3. Payments

The Bank has broad responsibility in the payments sphere and acts as both overseer and prudential supervisor, as illustrated in Figure 3 below. These approaches are complementary: while oversight focuses on the sound and safe functioning of payment systems, payment instruments,[1] payment schemes[2] and other payment infrastructures, prudential supervision aims to ensure the safe, stable and secure provision of payment services to end users.

The interest of central banks in the payments sphere stems from a connection with various core tasks. Directly or indirectly, payment systems, instruments and services may affect the practical implementation of monetary policy, the financial stability of the country and confidence in its currency and can contribute to a safe, reliable and competitive environment.

Section 3.1 covers the two payment systems at the heart of the Belgian payments infrastructure: T2[3] and the Centre for Exchange and Clearing (CEC). T2 is the large-value payment system (LVPS) connecting Belgian banks with other euro area banks for the processing of payments and serves as the basic connecting infrastructure for the implementation of central bank monetary policy. The CEC is the domestic retail payment system (RPS) processing domestic payments between Belgian banks. In addition to T2, the Mastercard Clearing Management System operated by MCE (established in Belgium) was designated as a systemically important payment system (SIPS) by the ECB Decision of 4 May 2020 pursuant to Regulation (EU) No 795/2014 on oversight requirements for systemically important payment systems (ECB/2020/26).[4] This regulation lays down the – mainly quantitative – thresholds which, once exceeded, lead to designation of the entity concerned as a SIPS.

The Bank also participates in the cooperative oversight framework of CLS, a payment-versus-payment (PVP) settlement system for foreign exchange (FX) transactions. The US Federal Reserve is the lead overseer and supervisor of CLS. In addition, CLS is overseen by the Oversight Committee (OC), an international cooperative oversight arrangement comprised of the central banks whose currencies can be settled in CLS and five central banks from the euro area (including the Bank).

Section 3.2 deals with the prudential supervision of payment institutions (PIs) and electronic money institutions (ELMIs) – a part of the PSP sector which offers services that compete with those of incumbent PSPs (mainly banks). This type of non-bank PSP for retail payments provides payment services and issues, redeems and distributes electronic money. ELMIs may also provide payment services and, given their ability to issue electronic money to the public, are subject to a stricter prudential regime, such as more stringent capital requirements.

1 A payment instrument is an instrument to execute payments such as payment cards, credit transfers and direct debits.
2 A payment scheme is a set of rules, practices, standards and/or guidelines for the execution of payment transactions.
3 On 20 March 2023, the new payment system T2 went live and replaced TARGET2.
For more information, see https://www.ecb.europa.eu/press/pr/date/2023/html/ecb.pr230321~f5c7bddf6d.en.html.
4 See https://eur-lex.europa.eu/legal-content/EN/TXT/PDF/?uri=CELEX:32020D0026(01)&from=EN.

As an acquirer[1] and processor of retail payment instruments in Belgium, Worldline SA/NV is subject to both prudential supervision and oversight. The Bank's activities in this respect are covered in section 3.3.

