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# Digital currencies: Implementing the guard rails for responsible innovation in payments

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Check Against Delivery  
Seul le texte prononcé fait foi  
Es gilt das gesprochene Wort

I am delighted to join this year's OMFIF Digital Money Institute global central bank and digital currency symposium. The sub-title '*Operating in a state of digital transformation*' is very apt as we take stock of the ongoing investigation, experimentation and roll-out of central bank digital currencies (CBDCs) and continued evolution of so-called stablecoins.

The critical role of technology in shaping innovation in payments is, of course, nothing new. For instance, in 2007 the first contactless payments were made in the EU. Seemingly revolutionary at the time, use accelerated in the context of the response to the COVID-19 crisis, with contactless payments now making up 62% of 'point of sale' (PoS) card payments in 2022,<sup>1</sup> in line with an overall uptick in the use of digital payments and decline in the use of cash across the EU.

From commercial bank money to electronic money, from online to mobile banking, our payments rely on interoperable, resilient and secure technology running-rails. These rails have evolved over time to match our changing preferences as retail and wholesale users.

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<sup>1</sup> ECB Study on the payment attitudes of customers in the Euro area: [https://www.ecb.europa.eu/stats/ecb\\_surveys/space/html/ecb.spacereport202212~783ffdf46e.en.html#:~:text=Contactless%20card%20payments%20at%20the,the%20most%20frequently%20used%20method.](https://www.ecb.europa.eu/stats/ecb_surveys/space/html/ecb.spacereport202212~783ffdf46e.en.html#:~:text=Contactless%20card%20payments%20at%20the,the%20most%20frequently%20used%20method.)

However, we are now at a point in time where it is not only the running-rails that are changing rapidly, but also our units or instruments of payment too.

Yesterday, the first day of this conference, focussed on CBDCs, which I understand over 90% of central banks are now exploring.<sup>2</sup> I will not repeat the rich discussions on the case for - or against - CBDCs and on the key design issues all of which are intrinsically linked to, and informed by, the specificities of the jurisdiction concerned, including the payments infrastructure and adoption rates of existing digital payments options. However, I would like to make a couple of points on the digital euro.

As you will be aware from Fabio Panetta's remarks at ECON on 24 April 2023,<sup>3</sup> the ECB is now entering the final phase of the investigation stage for the digital euro. The next stages – design and legislative – are anticipated to advance in parallel later this year.

Indeed, we expect the European Commission to adopt this summer a legislative proposal for a Regulation establishing the digital euro. The legislative proposal is expected to lay down the measures necessary for the digital euro to be used as a single currency across the Euro Area. The proposal is therefore expected to establish and regulate the essential aspects of the digital euro, in full deference to the competences of the ECB and its ultimate decision-making role as to whether to issue a digital euro.

Any digital euro should be seen very much as a complement to existing instruments for payment in the context of a rapidly digitising economy. Clearly euros, in physical form, cannot be used for digital payments. Therefore, without a digital counterpart, the euro could become less relevant, potentially undermining the effectiveness of monetary policy tools and financial stability. However, citizens should not be denied the optionality to use physical cash, not least for reasons of financial inclusion. In this spirit, I expect the European Commission to adopt a legislative proposal on the legal tender of cash *in parallel* to the digital euro proposal to preserve the role of cash as legal tender in our economy and to ensure sufficient access to cash and its acceptance in payments.

As an additional unit for payments, I am optimistic that a digital euro would have a strong potential to facilitate innovation in payments in view of its pan-Euro Area reach. For instance, some private payment solutions, which are currently used only within national borders could build on the infrastructure of a digital euro to offer services across the whole Euro Area thereby creating more efficient payment solutions at European level. But of course a careful and balanced approach is key. CBDCs should not come at the expense of financial stability and nor should they impede banks' intermediation capacity. Similarly,

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<sup>2</sup> Auer and Böhme "The technology of retail central bank digital currency", BIS Quarterly Review, Bank for International Settlements, Basel, March 2020.

<sup>3</sup> [https://www.ecb.europa.eu/press/key/date/2023/html/ecb.sp230424\\_1~f44c7ac164.en.html](https://www.ecb.europa.eu/press/key/date/2023/html/ecb.sp230424_1~f44c7ac164.en.html)

CBDCs should not come at the expense of fighting money laundering and terrorist financing.

