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2. What are your considerations on the sequence and composition of the two different product releases: (i) P2P and e-commerce (ii) PoS and G2X use cases?

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3. Do you have specific considerations with regards to the technical and implementation efforts required for the different product releases?

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BEUC response to ERPB written procedure on digital euro following ERPB technical session of 22nd February 2023

1. Compensation model for the digital euro

BEUC strongly supports the ECB in their objective to build the digital euro as a public good. Like cash, there will be systemic costs attached to the infrastructure of a digital euro, but these costs should be borne by the society as a whole and not by individual consumers in terms of fees for basic services.

Legal tender: Like cash, the digital euro should have a legal tender status meaning that consumers can use the digital euro in all payments to business and to government without exceptions. It should be noted that the legal tender status of cash is yet to be clarified by European legislation. BEUC therefore supports the European Commission intention to clarify the legal tender status of cash and the digital euro. Exceptions to mandatory acceptance of legal tender could only be allowed for narrow and well defined cases.

Basic use free of charge: All basic services should be free of charge and this basic account free of charge should be offered by default to consumers. BEUC shares ECB's objectives that basic use should "cover all services necessary to enable persons to pay and be paid with digital euro in a convenient manner". However, in our view, a number of important basic services are missing in the list to fulfil this objective and make the basic digital euro account fully functional. The basic services should correspond to the basic features of a basic payment account as listed in article 17 in the Payment Account Directive. When comparing the services listed in the presentation (slide 7), the following services are missing and should be added:

- **Funding and defunding**: In view of financial inclusion, also the funding and defunding **with cash** should be included as a basic service. For the funding and defunding with a payment account, it should be clarified that this commercial bank account is not necessarily linked to the digital euro account allowing consumers to use digital euros in a privacy-friendly way.
- **Recurring payments** such as direct debits and standing orders should be included to allow consumers to receive for example a salary/pension/social benefit directly on their digital euro account and be able to pay their bills (e.g. energy bill) by direct debit without additional costs.
- **Provision of a basic payment instrument**: it should be ensured that all payment instruments (be it a card or a QR-code) are offered free of charge. In view of financial inclusion, it should be for instance avoided that payment cards are not offered free of charge.

The basic services should be free of charge, no matter the medium used. For example, consumers should be able to top up a digital euro account for free, no

matter if they use their personal computer/smartphone or an ATM or at the counter with the assistance of bank staff.

There needs to be legislative safeguards that the basic digital euro account is offered by default and that value added services are not offered to consumers by inferred agreements (e.g. pre-ticked boxes). As experience of the basic payment account shows that without an obligation, the basic payment account is often not offered to consumers (e.g. Asufin mystery shopping in December 2022 found out that when opening a payment account, only in 15% of the cases, a basic payment account was presented as an option).¹

Economic incentives for PSPs:

BEUC agrees that there needs to be economic incentives for PSPs to distribute digital euros. However, BEUC questions that a system which is designed as a public good should generate a “similar level of economic incentives” than a commercial digital payment system. This would mean that PSPs are compensated with public money at the level of the economic returns of a commercial digital payment method which would create very high costs for people, either in their role as consumers (direct fees or indirectly via merchant fees) or as taxpayers. As for any other public good (as for instance: physical cash), the objective should not be to generate huge economic returns but to compensate PSPs for the costs when distributing the digital euro. When PSPs are not interested in distributing the digital euro under these conditions, an end-to-end solution which public/non-for-profit intermediaries should be explored instead.

Economic incentives should be paired with legal obligations to maintain a well-functioning infrastructure in place. In recent years, the cash infrastructure has come under pressure with ATMs and bank branches disappearing (e.g. [Tests-Achats](#), [UCL article](#), [Consumentenbond](#)). BEUC expects that the same infrastructure is needed for digital euros and cash so that all consumers can use the digital euro including those at risk of financial exclusion. Consumers must have ATMs, bank branches and personal telephone advice available where they can make use of all basic services of a digital euro account, where necessary with the assistance of bank staff.

In addition, it should be avoided that consumers pay twice. In the case of cash, consumers pay for the fees for their commercial bank account but nowadays the use of the cash infrastructure has regularly also a cost for consumers, namely the withdrawal of cash at ATMs (fee/withdrawal). For digital payments, consumers pay a fee for their online banking and payment instruments, but also pay indirectly via high scheme fees. Legal obligations ensuring that the infrastructure can be used free of charge and that the consumer’s privacy is fully respected are needed.