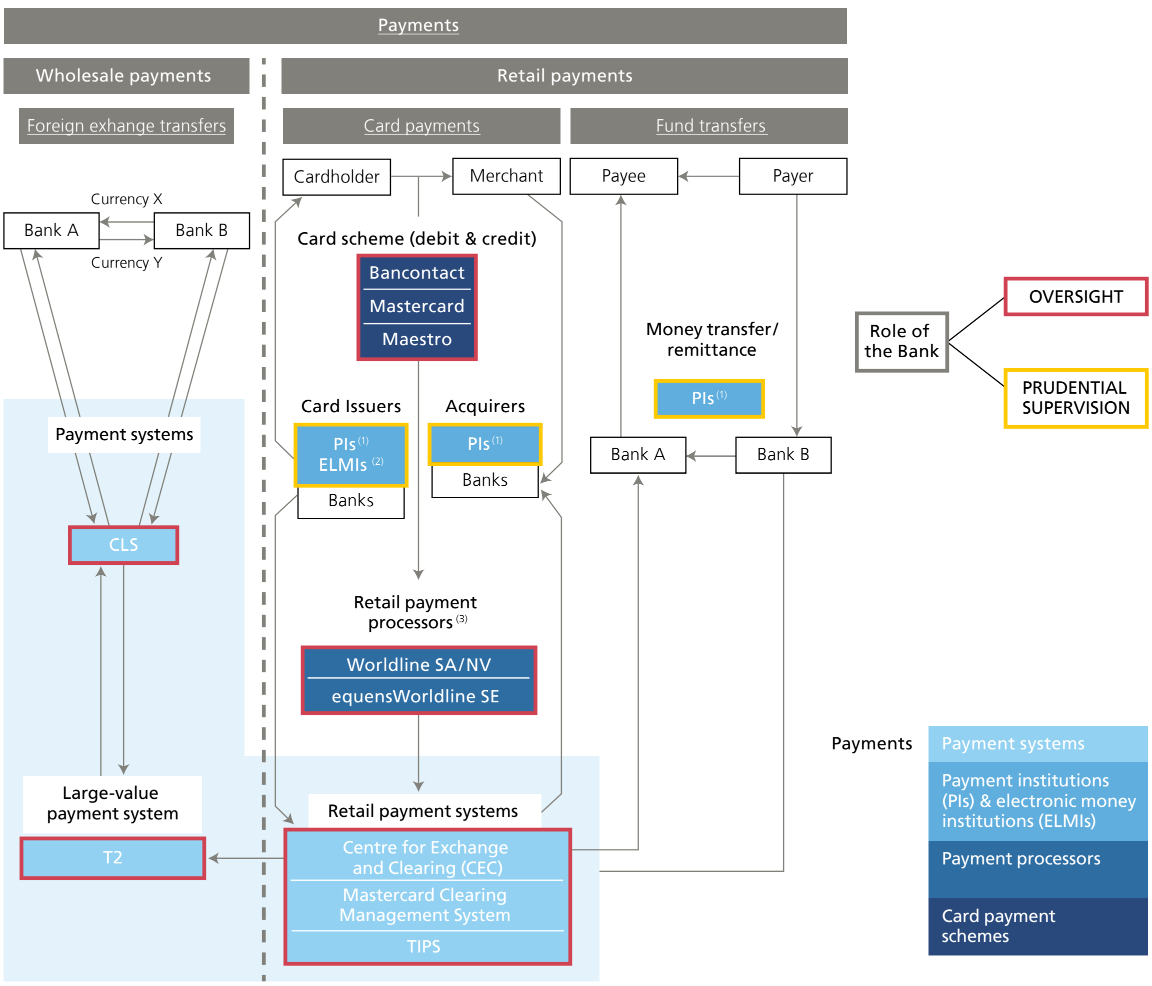
Section 3.4 covers the three payment card schemes overseen by the Bank: the domestic Bancontact scheme and the international Maestro and Mastercard schemes (the latter two are operated by Mastercard Europe SA/NV).

Finally, section 3.5 provides an overview of the digital euro project.

1 The acquisition of card payments is a service whereby a payment service provider enters into a contractual arrangement with a payee (merchant) to accept and process payment transactions guaranteeing the transfer of funds to the latter. The processing is often performed by another entity.

Figure 3

Scope of the Bank's oversight and prudential supervision role in the payments landscape



1 Payment institutions (PIs).
2 Electronic money institutions (ELMIs).
3 Only the Belgian activities of equensWorldline SE are overseen by the NBB. Worldline Switzerland Ltd is also designated as a systemic processor for its switching activities for Bancontact according to the Act of 24 March 2017 on the oversight of payment processors but is not overseen by the NBB.

3.1 Payment systems

Changes in the regulatory framework

There were no changes to the Belgian and Eurosystem regulatory frameworks in 2023..

Prudential and oversight approach

Since May 2020, the Mastercard Clearing Management System (MCMS) operated by Mastercard Europe (MCE), established in Belgium, has been designated a systemically important payment system (SIPS) with pan-European reach, based on a number of mainly quantitative criteria, listed in the SIPS Regulation itself. As such, MCMS is subject to joint lead oversight by the ECB and the Bank.

In the course of 2022, the Bank and the ECB, with the support of a Joint Oversight Team (made up of representatives of the Eurosystem NCBs), carried out an official Eurosystem assessment of compliance by the MCMS with the SIPS Regulation, based on analysis of a self-assessment provided by MCMS along with underlying evidence and complemented by numerous exchanges between MCE and the oversight authorities.

