



June 2022

ICA statement of input to the European Commission targeted consultation on a Digital Euro

Introduction

The International Currency Association (ICA) is the voice of the currency industry. Our membership covers design, production, manufacturing and distribution of coins and banknotes. We are the first industry body of its kind with a membership made up of businesses that span the sector.

The ICA takes the occasion of the European Commission consultation on a digital euro to contribute its position on a Central Bank Digital Currency (CBDC), in particular as it relates to cash.

Our point of departure is that cash is an essential factor for **personal freedom and privacy** as well as **social and financial inclusion for all groups of society**, and is the only means of payment and store of value that is itself a **public good**. Cash is **secure** and **safe** to use, also in case of a failure of electronic systems. This goes for all forms of cash worldwide and thus also for the Euro.

The ICA believes in diversity and freedom of choice when it comes to payment alternatives. Cash – having specific characteristics, that provide value to society – is already today complemented by other forms of payment, offering alternative functions and features. Such alternatives so far have been issued by private organisations only, a CBDC would hence be a true innovation in public payment.

We highly welcome the starting point of the European Commission's consultation that stresses that a digital currency would work alongside cash. We also commend the European Commission for including relevant questions on cash as legal tender in the eurozone and acceptance of cash in its Questionnaire.

The ICA is a close observer to the work of central banks as representatives of public authority towards a digital currency. A digital currency can provide benefits for digital transactions and most importantly, we believe that the future of payments should not lie in private hands but rather be driven by public authorities. It is clear that if there is a digital currency, it should be issued by public authorities, not a private entity.

As e-commerce and digital interactions are on the rise, the discussion on a future digital currency to use for purchases made electronically is becoming increasingly prominent. We point to the fact that a purchase made electronically does not *per se* imply that it must also be paid for electronically. Indeed, a number of merchants and applications have made it possible to pay for electronically-ordered goods or foods in cash upon delivery. However, the high charges that consumers and merchants face to be able to pay for transactions electronically, make it attractive to find a digital public alternative to these payments; a digital currency issued by the central banks – in this case, a digital euro – could make this possible.

Main principles for a Central Bank Digital Currency (CBDC)

CBDCs are often referred to as 'digital cash'. In that light, two important points form the foundations for our considerations on a CBDC:

- 1) *The characteristics of physical cash that a digital currency should have in order to be able to truly play the role of 'digital cash'*
- 2) *The conditions to be met for 'physical cash' and a public digital currency to exist together*

The key characteristics of physical cash that a digital currency should have in order to truly be 'digital cash' and a public good

The ICA stresses that (physical) cash is a public good and the only truly universal means of payment. It is remittance-free: the holder can use it for a purchase or exchange or receive it without requiring any further infrastructure such as an account, a reader or other. It will function even in case of electronic failures, electromagnetic pulse damage, natural catastrophes or cyber attacks. This is a characteristic which digital cash in all probability will never be able to meet. However, there are aspects of physical cash which should also be features of a public digital currency.

The most important aspects in our view that should also characterise a public digital currency in order for it to also be – like cash – a public good, are that it should be a private transaction, easy to use, widely accessible, with maximum safeguards for security and come at no additional cost to the users, the holders and the recipients. I.e. no data, no barrier, no fee!

It is essential for a future CBDC, including a digital euro, to guarantee full privacy to its users. A CBDC will only stand apart from existing and future private (cryptocurrency) means of electronic payments if that is what it achieves to do. No data should be collected from the user. However, AML/ATF procedures need to be applicable to digital cash as well.

A digital currency should also seek to approximate universal accessibility as much as possible. While it is likely to always require some electronic application/investment (e.g. a smartphone), the hurdle for adoption should be kept as low as possible to ensure that the digital euro is as straightforward as possible for consumers to use. A simple form factor of a digital device to store/access value could also be offered by the public authority (e.g. a chip in a card or wearable, a simple reader/display), like authorities offer banknotes/coins and passports / ID cards today.

Any form of payment that is a public good should be easy to use. A simple user interface and non-expensive devices are important. Notably, people of all ages should be able to use it and any barriers to using should be carefully weighed against the need for universal accessibility. The ICA also hopes that the designers of a digital currency will take inspiration from the efforts of banknote and coins designers to ensure that persons with a visual disability can make full use of cash. As access to online means of communication is not guaranteed for all at all times, a CBDC should be accessible offline as well, with restrictions guaranteeing that amounts are not spent twice.