Affordable fees for merchants:

BEUC strongly recommends capping merchant fees to avoid that the legal tender nature of the digital euro is exploited by PSPs. There is ample evidence from the card and e-Money sector showing that transaction fees are set at very high levels

¹ <https://www.asufin.com/cuenta-pago-basica-15-casos/>

where there is no legal limit. Legislative safeguards are therefore needed which should include all possible charges (interchange fees but also scheme fees etc.) to avoid circumvention of legal limits as this is currently the case for the Interchange Fee Regulation (2015/751/EU).

At the same time, the Commission recommendations on the legal tender of cash should be extended to the digital euro. In line with these recommendations, it should be clarified that digital euros must similarly to cash be accepted at full face value and no surcharges can be imposed on the use of digital euros.²

Costs of the Eurosystem: BEUC agrees with the proposals of the ECB to pursue the same logic as for cash meaning that the Eurosystem will bear its own costs, reflecting the public good nature of the digital euro.

2. Rollout approach for the digital euro

BEUC notes that no specific timelines (duration of different phases, time distances between different releases) are specified and therefore only initial comments could be shared. A final position will be established once a more detailed implementation plan is available.

As a general comment, BEUC recommends prioritising use cases which are most relevant for consumers currently excluded from using digital payment methods. Financial inclusion should be therefore added to the definition of market relevance.

2.1 Is the proposed staggered approach the best way to ensure a successful rollout of the digital euro from market and policy perspectives, while ensuring a timely delivery?

BEUC agrees with the staggered roll-out proposed in the presentation and starting with P2P payments and e-commerce. To promote the legal tender nature of the digital euro, long time gaps between the roll-out of different use cases should be avoided.

To ensure a successful implementation of a staggered approach, communication to consumers is key. Consumers should have at the beginning of the roll-out a full picture of the different use cases and as of when the digital euro can be used where.

2.2 What are your considerations on the sequence and composition of the two different product releases

(i) P2P and e-commerce

For P2P, it will be important that consumers can use from the start onwards the ECB digital euro app to ensure an optimal take up. It should be avoided that consumers first have to use a commercial app and then need to proactively switch to the public app at a later stage. The ECB digital euro app should also aim at promoting a financial inclusion for the P2P use case.

² <https://eur-lex.europa.eu/legal-content/EN/TXT/PDF/?uri=CELEX:32010H0191&from=EL>

For e-commerce, it will be important that consumers can rely on an inclusive payment method (e.g. physical card rather than QR code).

(ii) PoS and G2X

For Point of sale, in line with the foreseen legal tender nature of the digital euro, all merchants and businesses should be obliged to accept the digital euro as a payment method. A longer implementation period could be possibly foreseen for micro enterprises (e.g. doctors) where cash is accepted as a payment method.

For G2X, public services should contribute to the promotion of the digital euro as a payment method and should therefore be well-prepared to accept the digital euro. The acceptance of digital euros should be included in the digitalisation strategies of public services to avoid unnecessary hurdles when digital euro payments to government are rolled-out.

2.3 Do you have specific considerations with regards to the technical and implementation efforts required for the different product releases?

Besides technical implementation considerations, the consumer perspective should be carefully assessed: How will consumers be informed about the roll-out? Are resources made available at intermediary level to ensure that consumers are well-assisted when first using the digital euro? Have the technical solutions been tested to ensure inclusiveness? BEUC therefore supports careful piloting exercises with representative consumers groups.



Brussels, 23 March 2023

Digital euro

EACB feedback to ECB

Compensation model for the digital euro

Rollout approach for the digital euro

The **European Association of Co-operative Banks** ([EACB](https://www.eacb.coop)) is the voice of the cooperative banks in Europe. It represents, promotes and defends the common interests of its 26 member institutions and of cooperative banks in general. Cooperative banks form decentralised networks which are subject to banking as well as cooperative legislation. Democracy, transparency and proximity are the three key characteristics of the cooperative banks' business model. With 2,700 locally operating banks and 40,000 outlets co-operative banks are widely represented throughout the enlarged European Union, playing a major role in the financial and economic system. They have a long tradition in serving 227 million customers, mainly consumers, retailers and communities. The co-operative banks in Europe represent 89 million members and 720,000 employees and have a total average market share of about 20%.

For further details, please visit www.eacb.coop

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The EACB welcomes the opportunity to provide input to the ECB following 6th ERPB technical session on digital euro held on 22 February 2023. The consultation covers the following aspects of the digital euro project:

1. Compensation model
2. Rollout approach

The EACB's views on the consultation questions as well as a number of questions for clarification are presented below.