The key oversight activities in 2023 were: (1) finalisation of the comprehensive assessment of compliance by the MCMS with the SIPS Regulation, including a fact check by MCE and formal adoption of the report by the Eurosystem governing bodies, as well as provision by MCE of an action plan for implementation of the Eurosystem recommendations; (2) a Cyber Resilience Oversight Expectations (CROE)[1] assessment of MCE (based on a self-assessment) by a joint assessment team coordinated by the Bank and the ECB and made up of participating Eurosystem NCBs; and (3) the monitoring of other actions planned to further improve the cyber resilience of the institution.

The related primary oversight priorities for 2024 include: (1) monitoring of the implementation by MCE of its action plan and (2) finalisation of the CROE assessment (presumably by the end of Q2).

The CEC is the domestic retail payment system which processes most interbank retail payments in Belgium (i.e. those for which the payer and payee have accounts held with different Belgian banks). These payments include SEPA credit transfers (SCTs), SEPA direct debits (SDDs),[2] card payments, legacy cheques and, on a dedicated platform launched in 2018, instant payments. The Bank is responsible for oversight of the CEC, which is done in the Eurosystem context on the basis of the Revised Oversight Framework for Retail Payment Systems.[3] The latter is itself based on the PFMI. The CEC, which qualifies as a prominently important retail payment system (PIRPS), is compliant with the applicable standards.

In 2023, the CEC focused on preparations for changes to be implemented in 2024 in view of the adoption of the Instant Payments Regulation: these included the IBAN name check and the wider mandatory use of instant payments. During this preparatory period, no major changes were made to the system, while the Bank's oversight work consisted primarily of monitoring.

1 The CROE are based on the Guidance on cyber resilience for FMIs, published by the CPMI-IOSCO in June 2016. The Cyber Resilience Oversight Expectations themselves aim to provide overseers with a clear framework to assess the cyber resilience of systems and enable FMIs to enhance their cyber resilience. Unlike other sets of oversight standards applicable to payment systems (i.e. the PFMI), the CROE enable overseers to determine for each of eight specific domains which of the three maturity levels (evolving, advancing, innovating) must be achieved by the system according to its risk profile and specific activities. The eight domains covered by the CROE are governance, identification, protection, detection, response and recovery, testing, situational awareness, and learning and evolving.

2 SCT and SDD are the pan-European payment instruments schemes for domestic and cross-border credit transfers and direct debits throughout the SEPA zone.

3 See https://www.ecb.europa.eu/pub/pdf/other/revisedoversightframeworkretailpaymentsystems201602.en.pdf.

3.2 Payment institutions and electronic money institutions

Changes in the regulatory framework

In 2022, the Bank published a uniform letter [1] clarifying the existing rules on the composition of statutory governing bodies and, in 2023, paid special attention to the establishment, alignment and formalisation of proper governance structures within payment and electronic money institutions.

The uniform letter focused on three main points, namely: (1) an institution's board of directors must consist of a majority of non-executive directors; (2) members of the board of directors or the management committee of an institution may not hold any other position as an employee in the same institution and must have self-employed status; and (3) there is a potential incompatibility between membership on the board of directors or management committee and holding an independent control function.

In 2023, the Bank began a cross-cutting analysis of (1) the outsourcing policies of supervised institutions and (2) reporting under the segregation and safeguarding policies of supervised payment and electronic money institutions. Analysis of the latter led the Bank to conclude that insufficient information was available to supervised institutions regarding the expected structure of the reporting or its precise content. Disclosures differed in terms of their format, content and quality, leading to an expansion of, or complicating, off-site prudential analysis. Recent on-site inspections resulted in a series of recommendations regarding the operational functioning of client asset segregation and safeguarding. In order to provide clarity to the sector and improve and strengthen both off-site and on-site prudential activities, a decision was taken to issue a new circular on this subject. [2]

The additional reporting requirements laid out in the new circular concern, among other things: (1) the clear identification of each type of fund held by the institution that is used to protect funds received from payment service users; (2) the management of access to client accounts, (3) the method and procedure used to calculate cash flows in client accounts, investments and guarantees; (4) the escalation procedure in the event anomalous or atypical transactions are detected; (5) the management and reconciliation process between the books of account, on the one hand, and client accounts, on the other; (6) the investment policy when investing in a recognised money market fund and/or in safe, liquid assets with a low degree of risk; (7) the procedure to be followed when the method of protecting funds received by an institution from payment service users proves insufficient to cover the full amount of customer funds at any given time; and (8) the internal control measures taken with regard to the protection of the funds of payment service users.

