

**From:** EMA

**Subject:** EMA response to Eurosystem presentation of the 1<sup>st</sup> of September on the Roles in processing of digital euro payments and settlement choices

**Date:** 22 September 2022

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1. The EMA values engagement with the Digital Euro team, and the opportunity to provide feedback on the proposed digital euro product proposition. We have set out below feedback on the latest technical session of the 1<sup>st</sup> of September, addressing roles in the processing of digital euro payments and alternatives for the settlement of payments.
  2. Whilst the presentation discussed the merits of the alternative payment structures, we have chosen to focus on the impact of the models on the electronic money and payment institution (EMI & PI) sectors, as the proposed approach, irrespective of the role of the different parties, appears to exclude EMIs and PIs from participating as supervised intermediaries.
  3. This is because, supervised intermediaries are required to purchase digital euro using central bank accounts that they hold with the Eurosystem and EMIs and PIs, as a consequence of the narrow provisions of the Settlement Finality Directive (Directive 98/26/EC), appear to be excluded from access to these accounts. We would be grateful for further information on this issue, with a view to finding a means of resolving this issue.
  4. We wonder if other arrangements might be contemplated for the DE product, which may not have the same outcome for EMIs and PIs.
  5. This brings us onto issues related to competition; all of which are likely to contribute to a better outcome if addressed as part of the product development process.. These relate to competition within the PSP sector on the one hand, and to competitive factors more generally on the other. The latter will inexorably arise when implementing a new payment product that operates within an existing market place.
  6. Unlike cash which has limited competition in its own sphere, the DE will compete in a busy electronic payment market place that is already crowded with competing products that seek to meet user needs whilst operating within a viable business case.
  7. We have set out below some of the facets of competition issues that will arise which, we believe, warrant consideration and are sufficiently significant to merit the development of a competition work stream comprising principles that will be adhered to, and which will be referred to as the project evolves.
  8. The competitive issues include the following:
    - The possible substitution of the DE for existing and future privately issued payment products
    - The opportunity cost for industry in investing in the DE infrastructure for PSPs, both in terms of financial and human resources. These will necessarily be resources that cannot be deployed into the existing or new business ventures.

- The absolute cost of participation and the extent to which different PSPs will be able to meet the cost and in the given timescales.
- The extent of the functionality that will be proscribed, and which PSPs will have to offer, and how these will match the needs of their customers.
- The extent of the functionality also has an impact on the degree of innovation that will be part of the product and of the business of the PSPs.
- The relative roles of different PSPs, credit institutions versus other PSPs, ensuring a level playing field.
- The manner in which the product design could favour some technologies over others, and hence participation by different stakeholders
- The impact of Eurosystem priorities that may be driven by strategic objectives on the payments marketplace.
- The role of the ECB as a payment service provider, having potentially conflicting interests related to the ECB's objective of successfully delivering on its arguably most high-profile and prominent project to successfully introduce the DE product on the one hand, and, on the other hand, its strengthened responsibilities – given the implementation of the PISA framework - , for the oversight of Euro-area payment systems and arrangements.

9. We believe that a standalone function whose purpose would be to address these and other competitive issues would add to the effectiveness of the project and further ensure its success.

Thank you for the opportunity to make this submission and we hope we can engage with the DE team on these issues.