1. Compensation model for the digital euro

Question: What are your views on the suggested core principles for the digital euro compensation model?

General comments

Before commenting on the ECB slides, we consider it necessary to set the scene by outlining a number of key elements that are relevant for the discussion on the compensation model.

It is necessary to study all potentially negative externalities that a CBDC could have on banks and their retail banking business model in Europe. Banks are particularly targeted by the digital euro project as they will have to face increased competition and will be impacted by:

- Additional investments: Introduction of the digital euro requires significant investments from both banks and retailers. If the Eurosystem decides to introduce a digital euro, emerging costs should be borne by the Eurosystem.
- Replacement costs of deposit outflows: Depending on the digital euro's design features, banks risk a large outflow of current accounts, term deposits (impact on liquidity) and shares for mutuals (impact on equity). Banks will have to face the cost of replacing these sight deposits, which increases with the rise in interest rates compared to the current 0% remuneration of the sight deposits.
- Loss of other income and increasing management costs: Banks will suffer a heavy impact linked to commissions on their different income from payment transactions (card fees, interchange, flow commissions, account transaction commissions, etc.). Plus, a significant costs of opening and management of digital euro accounts/wallets for citizens.

Faced with these very destabilizing effects, we wish to draw particular attention to the following important points:

- There should be a low holding limit per citizen set by law (maximum EUR 500) and transaction limits for digital euro.
- We disagree with the ECB's estimate that "... keeping total digital euro holdings between one trillion and one and a half trillion euro would avoid negative effects for the financial system and monetary policy"¹. The EACB recent modelling of the potential impact of a digital euro indicates that, depending on its design parameters the digital euro would have a strong negative impact on deposit outflows and prudential ratios such as LCR and NFSR.

¹ F. Panetta speech at the European Parliament, 15 June 2022:
<https://www.ecb.europa.eu/press/key/date/2022/html/ecb.sp220615~0b859eb8bc.en.html>



Therefore, a system of compensation for banks should be defined in case of outflow of funds, for example, through the use of free ECB refinancing envelopes without collateral.

- It is essential to clearly specify and calibrate the economic model to compensate for all banks' investments and opportunity costs related to the digital euro project.
- It seems the ECB proposal covers only transaction costs related to digital euro and omits all other costs that supervised intermediaries will face, such as onboarding, KYC/AML, possible fraud management, etc.
- With supervisory authorities on an ongoing basis scrutinising the performance of banks not only from the prudential perspective but also the business model sustainability², extreme care should be taken with decisions that maybe seen as justifiable from a public good perspective but significantly weaken business model sustainability.

Comments on the ECB proposals regarding the compensation model for the digital euro:

- ECB slide 5, 2nd bullet: "Free for basic use": What is meant by 'use'? Does that also mean funding & defunding (to be more specific related to cash)? Free (unlimited) funding and defunding of cash is not common regarding funding and defunding cash from / to current accounts.
- Slide 7, 2nd bullet: "... and have access free-of-charge": Access to cash is not always for free. Use of ATM or deposit cash can be charged.
- Slide 8: The sentence "*Legislation might establish an expectation on merchant pricing considering the current levels for comparable retail payment solutions*" is by far insufficient in terms of details and amounts.
- Slide 8: The ECB considers offering a stand-alone digital euro app. Besides this banks would be allowed to integrate digital euro in their apps. Which kind of fees does the ECB see intermediaries could introduce for value added services (VAS)? Because VAS are now based on commercial bank money services.
- Slide 9, 1st bullet: "*PSPs ... should have a similar level of economic incentives*": This is a good starting point. One of the differences between digital euro distribution and commercial bank money is the customer relationship and possibilities to earn money from interest differences (in a 'normal' interest rate environment). We welcome ideas to create such economic incentives. Which methods for creating those incentives are preferred (at which not)? But creating incentives could also mean that it could harm and crowd out market products and services. How does that correlate with the 'do no harm' and 'no crowding out' principles? It's a challenge to introduce a new product with similar characteristics without consequences for existing products.
- The business revenues of banks in payments consists of: a) fees for payment packages (paid by customer); b) interest income; and c) interchanges fees. Points a and b look like not possible (for free and no commercial bank money). Which implies that point c should be higher, or the ECB should create an additional compensation.
- Slide 9, 3rd bullet: Same as previous remark: Are additional incentives for commercial bank money promotion taken into consideration?
- Slide 10: General remark: The implementation of the digital euro is not for free. Although banks do not know what would be required, introducing a new payment method will have huge costs.