With regard to the priorities for ongoing prudential supervision, the Bank intends in 2024 to: (1) start a new cross-cutting analysis of reporting for the 2023 financial year, as described in the new circular on segregation and safeguarding, [3] and continue to monitor the segregation and safeguarding requirements of funds received by payment and electronic money institutions from payment service users, both on an off-site and on-site (the safeguarding and segregation obligation is and remains a priority) and (2) compare the results of the cross-cutting analysis of outsourcing policies between institutions of similar size that carry out the same type of activity and report the conclusions to management with a view to drawing up a supervisory action plan for 2025.

1 Uniform letter to all payment institutions, registered payment institutions, e-money institutions and limited e-money institutions dated 8 February 2022.
2 Circular NBB_2022_13 dated 3 May 2022 is replaced by Circular NBB_2023_12 dated 9 January 2024 on the protection of funds for the execution of payment transactions and funds in exchange for electronic money.
3 Circular NBB_2023_12 dated 9 January 2024 on the protection of funds for the execution of payment transactions and funds in exchange for electronic money.

BOX 6

A third payment services directive and a payment services regulation

The revised Payment Services Directive, [1] also known as PSD2, was published in the Official Journal of the EU on 23 December 2015 and has been in force since 13 January 2018. It was transposed into Belgian law in early 2018 by two legislative acts. [2] PSD2 regulates the provision of payment services in the EU and aims, in particular, to improve on the first Payment Services Directive, by focusing on (1) increasing payment security through the adoption of strong customer authentication (SCA) and (2) increasing competition through the creation of a non-contractual right of access to payment accounts ("open banking").

On 28 June 2023, the European Commission submitted a proposal to review PSD2, paving the way for a third Payment Services Directive (PSD3), and a proposal for a Payment Services Regulation (PSR). The purpose of the proposals is to bundle the prudential rules on the status, rights and obligations of payment institutions into a new directive and incorporate the remaining rules, as well as the granting of rights to consumers, merchants and payment service providers, into a directly applicable regulation. The regulation will govern liability when something goes awry in the execution of a payment or in the case of a fraudulent payment. In addition, it is intended to include complementary rules on strong customer authentication and open banking.

The proposal contains a few noteworthy changes to the existing legal framework, mentioned in the following non-exhaustive list:

(1) It aims to combat and mitigate fraudulent payments by seeking to allow payment service providers to exchange more information between themselves in relation to fraudulent payments and to extend the refund right of consumers that fall victim to identity theft (copying the identifying characteristics of a person, brand or organisation for fraudulent purposes) as well as imposing a mandatory IBAN name check for all SEPA credit transfers.
(2) The proposal promotes/facilitates open banking by removing the remaining obstacles to the provision of open banking payment services while increasing the control that payment service users have over their payment data and clarifying previous points of contention.
(3) The proposal strengthens harmonisation and enforcement by crafting rules in a directly applicable regulation and incorporating e-money services into the PSD framework.

The proposal is currently under discussion in the Council and was an important focus area of the legislative work carried out under the Belgian presidency of the Council of the European Union in the first half of 2024.

1 Directive (EU) 2015/2366 of the European Parliament and of the Council of 25 November 2015 on payment services in the internal market, amending Directives 2002/65/EC, 2009/110/EC and 2013/36/EU and Regulation (EU) No 1093/2010, and repealing Directive 2007/64/EC (hereafter "PSD2").

2 Act of 11 March 2018 on the legal status and supervision of payment institutions and electronic money institutions and access to the activity of payment service provider, to the activity of issuing electronic money and to payment systems and the Act of 19 July 2018 amending and introducing provisions on payment services in various books of the Code of Economic Law.

Prudential and oversight approach

Last year, one institution [1] was granted a licence as a Belgian payment institution, while two payment institutions [2] were removed from the official list due to consolidation at group level. In 2023, one account information services provider was added to the official list and one withdrawn, leaving the number at six. The number of electronic money institutions remained unchanged, at five. Consequently, the number of Belgian institutions dropped slightly and stands at 38 compared with 39 the previous year. The tally of European branches present in Belgium increased from eight to ten.[3] Taking Belgian institutions together with European branches, there are 48 institutions, altogether, representing an increase of one institution compared with 2022.