A CBDC should offer maximum safeguards for security and protection against cyber-attacks. The risk to the economy posed by a cyber-attack as well as to public confidence in a CBDC could be devastating, particularly if a successful attack went unchecked or were undiscovered for a period of time. Even an unproven claim that the CBDC had been hacked could potentially be highly destabilising for the economy. This risk is an order of magnitude higher than for physical cash, as there is no easy/practical way for the public to authenticate whether a CBDC is genuine. Developing a public authentication solution for a CBDC should thus also be a key requirement to ensure that digital cash can be a public good.

Paying for goods or services or exchanging money should not cost the user. Unfortunately, today's consumers and to a sometimes even larger extent, merchants, are facing a myriad of charges and hurdles for most transactions, including for bank account fees, credit card fees and fees to set up an electronic payment service to pay online. A CBDC should aim to be a counterforce to such costs and fees by demanding no additional cost.

How cash and a CBDC can exist together

In order for physical cash to continue to play its role, a CBDC must truly be a *digital expression of cash*. The key dimension of cash that a digital currency must also carry is the absolute respect of privacy. If physical cash is the only currency available that guarantees privacy, it runs the risk of being stigmatized, with disastrous consequences for those parts of the population that depend on it.

In order to be able to act as a digital expression of cash, a CBDC and physical cash must also be mutually convertible. That means free and flexible conversion of a digital currency into physical cash and vice versa, in addition to the free exchange into any physical or digital or physical currency of another country/trade zone. It is important that exchangeability between its physical and digital forms is available at no cost and without any system to penalise one or the other, in order to offer a fair and free choice for consumers.

As noted above, a crucial characteristic for cash is the universality of acceptance and availability and a CBDC to replicate this characteristic as far as is possible. In parallel, it should also be ensured – where needed, by legislation – that the universality of acceptance and availability of physical cash can continue, for example by mandating the acceptance of physical cash where this has been contested. With the introduction of digital cash, the continuation of availability of physical cash must be guaranteed through a wide distribution network and notably the role of retail banks must be taken into close consideration.

At the same time, digital cash should also be usable in offline mode, with some restrictions, notably to avoid multiple use of the “same Euro”. AML/ATF procedures need to be applicable to digital cash, just as they are applied to physical cash. Mechanisms should be in place to avoid overspending by means of artificial friction, just as physical cash provides – it is not common to mistakenly spend 1000 Euros instead of 10 Euros in the physical world, the same should be ensured for the digital sphere.

We emphasise that the central banks are public institutions that the public can trust to issue a currency that truly guarantees privacy and the universality of acceptance and availability. Private initiators of currency i.e. cryptocurrencies can rightly never have the full trust of the public. It falls within the central banks' duty to guarantee that there will be a digital currency that ensures full privacy, acceptance and availability and it is thus the central bank(s) that must be the issuers of it.

The same applies to the general purpose of CBDC. Stronger restrictions on the use of CBDC in comparison to tethered cryptocurrencies issued by private sectors should certainly not be permitted.

Legal tender and acceptance of cash

The European Commission takes the opportunity of this consultation to ask whether the status of legal tender of cash should be enshrined further in legislation. We highly welcome this initiative and encourage European Union policy makers to clarify the legal tender status of cash payments, ideally by means of a Regulation, which will ensure uniform application by the eurozone countries. Too often, citizens in the EU are being refused the right to pay in cash. We can here look to the United States where bipartisan efforts are underway to ensure the right for acceptance of cash, the only means of payment that is a public good. The European Union should not stand behind and take this opportunity to ensure the universal acceptance of cash, alongside the future digital euro.

The importance of maintaining 24/7 access to cash and access-to-cash without having to travel cannot be underestimated. We would highly welcome EU-legislative initiatives in this field to provide guidance to Member States in ensuring the implementation of measures guaranteeing access to cash. We welcome the European Commission's specific question to this regard.

The ICA and its members stand ready to contribute further to the discussion.

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About the International Currency Association

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