Slide 10, 3rd bullet: The compensation model presented by the ECB seems to neglect the onboarding process that intermediaries have to provide. The compensation model should take the onboarding process into account.

² [Introductory statement \(europa.eu\)](https://www.europa.eu) Andrea Enria, press conference on the results of the 2022 SREP cycle



- For the level of compensation model it is of crucial importance which responsibilities belong to whom. For example, the merchant fees in existing payment solutions are shared for: a) acquiring business model (but market driven due to freedom of choice); b) scheme costs (e.g. for marketing, infrastructure, development); c) fraud costs (in other schemes responsibility of the acquirer or the scheme, like charge back paid by the acquirer); d) interchange. So if this responsibilities in the context of the digital euro are changed and the fraud costs are to be paid by the issuer bank, then this part of the margin would need to be compensated to the issuer.
- Huge part of the cost related to payments is KYC and AML related. This is besides the processing costs. What kind of incentives does the Eurosystem think of to compensate the intermediaries?
- There should be no difference between countries: each PSP, independent of their location, should receive the same compensation, i.e. same rules for the whole euro area.
- The P2P use case exemplifies the lack of income sources: private individuals on both ends of the transaction not paying for anything, while cost cannot be recouped by intermediaries, e.g. via a subscription (all-in) fee for the wallet services.
- If the compensation is going to be regulated, the regulation shall be linked to the compensation rules for physical cash in the particular country. This would on the one hand allow banks to make their own decision but would also prevent from destroying the digital euro marketing. A few examples:
 - It is up to the bank to charge for ATM cash withdrawal or not. Transferring deposits in/out the digital euro wallet should then be the equivalent use case and therefore be not higher charged than physical cash.
 - A somehow similar principle is also applied to SEPA transactions. It is up to each PSP to decide whether or not to charge for a transfer but it is not allowed to charge a different fee for cross-border transfers (within SEPA) than the PSP charges for domestic transfers.
 - Fees for cash, also sometimes including card distribution, are included/calculated in the different account packages for private customers or there are different models how many withdraws at an ATM or at the desk are included in the account packages. And if customers withdraw cash at an ATM in another eurozone country fees are charged.
 - The pricing of cards and other payments instruments to the customer also contributes to the financing of cash distribution. Will there be a similar compensation/billing for the digital euro?

2. Rollout approach for the digital euro

Question 1. Is the proposed staggered approach the best way to ensure a successful rollout of the digital euro from market and policy perspectives, while ensuring a timely delivery?

A staggered approach seems to be the best method. The staggered approach would allow spreading the burden of banks to implement the requirements set by the ECB.

Regarding the foreseen scope of use cases covered by the digital euro, it is important to stress that implementation work will require important investments and time, especially when there will be an impact on hardware, e.g. ATM and POS. As an example, updating POS fleet may take only short time period or otherwise may require 10 plus years, depending on many details of the digital euro's design decisions and due to technical capabilities.



Question 2. What are your considerations on the sequence and composition of the two different product releases: (i) P2P and e-commerce (ii) PoS and G2X use cases?

- Additional argument for P2P: It adds functionality to existing account-based payments, comparable to cash, e.g., offline P2P payments.
- E-commerce: What does this use case add to the existing solutions? Does it take into account different situations across Europe? For instance, in some countries up to 70% of all e-commerce payments goes via non-card payment solutions, and non-EU card players do not play a huge role there.
- POS: current customer experience of some payment methods at POS are highly appreciated by customers and retailers. That is the challenge for the digital euro.
- The EACB preference for the staggered approach would be in following order:
 - P2P
 - POS (knowing that implementation complexity depends on technical solutions)
 - E-commerce
 - G2X

Question 3. Do you have specific considerations with regards to the technical and implementation efforts required for the different product releases?

- Apple NFC opening for payments other than Apple Wallet, otherwise only QR-Code and/or BLE can be used (especially relevant for POS terminals).
- Full Dual-Offline capability (in all aspects) with full preservation of account balance/funds transfer-chain, etc.
- Wallet/Payment Services also provided via Software Development Kit (SDK) to be embeddable into banks' own Wallets/Apps (and not "re-invented/-implemented/-maintained" all over again).
- Compliance / convergence with existing and future EU standards.