Bancontact Payconiq NV, which previously offered regulated payment services in Belgium under the licence of the Luxembourg payment institution Payconiq International SA, was authorised as a Belgian payment institution by the Bank in February 2023. The company holds a significant share of the Belgian mobile payments market with over 500 000 mobile payment contact points across Belgium and a significant share of the Belgian peer-to-peer mobile payments market. This is in addition to its activities as the operator of the Belgian card payment scheme Bancontact.

A decision from the Belgian government on the mandatory introduction of digital invoicing, or e-invoicing, between companies as from 1 January 2026 could be an opportunity for entrepreneurs from the world of online invoicing platforms and accountants to submit applications for licences to offer account information services.

In 2023, the increase, already observed last year, in the registration of limited network exclusions continued. Indeed, PSD2 introduced an exclusion from its scope of application for services based on specific payment instruments that can only be used in a limited way. Two out of four [4] new registrations pertained to the mobility sector and two to the gift cards sector. One registration, concerning the provision of virtual asset services, was relinquished. At the end of 2023, there were 12 limited network exclusions on the Bank's official list.

As noted in last year's Financial Market Infrastructures Report, the Brexit-related relocation of payment institutions has profoundly changed the Belgian money remittance landscape. A number of money remitters decided to relocate to Belgium, with the result that the volume of transactions processed via Belgian payment institutions rose considerably between 2019 and 2021.

At the end of 2021, the volume of remittances processed by Belgian money remitters (and EEA money remitters active in Belgium) stood at €17 304.8 million, of which 97.1 % was processed via Belgian payment institutions. In 2022, this rose to €19 093 million. The strong increase in the volume of money remittances was mainly driven by the digitalisation of the remittance market.

Given its position as a knowledge centre for money remittances and its public interest tasks, the Bank has been asked to participate in the International Organisation for Migration (IOM) O-REMIT project. Belgium has committed to reducing the cost of money remittances to 3 % per transaction; a better understanding of diaspora remittances and behaviour in Belgium can shed light on cost-efficient remittance options and help the diaspora in Belgium make meaningful investments in their home countries.

1 Bancontact Payconiq Company SA.
2 Alpha Card CVBA and Alpha Card Merchant Services CVBA.
3 Aera Payment & Identification AS and Brink's Payment Services SAS.
4 DKV Euro Service Gmbh, Telepass S.p.A, Airbnb Ireland UC and Zalando SE.

BOX 7

MICA

In 2023, the EU's new legislative framework for crypto-assets, the Markets in Crypto Assets Regulation (MiCA), entered into force. This regulation forms a key part of the European Commission's digital finance strategy.

MiCA is being implemented within a "crypto ecosystem" which already boasts more than 10 000 projects, with increasing volumes of investment being channelled into both Bitcoin and other, often lesser-known, crypto-assets. However, these assets have not always proved to be successful ventures, as illustrated by the number of bankruptcies (e.g. Celsius Capital, FTX, BlockFi and Three Arrows Capital), scandals (e.g. the Bitfinex exchange hack) and instances of fraud (e.g. pump and dump schemes) that have rocked the ecosystem. Crypto-asset markets also suffer from a lack of transparency (particularly in terms of liquidity and reserves), professionalism, and protection for investors and users.[1] In the meantime, larger and more traditional financial actors are entering the crypto and stablecoin space (e.g. Paypal, Société Générale).

With this in mind, the European Commission's aims for MiCA are manifold, starting with establishing legal certainty for crypto-assets within the European Union. Differences in the treatment of these assets across EU member states and the partial application of pre-existing legislation to the ecosystem require a response commensurate with these challenges. The regulation also seeks to stimulate innovation, while ensuring that consumer protection and market integrity are not undermined. Furthermore, despite crypto-assets not (yet) posing financial stability issues given that their total outstanding value is not considered significant (compared with the market capitalisation of traditional finance), this is a topic under constant regulatory scrutiny worldwide, and MiCA is therefore a welcome step forward.

Three categories of crypto-assets fall under the scope of MiCA, two of which are defined as "stablecoins". Particular attention is given to this form of crypto-currency due to a number of specific concerns. Firstly, stablecoins can potentially be backed by one or more traditional fiat currencies. Secondly, the anxiety engendered by their wider use as a medium of exchange (compared with other crypto-assets) means that they have avoided the volatility experienced by other crypto-currencies such as Bitcoin. Lastly, the risks associated with crypto-currencies in general have compounded the sense of urgency around legislative action. Indeed, once investor confidence in an issuer's liquidity reserves is lost, stablecoins can also lose value at lightning speed (e.g. Terra/Luna).