But what about tokens issued outside the public sector – specifically so-called stablecoins? Can these types of token help facilitate responsible innovation in payments?

So-called stablecoins are intended to maintain a stable value by reference to a single fiat currency, several fiat currencies or other assets. In recent years, use has grown. Some, for instance, are being used as settlement assets in the case of DLT market infrastructure, including of a type for which the EU DLT Pilot Regime<sup>4</sup> was established. Others are highly relevant as settlement assets in the context of so-called decentralised finance (DeFi).

So can we imagine a context in which so-called stablecoins become even more relevant as a means of payment? I think we can.

First, the development and integration of CBDCs will take some time, and meanwhile we see the market continuing to innovate, for example in the context of DLT-based inter-bank settlement. Second, different use cases can be envisaged. For instance, I understand many central banks are considering balance limits on CBDC holdings<sup>5</sup> – this may not be practicable for certain types of transactions and therefore some so-called stablecoins may suit better higher value use cases. Third, a coexistence of CBDCs and so-called stablecoins would be consistent with our long history of public and private forms of units of payment.<sup>6</sup> Indeed, overall, and under the right conditions, CBDCs and so-called stablecoins have a potential to fulfil complementary functions, providing useful optionality.

So, can so-called stablecoins serve as a facilitator for responsible innovation?

In my view, yes, subject to the implementation of some sensible guard rails. First, of course, risks to the effectiveness of monetary policy tools and to financial stability, must be effectively mitigated. Therefore, central banks should have a power to veto the widespread introduction of a so-called stablecoin if necessary.

Second, the design should conform to certain features to mitigate risks of extreme losses of confidence in their ability to store value – notably via robust reserve and redemption arrangements supplemented with recovery plans to address effectively situations of liquidity and other stress.

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<sup>4</sup> Regulation (EU) 2022/858 <https://eur-lex.europa.eu/legal-content/EN/TXT/?uri=CELEX%3A32022R0858&qid=1683213566070>

<sup>5</sup> For instance, the Bank of England has proposed a limit of between £10,000 and £20,000 per individual as “the appropriate balance between managing risks and supporting wide usability of the digital pound”. “*The Digital Pound*” speech by Jon Cunliffe, February 2023.

<sup>6</sup> Central bank money, commercial bank money, e-money etc.

Third, risks of money laundering terrorist financing, operational outages and losses through cyber-attack should be addressed. Interoperability is also key – and this, in turn, relies on resilience.

Fourth, risks deriving from ineffective governance, conflicts of interest and poor conduct of business should be stamped out.

These guard rails are in plain sight.

The Financial Stability Board (FSB) published in October 2020 its high-level recommendations for the regulation, supervision and oversight of ‘global stablecoin’ arrangements,<sup>7</sup> complementing initiatives of international standard setters such as CPMI-IOSCO and the Financial Action Task Force (FATF).

However, two and a half years on, and at a time when the FSB is reviewing, broadening and strengthening its recommendations,<sup>8</sup> I am sorry to see rather limited progress toward implementation of these recommendations globally.

In the EU we are ahead of the curve.

Last month, the European Parliament endorsed the text for a Regulation on Markets in Crypto-assets (MiCAR)<sup>9</sup> and a final vote in Council is expected next week with entry into force anticipated in July 2023.

MiCAR will establish a holistic regulatory regime for crypto-asset services, such as custody and exchange, as well as crypto-asset issuance, including the issuance of so-called stablecoins which, in MiCAR terminology are called asset-referenced tokens (ARTs) and electronic money tokens (EMTs). In so-doing, MiCAR will effectively implement the FSB’s recommendations in the EU.

Notably, to issue ARTs, the issuer must be a credit institution or authorised to issue the ART (and established) in the EU. To issue EMTs, the issuer must be authorised as a credit institution or an electronic money institution in the EU. Therefore all issuers will be subject to a robust authorisation and supervision framework.

