulations and the Wire Transfer Regulation.

### **Question 7**

**What requirements (licensing or other) should intermediaries fulfil in order to provide digital euro services to households and businesses? Please base your answer on the current regulatory regime in the European Union.**

The Swedish Bankers' Association strongly supports the principle of “same activity, same risks, same rules”. As indicated in the EU Commission Strategy on Digital Finance, the current legislative and regulatory framework does not adhere to that principle. Consequently, the Swedish bank industry fully supports the intention of the EU Commission to review current legislation.

The EU Commission has in the recently published Retail Payments Strategy indicated that PSPs and E-money institutions need fair, open and transparent access to payment systems and has against that background indicated that they will review the Settlement Finality Directive to also include payment institutions and E-money institutions. This would allow them access to payment systems, also the central RTGS systems of central banks. This would enable also these institutions to access and distribute a potential digital euro (or any other CBDC). The Swedish Bankers' Association would welcome such development in order to achieve enhanced competition. However, the necessary pre-requisite would be that these institutions are subject to the same regulation (prudential, conduct, operational resilience, governance, internal risk management and so on) and supervisory attention as banks in order to safeguard consumer protection and financial stability. If the central bank

would go for a more lenient approach on intermediary qualifications, the market could be dominated by non-bank entities with lower requirements for control and financial stability.

### **Question 8**

**Which solutions are best suited to avoiding counterfeiting and technical mistakes, including by possible intermediaries, to ensure that the amount of digital euro held by users in their digital wallets matches the amount that has been issued by the central bank?**

The Swedish Bankers' Association takes the view that it is essential that each transaction carries a clear audit trail and is registered in the central bank system/registry in order to combat counterfeiting. However, if each unit of CBDC has a separate identifier in order to avoid counterfeiting, this would make any technical solution very complicated and burdensome.

A potential anonymous digital euro poses challenges in this respect. The Swedish Bankers' Association is very hesitant to the issuance of anonymous CBDCs. Technical solutions that today seem to be 100% safe and secure can soon be de-ciphered by computers managing to do much faster calculations. The EU has set up a research fund of 1 billion Euro to enable the development of such super-computers. If counterfeiting can make true copies of the CBDC the entire monetary system could be jeopardized.

### **Question 9**

**What technical solutions (back-end infrastructure and/or at device level) could best facilitate cash-like features (e.g. privacy, offline use and usability for vulnerable groups)?**

All digital financial services require some form of device to access the service. Existing payment solutions like cards are possible to use also off-line since the bank issuing the card accepts the liability for the risk of misuse. Any off-line use also needs to deal with the PSD2 provisions on strong customer authentication and digital linking in order to protect the funds holder from unauthorized payments. Against that background, the business case for another payment instrument such as CBDCs must be clearly motivated. In case of off-line transactions, there must be reconciliation as soon as there is on-line connection. In addition, there is currently a wish to move away from off-line transactions considering the security risks with asymmetric cryptography in off-line transactions. The issue with lost payment devices containing not-yet-uploaded offline CBDC must also be dealt with since either the payer or payee may incur a loss or profit.

As regards vulnerable groups the situation differs between different groups. Many persons with physical disabilities have benefitted from the development of digital

financial services and can access these from wherever there are instead of having to travel to a bank branch or ATM device. A CBDC must also be usable for these vulnerable groups, e.g. by ensuring that they are possible to use with e.g. voice-over devices and functions.

For vulnerable groups that are uncomfortable with using digital financial services, the Swedish Bankers' Association clearly recognises the need to strengthen the capabilities of these groups. Thus, Swedish banks offer several ways for these groups to become more comfortable with the digital financial services, also in cooperation with the governments. In addition, it can be questioned if the situation for the vulnerable groups that are uncomfortable using digital services are better off with yet another digital payment method or app. It could also be questioned if a CBDC would be easier to use for these groups. Instead the additional payment means could increase confusion on how to pay and what funds are used. Again, the issuance of a CBDC needs to have a clear motive on the increase of services and/or customer protection.

The Swedish Bankers' Association also supports the national strategies to enhance the financial and digital literacy of these groups and welcome the intention of the EU Commission to help fund the national financial literacy programmes.

#### **Question 10**

**What should be done to ensure an appropriate degree of privacy and protection of personal data in the use of a digital euro, taking into account anti-money laundering requirements, and combating the financing of terrorism and tax evasion?**

A CBDC must respect the requirements of GDPR, AML/CFT legislation, the PSD2, the Wire Transfer regulation and other relevant legislation as must any other financial service in order to avoid being used for financial crime and ensure privacy. Using a CBDC must be as transparent as using credit transfers and card transactions.

As regards AML/CFT, it needs to be determined that whoever does the KYC at onboarding and ODD as well as transaction monitoring, all transactions and activities with digital euros must fully comply with all relevant legislation and reporting requirements. Anonymous CBDCs are a challenge in this context. As mentioned before, the Swedish Bankers' Association is very hesitant to the issuance of anonymous CBDCs.