MiCA addresses these risks by first identifying two types of stablecoins: electronic money tokens (EMTs) and asset-referenced tokens (ARTs). The value of EMTs is determined with reference to the price of an official fiat currency, while the value of ARTs is determined based on the value of several fiat currencies, one or more commodities or crypto-assets, or a combination of such assets (e.g. X8C, which is backed by a basket of eight major currencies and gold). Issuers of these two categories of stablecoins are subject to multiple rules. Key among these is that prior to being allowed to offer such a stablecoin in the EU, the issuer must notify their national competent authority (NCA) through a white paper – subject to NCA approval in the case of an ART – and publish it, thus ensuring transparency and accountability to investors. Other rules relate to investment of the funds received, reserve assets, investor redemption rights, consumer/investor protection, and liability for marketing.

1 For more information, please refer to the joint warning by the FSMA and the Bank on the use of crypto-assets.

The third category of crypto-assets covered by the new regulation includes legacy forms of the "crypto ecosystem" under the term "residual crypto-assets", which corresponds, but is not limited, to Bitcoin, Ether and utility and loyalty tokens, for example. These assets, the value of which does not depend on a reserve asset, will be subject to a "light" regulatory regime (with the exception of those crypto-assets already on the market). This will entail a simple registration requirement with the NCA rather than ex ante notification or approval, the publication of a white paper for which the issuer is legally responsible, and strict conditions regarding marketing to ensure an adequate level of consumer protection.

In addition to seeking to regulate issuers of crypto-assets, MiCA also captures so-called crypto-asset service providers (CASPs) in its scope, given that the European Commission considers these entities to be a gateway to traditional finance. As defined in the regulation, a CASP is a legal entity that provides one or more crypto-asset services[1] in a professional capacity. Along with extension of the existing rules in the payments and securities sector (e.g. outlawing market abuse such as frontrunning) and rules specific to the service provided by each CASP, they will be required to comply with rules related to governance, the prevention of conflicts of interest, outsourcing, and the investment of crypto-assets. It is worth noting that most non-fungible tokens, unlike CASPs, do not fall within the scope of MiCA and will be studied in a more targeted way in the coming years by the European Commission.

The European Supervisory Authorities[2] and the NCAs are responsible for implementing the legislation[3]: the European Banking Authority (EBA) will be in charge of the supervision of significant EMTs and ARTs while the European Securities and Markets Authority (ESMA) will be responsible for providing the Commission with systematic reporting and feedback, establishing and maintaining a register with information on crypto-assets white papers and issuers of EMTs and ARTs, and ensuring coordination and cooperation between NCAs. The latter will in turn be responsible for oversight of non-significant EMTs and ARTs as well as CASPs, with the possibility to suspend their service offering, make public the fact that a CASP is not compliant with regulatory standards, suspend advertising, instruct auditors, impose fines, and ban members of management from holding office. In addition, NCAs will also ensure market surveillance by preventing practices such as market manipulation or insider trading.

MiCA entered into force on 29 June 2023 upon publication in the Official Journal of the European Union, with Titles III and IV (concerning ARTs and EMTs) expected to come into effect in June 2024 and the remaining titles (including those related to crypto-asset service providers) in December 2024.

Implementing legislation in the form of delegated acts is being developed by the EBA. The Bank is playing an active role in this process via participation in technical working groups. This work includes the development of 17 technical standards and guidelines to further specify the requirements for asset-referenced tokens, electronic money tokens and crypto-asset service providers. The authorities have not yet, however, decided on the role or responsibilities that will be allocated to the Bank under this new legal framework.

1 These services include but are not limited to the custody and administration of crypto-assets on behalf of third parties, the operation of a trading platform for crypto-assets, the exchange of crypto-assets, the execution or receipt and transmission of orders for crypto-assets on behalf of third parties, and the provision of advice on crypto-assets.

2 In this case the European Banking Authority and the European Securities and Markets Authority.

3 Partial implementation for all aspects related to EMTs and ARTs is planned for the spring of 2024, with final implementation (including CASPs) in the autumn of 2024.

3.3 Payment transaction processors

Changes to the regulatory framework

The Belgian regulatory framework applicable to payment transaction processors remained unchanged in 2023.