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<sup>7</sup> <https://www.fsb.org/2020/10/regulation-supervision-and-oversight-of-global-stablecoin-arrangements/>

<sup>8</sup> See the FSB’s October 2022 consultation papers: the Consultative report on the review of the High Level recommendations of the regulation, supervision and oversight of “global stablecoin” arrangements: <https://www.fsb.org/2022/10/review-of-the-fsb-high-level-recommendations-of-the-regulation-supervision-and-oversight-of-global-stablecoin-arrangements-consultative-report/> and the Consultative report on the regulation, supervision and oversight of crypto-asset activities and markets: <https://www.fsb.org/2022/10/regulation-supervision-and-oversight-of-crypto-asset-activities-and-markets-consultative-report/>

<sup>9</sup> [https://www.europarl.europa.eu/doceo/document/TA-9-2023-0117\\_EN.html](https://www.europarl.europa.eu/doceo/document/TA-9-2023-0117_EN.html)

Issuers will be required to conform with robust prudential, governance, and conduct of business requirements, including the requirement to issue detailed white papers setting out the features and risks of the tokens, and robust reserve and redemption arrangements.

For the largest ARTs and EMTs which are determined by the EBA to be 'significant' in accordance with the criteria set out in MICAR, supplemental obligations, such as enhanced stress testing of the reserve, will apply and supervision will transfer to the EBA.

The EBA will establish supervisory colleges for all significant ARTs and EMTs to ensure effective supervisory cooperation in relation to these tokens, and the wider ecosystems in which they are transacted.

Anti-money laundering measures will apply via the EU's updated AML package, currently making its way through the co-legislative process. And the EU's Digital Operational Resilience Act (DORA),<sup>10</sup> which is intended to mitigate information and communication technology risks, including risks of cyber-attack will also apply.

As a result of this regulatory action, we can expect customers to have greater confidence in using EMTs and, depending on their design features, at least some ARTs as an alternative payment unit.

However, regulatory supervisory convergence internationally is a prerequisite for responsible integration of stablecoins as a means of payment. Therefore, I encourage jurisdictions to accelerate steps to strengthen the regulation and supervision of so-called stablecoins in view of the likely co-existence with existing payment instruments, and potentially CBDCs.

Before moving to outline the EBA's work in the remainder of 2023, please allow me to shift the focus somewhat from so-called stablecoins and MICAR towards payment services and the work the EBA has done in recent years to support the revised Payment Services Directive (PSD2).<sup>11</sup>

PSD2 was back then as unique as MICA is right now. Both pieces of EU law have similarly ambitious and to some extent similar objectives, which are:

- to facilitate innovation,
- to enhance competition, which in the case of PSD2 was achieved by granting third party providers access to payment accounts held by banks,
- to enhance security,
- to make it convenient for consumers to use the new innovation, and

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<sup>10</sup> Regulation (EU) 2022/2554: <https://eur-lex.europa.eu/legal-content/EN/TXT/?uri=CELEX%3A32022R2554> and related Directive.

<sup>11</sup> Directive (EU) 2015/2366: <https://eur-lex.europa.eu/legal-content/EN/ALL/?uri=celex:32015L2366>

- to instil market confidence in the new innovation.

Three years after the EBA delivered its Technical Standards and Guidelines in support of that Directive,<sup>12</sup> we are looking at market in which we seem to have achieved a suitable balance between these often competing objectives and demands:

- more than 400 payment or electronic institutions are now authorised in the EU to provide open banking services;
- the EU market is globally attractive for potential new entrants, as the EBA's central register of legal entities is accessed by 7,000 unique users and downloaded 200,000 times each month, from 90+ different countries, i.e. from far beyond the 27 EU Member States;
- the security of payments has also increased, as our preliminary analysis shows that fraud has reduced between 40-60% depending on the payment instrument assessed. We expect these fraud reduction figures to be more impressive still, once we have completed our analysis of the more recent fraud data; and
- consumers are now offered an enhanced choice of different payment options, with innovation continuing to provide ever more consumer-friendly solutions.

However, some issues remain that need to be addressed. This includes obstacles placed by banks in the way of third-party providers, lack of enforcement powers of supervisory authorities, and the absence of a single API interface across the EU, to mention but a few.

This is why the EBA sent an Opinion to the European Commission last year with 200 detailed recommendations as to how PSD2 could be improved further.<sup>13</sup> We understand that the European Commission will be publishing a proposal for PSD3 later this summer, and the EBA stands ready again to support the implementation of this Directive.