#### **Question 11**

**The central bank could use several instruments to manage the quantity of digital euro in circulation (such as quantity limits or tiered remuneration), ensuring that the transmission of monetary policy would not be affected by shifts of large amounts of commercial bank money to holdings of digital euro.**

**What is your assessment of these and other alternatives from an economic perspective?**

*(Tiered remuneration is when a central bank sets a certain remuneration on holding balances of digital euro up to a predefined amount and a lower remuneration for digital euro holding balances above that amount.)*

The Swedish Bankers' Association fully shares the concerns of the potential effects of a CBDC on banks' liquidity, financial stability, the credit intermediation to the economy and monetary policy, particularly if available with no limits. These risks must be carefully assessed and be an integrated part of any continued work on this project.

While quantity limits or tiered remuneration could reduce financial stability risks, in case of a large demand for e.g. a digital euro, quantity limits or tiered remuneration could lead to different values of the digital euro versus euros in private bank deposits and euros in cash. This would lead to an unstable value of the euro with potentially wide-reaching consequences for monetary policy, financial stability and the wider economy. The Swedish Bankers' Association's opinion is that a thorough assessment is needed to outline the impact on financial stability, credit intermediation and monetary policy for different renumeration levels and types of CBDC quantity limits. Any threshold amounts decided can prove to be too high or too low for practical and legal usage of the CBDC. Banks have seen the hike of allowed amounts in the Instant Payments service and the central bank issuing CBDC will get similar demands. There are also different expectations what an appropriate limit would be for end user consumers and corporates in the role of payers and payees creating potentially multiple limits.

The Swedish Bankers' Association would like to highlight that it is not only an actual deposit drain that poses a risk to financial stability, credit intermediation and monetary policy. Increased volatility in commercial banks' deposits and the mere potential of large shifts, with an increased likelihood of bank-runs made technically possible in turbulent times, will reduce banks' liquidity transformation capacity.

#### **Question 12**

**What is the best way to ensure that tiered remuneration does not negatively affect the usability of a digital euro, including the possibility of using it offline?**

As indicated in the response to question 11, posing quantitative limits or tiered remuneration on holdings of a CBDC could limit the risks for banks' liquidity, financial stability, the credit intermediation to the economy and monetary policy. However, such limitations in the supply of a CBDC could lead to different values of the digital euro versus euros in private bank deposits and euros in cash. This would lead to an unstable value of the euro with potential wide-reaching consequences for monetary policy, financial stability and the wider economy. The central bank may have to accept that such administrative measures to limit the usability of the CBDC cannot be implemented and thus envisaged negative effects from the CBDC on the monetary system cannot be blocked.

#### **Question 13**

**If a digital euro were subject to holding balance limits, what would be the best way to allow incoming payments above that limit to be shifted automatically into the user's private money account (for example, a commercial bank account) without affecting the ease of making and receiving payments?**

The individual bank will not have information regarding an individuals' or corporates' holding in digital euros. That would only be known to the individual/corporate holding

the CBDCs on their account at the central bank or on the tokens-based app and to the holder of the central registry i.e. the central bank. The only way the individual bank would know about the individuals' holding, is if there was some form of shadow accounts at the bank if the bank decides to act as an intermediary (which raises the issues of responsibilities and liabilities as indicated in the response to question 5). A holder of CBDC is likely to have more than one bank and how shall multiple banks acting as intermediaries agree on who would get the surplus over the balance limit as a commercial bank deposit? It is unlikely that the holder voluntarily would make the choice if the central bank wants to force part of the CBDC balance to be deposited in a bank account. Some consumers could, as is the case today, lack any bank account and where would the central bank then deposit the surplus balance?

Furthermore, if one holder has exhausted the CBDC balance limit, one cannot receive payments in CBDC and how would the holder and payers be made aware of the "unreachability". The CBDC limits per account and per payment would have to be rather high to accommodate for payment needs for ordinary consumers. Average salary deposits are above 2 000 Euro per person and welfare deposits for a family easily reaches 3 000 Euro. Rental home payments frequently are above 1 000 Euro, making average people as well as unbanked on welfare need quite large limits. If not, then everybody still needs a regular bank account and its payment services and the CBDC would not fulfil any true needs.

#### Question 14

**What would be the best way to integrate a digital euro into existing banking and payment solutions/products (e.g. online and mobile banking, merchant systems)? What potential challenges need to be considered in the design of the technology and standards for the digital euro?**

A digital euro would be a claim on the Eurosystem/ECB, and not a deposit/account with the individual bank. A possible way to integrate the digital euro (or any other CBDC) into the individual bank's online and mobile bank credit transfer payment solutions is to leverage the provisions in PSD2. The account holder of the CBDC (i.e. the central bank) would then serve as an ASPSP and the individual bank would access the account /app in CBDC by using APIs as in the current open banking platforms and thus be able to leverage the existing solutions. For the wide -spread card payments the debit card should allow the user to select at point of interaction either the deposit account or a CBDC account in the central bank thus opening up the payments in the entire card scheme to be funded via CBDC. This payment application selection process is regulated in the IFR since December 2015. Another option to be able to execute payments with a digital euro, is that the central bank would need to establish payment links with retail payment and clearing systems.

