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On June 28th, 2023, the European Commission put forward two proposals within a ‘single currency package’, aiming to introduce a possible new digital form of the euro. At the center of intended policy stands the Proposal for a *Regulation on the establishment of the digital euro* (the “**Digital Euro Regulation**” or “**Regulation**”), which sets out and regulates the essential aspects of the digital euro, thus forming the basis of the relevant regulatory framework.¹

Objectives Of The Proposed Digital Euro Regulation

The digitalization of the EU economy has been the main driving force behind the conception of a digital euro. As online payments and the use of digital payment means are becoming increasingly more prevalent, the European Union has identified the need to both safeguard and reinforce the role of the euro by adapting the currency to technological developments. In this context, allowing for a stronger and more competitive, efficient and innovative European retail payments market and digital finance sector, and preserving the monetary anchor role of central bank money, constitute major policy objectives.

The digital euro and related payment services

The digital euro is intended to be an official form of money directly accessible to the public. It is envisioned as a currency that is simple, easy to handle and accessible to all potential users, available for both online and offline payment transactions. It will be issued by the European

Central Bank and national central banks of Member States and would have the status of legal tender, complementing cash (banknotes and coins) as an alternative means of payment.

Moreover, to ensure its practical and widespread adoption, the proposed Regulation (Annex I) imposes a requirement on payment service providers (PSPs) to, among else, provide users with access to digital euro (through front-end services developed by PSPs or the ECB), to enable digital euro transactions, manage relevant payment accounts, conduct funding and de-funding operations, and provide any other services described in the Regulation.

Main provisions of the proposed Digital Euro Regulation

In establishing the digital euro, the proposed Regulation introduces several key provisions, the most important of which are the following:

- Apart from the Regulation, the digital euro will be subject to any delegated acts adopted by the European Commission, detailed rules adopted by the European Central Bank (ECB) and existing EU legislation in relation to payment services and anti-money laundering (as specifically provided in Art. 5 of the Regulation).
- Member States are tasked with introducing rules on penalties for infringement of the Regulation, as well as designating the competent authorities to ensure (in cooperation with the ECB) compliance with the Regulation (Art. 6).

¹ The Digital Euro Regulation is complemented by the Proposal for a *Regulation 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, which provides for the supervision of non-euro area payment service providers.

- The digital euro is granted legal tender status which entails inter alia its mandatory acceptance by payees (Art. 7). However, the Regulation sets out certain cases in which accepting digital euro is not mandatory, namely:
 - when the payee is a microenterprise (Art. 9),
 - when the payee is a natural person acting in the course of a purely personal activity (Art. 9),
 - if both the payee and the payer have expressly agreed on a different means of payment prior to the payment (Art. 9) (provided that such contractual terms have been individually negotiated – Art. 10), and
 - any other exception introduced by (i) the European Commission via the adoption of a delegated act (Art. 11) or (ii) a Member State.
- The digital euro shall be convertible into euro banknotes and coins at par (Art. 12).
- PSPs may provide digital euro services (i) to natural and legal persons residing or visiting a euro area Member State, and (ii) to natural and legal persons residing in a non-euro Member State or a third country, provided that certain designated conditions (set by Articles 18-21 of the Regulation) are met (Art. 13 para 1).
- PSPs are further tasked (Art. 13 paras 3 and 4) with:
 - making available funding and defunding functionalities,
 - enabling digital euro users to have their digital euro holdings in excess of any limitations the ECB may adopt (e.g. holding limits) automatically defunded to a non-digital euro payment account when a digital euro payment transaction is received (“waterfall approach”), and
 - enabling online digital euro payment transactions where the transaction amount exceeds the users’ digital euro holdings.
- All PSPs authorized in the EU may provide digital euro payment services without additional authorization from their competent authorities; the provision of such services requires the PSP to enter into a contractual relationship with each digital euro user (Art. 13 paras 6 and 7).
- Credit institutions (and, in certain cases, other entities such as regional authorities or postal offices) are required to distribute all basic digital euro payment services to natural persons residing in euro-area Member States, upon request of their clients (Art. 14).
 - With a view to ensuring financial stability, the ECB is required to develop instruments to limit the use of the digital euro as a store of value (including holding limits), without, however, limiting its use as a payment means (Art. 16).
 - PSPs shall not charge fees to natural persons, for the provision of the basic digital euro payment services; similarly, any merchant service charge or inter-PSP fee in relation to digital euro payment transactions cannot exceed the limits set by the Regulation (Art. 17).
 - Digital euro users will not be required to have a non-digital euro payment account (Art. 22 para 2).
 - To the extent possible, the standards governing digital euro payment services and the relevant standards governing private digital means of payment will be interoperable (Art. 26).
 - Digital euro users will be able to switch their digital euro payment accounts to other PSPs while maintaining the same account identifiers (Art. 31).
 - To ensure that the digital euro functions efficiently, the European Central Bank may establish a general fraud detection and prevention mechanism for online digital euro transactions (Art. 32).
 - In line with the General Data Protection Regulation (GDPR), the Digital Euro Regulation introduces specific rules for PSPs and banks when processing digital euro users’ data, including the types of data to be processed, the purposes for which such processing may take place, and the security measures to be adopted (Art. 34-36).

- The Regulation provides for an adjusted anti-money laundering and counter-financing framework for offline digital euro payment transactions that will have a higher level of privacy than online payments (Art. 37).

As a final note, despite the variety of aspects of the digital euro regulated by the proposed legislation, the details regarding the technical design and distribution of the new digital currency have not yet been specified; they are expected to be determined over the next months based also on the final form of the Digital Euro Regulation. In any case, if the proposed Regulation is adopted, the introduction of the digital euro is expected to have significant impact on the EU market and the monetary sovereignty of the euro area.

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