

The Digital Euro Project: ECB Moves to Next Phase

August 5, 2024



In October 2021, the Eurosystem launched its Digital Euro Project. The initial step involved a two-year investigation phase exploring the options that could form the basis of a Digital Euro design. The practicalities of Digital Euro distribution and use, and its economic and social impact, were considered.

Throughout the two-year investigation phase, four progress reports were published by the Eurosystem outlining its progress. In parallel, the European Commission (EC) drafted a legislative proposal for a Digital Euro offering. The proposal was published on 28 June 2023. A broad range of factors necessary for the successful rollout of the Digital Euro project includes anti-money laundering (AML)/countering the financing of terrorism (CFT) requirements, accessibility and financial inclusivity, fraud prevention, duties of payment service providers (PSPs) and privacy considerations. The European Central Bank (ECB) published its opinion on the EC's legislative proposal on 31 October 2023 and was broadly favourable in its assessment.

Please see our article [here](#) for further information on the legislative proposal for a Digital Euro.

The Preparation Phase

On 18 October 2023, the Governing Council of the ECB decided to move to the next phase of

the Digital Euro project: the preparation phase, which started on 1 November 2023 and will last two years. This decision was made based on the findings contained in the Eurosystem's summary report on the investigation phase. The Governing Council were satisfied that the ECB had designed an offering that would be accessible, of wide practical use, and feature high levels of privacy. The first stage of the preparation phase will focus on experimentation and engagement with stakeholders to ensure the security, quality and practicality of the Digital Euro. The preparation phase aims to lay the foundations for the Digital Euro's introduction and pave the way for the EC's future decision on an offering.

A key element of the preparation phase involves the selection of private intermediaries to develop the Digital Euro platform and infrastructure. On 3 January 2024, the ECB issued five calls for applications to develop framework agreements with potential providers of Digital Euro components and related services. This process will inevitably involve considering the technological framework underpinning the Digital Euro. A final decision has yet to be taken on this framework. The Eurosystem has considered different approaches regarding the use of the existing centralised TARGET Instant Payment Settlement (TIPS) system and or/ decentralised infrastructure such as distributed ledger technology (DLT).

Privacy and Data Protection

When the EC published its draft legislative proposal, several points remained open regarding the Digital Euro Project. Key among these were privacy and data protection considerations. Although EC's draft legislation provided that the project would align with existing EU data protection laws and that the design of Digital Euro transactions would ensure that neither the ECB nor national central banks can attribute data to an identified or identifiable Digital Euro user, public fears regarding the ability of States to track and control spending were not fully allayed.

On 18 October 2023, the European Data Protection Board (EDPB) and European Data Protection Supervisor (EDPS) issued a Joint Opinion on the proposed EU Regulation. The Joint Opinion acknowledged that many of the project's privacy and data protection aspects have been addressed. In particular, the bodies welcomed the offline modality of the proposed Digital Euro, which provides that smaller payments would be subject to minimal personal data processing. The Joint Opinion did, however, contain recommendations to ensure the highest data protection and privacy standards. One such recommendation was the introduction of a "privacy threshold" for small online transactions where there would be no tracing for AML/CFT purposes. The bodies also recommended clarifying the data protection responsibilities of the ECB and PSPs. They advised the ECB to assess whether a single access point of Digital Euro identifiers is necessary and proportionate to enforce holding limits.

Holding Limits

The existence of holding limits themselves was a point of uncertainty at the time of writing the last article on the Digital Euro project. In 2022, the ECB indicated that holdings of around 3,000 to 4,000 Digital Euro per person would be appropriate for financial stability. Following this, an assessment of the ECB's first three progress reports carried out by the European

Parliament's Committee on Economic and Monetary Affairs (ECON) questioned the necessity of holding limits on Digital Euro accounts and favoured an approach allowing unlimited access. Notwithstanding ECON's assessment, the summary report published following the conclusion of the investigation phase remained in favour of the application of holding limits to individual accounts to prevent excessive outflows from commercial bank deposits to Digital Euro. Notable is the fact that the report suggested that the monetary limit is to be set closer to the possible launch date to reflect the prevailing economic conditions at that time.

Digital Euro Rulebook

The Digital Euro rulebook, which sets out the rules and procedures to standardise Digital Euro payments across the EEA, has been subject to an interim review by the Digital Euro Rulebook Development Group. The Group is expected to deliver an updated version of the rulebook by the end of 2024, focusing on user identification and infrastructure requirements.

Contact Us

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