Moreover, payment solutions at the e-commerce merchants as well at Points-of-Sale (PoS) at merchants would need to be updated in order to be able to accept payments with digital euros. The existing retail payment system is complex and widespread with a multitude of adaptations to service all payer and payee needs for some + 8 million merchant payment points, 0,5 million ATM devices and 500 million consumers in the EEA area alone. This adaptation to enable payments in CBDC where "commercial

“bank money” is used today could be costly for the merchants and subsequently for their customers and society.

**Question 15**

**What features should the digital euro have to facilitate cross-currency payments?**

There are currently several ongoing projects to facilitate cross-currency payments. At the global level, SWIFT GPI instant represents such an initiative. At the Nordic level, P27 is currently setting up a clearing house to enable cross-border, cross-currency payments, batch and real-time. If also CBDCs are to manage cross-currency payments, links would have to be established between central banks that have to assume the associated forex risk today managed by commercial banks. CBDC would also need to adhere to the cross-border payment regulation with user prompts on the used exchange rates among others.

**Question 16**

**Should the use of the digital euro outside the euro area be limited and, if so, how?**

From a legal and Single Markets perspective, it would be difficult to discriminate towards individuals and corporates outside the eurozone, but within the EEA. This could, in case of large demand, also have effects on the foreign exchange rates between different currencies, which could be particularly problematic for countries with fixed exchange rates. The Euro CBDC could effectively cause a run on the non-Euro currency of an EU member state thus undermining the financial system in that country.

In addition, in order to be usable as a means of payment also for cross-currency transactions, this would require significant changes for the e-commerce providers and merchants Points-of-Sale (PoS) in order to recognise the digital euro payment method and to be able to accept digital euros (or any other CBDC). This also has implications for all Payment Service Providers (PSPs) servicing merchants with payment solutions. It should also be noted that in line with current x-border payment legislation, it would require the currency rate to be displayed in advance in a transparent way.

**Question 17**

**Which software and hardware solutions (e.g. mobile phones, computers, smartcards, wearables) could be adapted for a digital euro?**

All of the software and hardware devices could be adapted, but we foresee significant changes for all parties. The ECB should bear in mind that it does not control the development of general-purpose devices like mobile phones and therefore it cannot assume that “the market” will cater for CBDC functionality and security needs in such devices. Banks have spent considerable resources to adapt the present payment services for such devices and constantly need to adapt to new versions and changes from the device providers. The ECB will likely be faced with the need to define and distribute purpose-built devices to the public as banks have decided to issue payment cards with micro-chips under their full control. If not, the CBDC may be taken hostage by the tech giants that supply the world market with consumer devices for mainly other purposes (mobile phones, wearable devices, watches, tablets, PC:s, gps devices etc).

### Question 18

#### **What role can you or your organisation play in facilitating the appropriate design and uptake of a digital euro as an effective means of payment?**

Swedish banks are ready to provide any input and participate in any discussion that the ECB or the Eurosystem would like to have in the continued work on this project. In our view, it is of utmost importance to involve financial institutions of all kinds and sizes in order to ensure the feasibility and an efficient uptake of a potential digital euro.

The Swedish Bankers' Association would also like to stress the importance of ensuring that a CBDC does not have negative effects on the following;

- banks' liquidity and the possibility to comply with liquidity requirements. For example, the introduction of CBDC might conflict with the purpose of NSFR (the requirement incentivizes banks to use deposits as a funding source over other sources) as well as the LCR.
- financial stability (risk for increased flow of deposits from banks to CBDCs particularly in times of financial stress)
- credit extension to the economy (even if the value of CBDCs that are a claim on the central bank are lent back to the banks, posting more collateral means that credits will be more expensive)
- monetary policy (in situations of negative interest rates),
- cross-border effects when there is a cross-border demand for CBDCs on e.g. countries with fixed exchange rates.

If a CBDC were to become a reality, the Swedish Bankers' Association recommends that the ECB thoroughly analyses potential negative impacts on the financial system, before deciding to introduce a CBDC. As comes to already published researched, the Swedish Bankers' Association recommends that the ECB will use the Bank of England's study<sup>1</sup> to support the establishment of a framework that minimizes negative consequences for stability with the introduction of a CBDC.

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<sup>1</sup> Bank of England, Staff Working Paper No. 725 Central bank digital currencies — design principles and balance sheet implications Michael Kumhof and Clare Noone, May 2018