Prudential and oversight approach

According to the Act of 24 March 2017 on the oversight of payment processors, systemically important processors must comply with requirements that aim to maintain the stability and continuity of retail payments in Belgium, e.g. compulsory, comprehensive risk management in the fields of detection, appraisal and the development of mitigation measures. The legal framework for payment processors also includes a strict process for the reporting of incidents to the Bank and enables the latter to apply a sanctions regime.

In 2023, no new entity was notified as a systemically important payment processor. A list of entities with this status under Article 6 of the abovementioned act and the scheme(s) to which this status applies is available on the Bank's website.[1]

3.4 Card payment schemes (CPS)

Changes to the regulatory framework

No changes were made in 2023 to the Belgian and Eurosystem regulatory frameworks applicable to card payment schemes. These were fully reviewed in 2022, upon the adoption by the Eurosystem of a new oversight framework for electronic payment instruments, schemes and arrangements (the PISA framework).

Prudential and oversight approach

The Belgian CPS, Bancontact, is subject to oversight by the Bank. In 2023, it was assessed against the PISA framework, on the basis of a self-assessment reviewed by the Bank, which is responsible for evaluating compliance with PISA. Prior to finalisation, the assessment report was submitted to other Eurosystem central banks for peer review. The assessment process did not identify any violation of the oversight principles.

For MCE, which qualifies as both a CPS and a SIPS, the PISA framework provides – with a view to avoiding overlapping tasks – for account to be taken of the results of all prior oversight exercises to monitor its compliance (see section 3.1) with the requirements of the SIPS Regulation.

A review was carried out in 2022 to determine the parts of the PISA framework assessment methodology that had not yet been addressed by the comprehensive assessment of MCE's compliance with the SIPS Regulation. Due to a delay in the CROE assessment, the assessment of MCE's compliance (as a CPS) with the PISA framework began in April 2024.

1 See https://www.nbb.be/en/financial-oversight/oversight/payment-systems-card-schemes-and-processors-payment-operations-2.

3.5 Digital euro project

For the past few years, the Bank and the Eurosystem have been investigating – in collaboration with market stakeholders including consumer representatives, academics, and members of the National Retail Payments Committee (at Belgian level) – the possible creation of a digital euro. The digital euro would be designed to cover all retail payment scenarios, providing users with the possibility to carry out simple transactions instantly and free of charge, online and offline, in the euro area. The creation of a new unit within the Bank, the Digital Euro and Payments Policy Unit, underscores the growing importance of this project to modernise the European retail payments landscape.

The Eurosystem's efforts, along with the results of various consultations, have meant that progress has been made on the potential design of a digital euro. As such, on 18 October 2023, the ECB's Governing Council decided to move to the preparatory phase of the project. This section revisits the reasons leading to this decision before delving deeper into the design and features of the digital euro[1] and setting out the next steps in the project.

A project guided by the times…

The journey towards a digital euro is being driven not only by technological innovation but also by the changing nature of modern society. This project is a strategic step towards increasing Europe's autonomy and resilience in the digital financial landscape: a digital euro would ensure a public means of payment developed under pan-European governance and standards, which would be particularly important in times of crisis or geopolitical tensions.

In addition, developments such as the metaverse and artificial intelligence signal a major shift towards the digital realm. The EU's common currency must be ready to cope with this transition. This project represents the Eurosystem's unwavering commitment to ensuring that money continues to evolve in tandem with the needs of society and includes enabling machine-to-machine transactions in the fourth industrial revolution ("Industry 4.0") and facilitating conditional payments in the evolving landscape of Web 3.0.

To support this forward-looking vision, European lawmakers have taken decisive steps. The European Commission launched the legislative process for a digital euro with the release of its Single Currency Package in June 2023.[2] This proposal is currently being considered by the European Parliament and the Council. It effectively recognises that in a society embracing digitalisation, it is important to adapt the key features of physical cash – such as confidentiality, offline usability, resilience, mandatory acceptance, and a distinct European brand – to the digital realm. Importantly, the European Commission, like the ECB, has made its objective clear: the digital euro is not intended to replace physical cash but rather to serve as an additional option for consumers and merchants, regardless of the time and place of a transaction. The European Commission has therefore included a provision on the legal tender status of cash in its legislative proposal, in order to preserve and protect the role of cash in our society.