I use this as a reminder of the need to continue to work to improve our traditional payments infrastructure, alongside any experimentation or roll out of CBDCs and regulatory efforts for so-called stablecoins in order to maximise benefits from all potential avenues for payments innovation.

So what can you expect from the EBA in the remainder of 2023/early 2024?

Well, somewhat unsurprisingly, much of our focus will be on DORA and MiCAR-related activities.

<sup>12</sup> <https://www.eba.europa.eu/regulation-and-policy/payment-services-and-electronic-money>

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[https://www.eba.europa.eu/sites/default/documents/files/document\\_library/Publications/Opinions/2022/Opinion%20on%20PSD2%20review%20%28EBA-Op-2022-06%29/1036016/EBA%27s%20response%20to%20the%20Call%20for%20advice%20on%20the%20review%20of%20PSD2.pdf](https://www.eba.europa.eu/sites/default/documents/files/document_library/Publications/Opinions/2022/Opinion%20on%20PSD2%20review%20%28EBA-Op-2022-06%29/1036016/EBA%27s%20response%20to%20the%20Call%20for%20advice%20on%20the%20review%20of%20PSD2.pdf)

By now DORA needs no introduction – its aims of strengthening EU financial sector rules on ICT risk management, harmonising ICT incident reporting, and introducing an oversight framework for critical ICT third-party providers are well-known. Following the publication in the Official Journal, the EBA has commenced work, jointly with the other ESAs, on the policy mandates and on the broad parameters of the oversight framework for critical ICT third-party service providers, working also in close cooperation with ENISA.

On MiCAR, we expect its entry into force in early summer, starting the clock on an intensive phase also of policy delivery work in relation to issuers of asset-referenced and e-money tokens. I currently anticipate that our consultation phase on the vast majority of our technical standards and guidelines under MiCAR – which relate primarily to issuers of ARTs and EMTs - will begin in October 2023, with perhaps a few in the area of authorisations and governance appearing earlier. We will also be commencing activities to expand our market monitoring and supervisory capacity to prepare for our supervision tasks in relation to significant issuers. In addition, we are taking forward important own initiative work to promote convergence in supervisory expectations toward asset-referenced token and e-money token issuance activities in the transition phase to the application of MiCA. All of our work in this area of course will involve active communication with industry stakeholders and formal consultations.

For both DORA and MiCAR, we are also preparing responses to the European Commission's Calls for Advice<sup>14</sup> on issues such as oversight and supervisory fees, and significance criteria for issuers, with industry workshops planned on 17 May.

Relatedly, the EBA is taking actions to ensure that money laundering and terrorist financing risks are tackled holistically across the crypto-asset sector. This means that we will bring revisions to our existing AML/CFT guidelines, including the fund transfers guidelines and the ML/TF Risk Factors Guidelines,<sup>15</sup> to set common regulatory expectations on the management of financial crime risk in the context of crypto-asset services. We remain committed to making sure that financial crime has no place in Europe.

And we are continuing to engage in the work of the Basel Committee on Banking Supervision, to ensure a prompt and consistent implementation of the prudential standard on banks' exposures on crypto-assets, where enhance international convergence remains key.

More broadly, consistent with our statutory objectives of monitoring financial innovation, and fostering supervisory knowledge exchange, we will continue to map innovation trends,

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<sup>14</sup> <https://www.eba.europa.eu/about-us/missions-and-tasks/calls-for-advice#:~:text=Calls%20for%20Advice%20%7C%20European%20Banking%20Authority&text=The%20EBA%20receives%20Calls%20for,publishes%20an%20evidence%2Dbased%20Report.>

<sup>15</sup> <https://www.eba.europa.eu/regulation-and-policy/anti-money-laundering-and-countermeasures/financing-terrorism>

in particular focusing this year on AI use cases in the financial sector, tokenisation in relation to new financial products and services, digital identity management, DeFi and crypto-asset staking and lending.

We continue to support our European counterparts on issues relating to the digital euro and of course we will continue to engage proactively in ongoing policy work at the EU and international levels, including the work of the FSB and FATF.

So much work is ongoing, and much work remains ahead, and we look forward to continuing discussions in fora such as this in order that we can benefit from exchanges across a global community of central banks, regulators, supervisors and industry on how we can leverage the benefits of responsible innovation in payments.

I thank you for your attention.