… and by society as a whole

It is important to stress that, in this context, the abovementioned actors are not the only driving force behind this initiative. The common currency of the EU and its form – whether physical or digital – affect the lives of all citizens, beyond the specific concerns of central bankers and policymakers. Consequently, public consultation cycles, discussion groups, advisory committees, regular bilateral meetings and conferences have been or are being organised. The aim of these initiatives is to achieve the widest possible diffusion of the project, thereby ensuring inclusive and representative participation from society at large.

1 Subject to the work carried out by the European Commission, Council and Parliament.
2 See https://ec.europa.eu/commission/presscorner/detail/en/ip_23_3501.

Key features of the digital euro

The digital euro would be a versatile currency, accessible online and offline and covering all (basic) retail payment use cases, instantly and free of charge, throughout the euro area. It could be used for person-to-person (P2P) transactions as well as in e-commerce and point-of-sale (POS) situations, enabling public money[1] payments for both in-store purchases and online shopping. The digital euro could also help to streamline government-to-individual or government-to-business (G2X) transactions, such as the disbursement of benefits or subsidies.

It would be possible to access the digital euro using everyday banking applications as well as a standalone application provided by the Eurosystem. However, there would be limits on the volume of funds that could be uploaded to a digital euro account. In addition, the Eurosystem aims to provide several defunding and funding options, including the automatic defunding of a digital euro account triggered by an incoming payment that would result in the user's digital euro position exceeding the individual holding limit (known as the "waterfall functionality") and the automatic funding of a digital euro account triggered by an outgoing payment that exceeds the amount held in the user's digital euro account (the "reverse waterfall functionality"). These options, including manual and automatic (de)funding, would be designed to ensure that the holding limit does not become a transaction limit, thereby enabling consumers to use the digital euro as a medium of exchange while preventing its use as a store of value.

To enhance payment flexibility, transactions could be executed through smartphones or physical payment cards. The possibility of using near field communication (NFC) and quick response (QR) codes to facilitate payments is being examined. In addition, the digital euro should enable users to establish conditional payments, thereby streamlining transactions when predetermined criteria are met. This functionality could prove particularly beneficial for payment service providers (PSPs) seeking to innovate and create specialised services utilising the robust infrastructure of the digital euro.

From the investigation phase to the preparation phase

Work on a digital euro started in October 2020, when the ECB published a report on its feasibility.[2] A public consultation on the benefits and challenges of issuing a digital euro and its possible design was then conducted from October 2020 to January 2021.

The investigation phase, which focused on key issues relating to the design and distribution of the proposed new digital currency, began in July 2021 and ended on 18 October 2023, at which time the ECB Governing Council decided to proceed to the preparatory phase. This new phase, which will last at least two years, aims to finalise the rules necessary for the creation of a digital currency. It is also intended to allow more in-depth analysis of the various components of the platform that will need to be set up for tendered services, as well as of the private and public entities responsible for providing these services.

As this work progresses, clear and accurate communication will be crucial to shaping public understanding and building trust in the digital euro project. To counter misinformation, the Bank is committed to ensuring transparent communication, as reflected in this new section of the FMI Report.

The Bank held a conference entitled "A Digital Euro for the Digital Era" on 7 September 2023.[3] The line-up of speakers, which included representatives of central banks, European institutions, the payments industry and consumer associations, ensured that the views of a wide range of stakeholders were shared.

1 Public money is issued by central banks, while private money is issued by commercial banks.
2 See https://www.ecb.europa.eu/pub/pdf/other/Report_on_a_digital_euro~4d7268b458.en.pdf.
3 See https://www.nbb.be/fr/events/digital-euro-digital-era-video.

Conclusion

The potential issuance of a digital euro[1] signals the Eurosystem's firm commitment to ensuring that money – as it has always done throughout history – continues to evolve in step with the society it serves. This commitment entails two fundamental objectives: preserving continued access to physical cash in our societies and maintaining the relevance and utility of public money in the digital era. To achieve these objectives, it is imperative that the digital euro seamlessly integrate the core attributes of the physical euro into the digital realm. These attributes include confidentiality, offline usability, resilience, mandatory acceptance and a distinct European branding. At the same time, it should remain adaptable to future payment requirements, such as facilitating machine-to-machine transactions in Industry 4.0 and enabling conditional payments in the decentralised landscape of Web 3.0.

The aim of the digital euro is thus not to replace cash, but rather to serve as a continuously available payment option for consumers and merchants, regardless of where and when a transaction takes place.

1 Falling under the authority of the ECB Governing Council and subject to a proportionality assessment at the end of the legislative process.