Contact:

The EACB trusts that its comments will be taken into account.

For further information or questions on this paper, please contact:

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Wk nr :

ERPБ written procedure on compensation model and roll-out plan EBF response

EBF response to ERPB Written Procedure on compensation model and roll-out plan

General remarks

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Feedback on the suggested core principles for the digital euro compensation model

Feedback on principle 1: Free basic use by private individuals

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S s swzy kx yzyx y rk poo xwson **funding and de-funding mechanisms** ny v snox sso xonyxywskvlork sy l nsqskvo yryvo 8 ro opy o6 **fees and/or some limits should be set** kv yx ro okmsso k ro o womkxsw ny v q sto k wy o ksklv nsqskvo y kqo8 rs s py x kxn kvokn ronk osx ywomy x so py ro kmy x srlk snpok o ro o kx kmsyx o no nsq rox wlo smvnon x ro lk snzkmukqo nk x lo nk qon k rsqro z sto 8P rowy o6 ro k kskl ss py myx sy 2 A 3p xnsq kxn no7p xnsq o sto y ro nsqskvo ykzzok ylo k lk sn o sowox yp ro O y ow8 rs o sowox ry vny xy kzzv y nk r nozy s 8

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nyx no k syx ro kly o7wox syxon vws y poo o sto 38Sx knnsy x6 p ros kxn yp
kzr stkvzk wox nk nk ynk on sr knskvo y kv kmmy x o o ylo o son6
s ry nlo ltom yk poo kxn xy lo ro nopk v woryn8 r stkvnk n rk or qro
ny 2zk sn6 rszsq36k o v kskl v6kxn on ylo kv y wy o z yxo ypk n8
S ry nlo k o on roloxops kxn su yps sq zr stkvnk n xun py yxvxo
zk wox xun y ro kv 8

Ps kw6 py ro **reverse waterfall functionality**, s ry nlo kw y on y smvno rs
o sto sy ppo kq oowox 8 nsq o o o kopkwy rsqr7kvo zk wox y n
nsxno x ssor qr kvozk wox loox wy on pyw kns syxv mons kx p o sto
y ron skvo y xpk m o 6 r on nsq zy ox kvvzkm yx v ns kxn y o kw
zk wox o ox o 8

Ps kw6 so wonk so ry nlo kl v y mok o kv o knnon o sto yx yz yp ny o
o sto 6kxn nrk qo mox py ros o sy no y knn o ro ny yp no owzsq6
svzwwox sq6kxn wks kxsq ro Nskvo y nywzyxox yx ros sto8

Feedback on principle 2: Network effects generating economic incentives for acquirers and merchants

Ps 6 k kvokn rsqr qr on kly o6 s s svzy kx y rk o k z yzo nops syx yp
wo nrkx l so z ypo gyxkv o s ro nyxo ypk wox sr nskvo y 8 rs
nops syx svzkm ro km ssq kms s kxn novok o ro yv yp ro km so 8K ro
OML z o ox k syx yxv o po y wo nrkx kxn z sk osns n kv6 ro O y ow ry n
nk p rk z l vknwxs k syx kxn y ro y qkxsk syx k o ylo ok on k wo nrkx
s ron skvo y ox syxwox 8

onyxn6 okmxy vongo rk ro O y ow zzy kpkwo y u ypsno x so svsk
y rk ypyro zk wox yv syx kvokn k kskl v s rowk uo 8P yw y zysx yp so 6
rs kmxy vongo ro rsqr nywzo ssoxo yp ro km ssq wk uo 8 O kl vrsq
kpoq kn nyo xy oow xono k s ok syx y ron skvo y6k wk uo py no sv
o kl v r pks ko skmmy nkxno sr ro yppo nowkxn s rowk uo 6k OML ko 8 ar so
s s nyxnos kl v rk knskvo y nrowo wqr lo svz v kxn sy v o v zk o r kx
m ox yv syx py zk wox k YS6kxn roxno mok o o zomk syx py w o wo nrkx
poo nywzk on y yro zk wox yv syx 6 sv onyx sto rk k qqo on s ro
OML z o ox k syx / **merchants should pay a fee which should be close to the ones
currently paid on debit card acceptance** 8 rs s x y n z o zzy o k v ovyp
s o nrkxqo poo s pk y yps o nywzk kl v y ry o o l ro Sx o nrkxqo Poo
oq k syx8 ro l so wynovw smox sso ro zk o sto so wonk so y k qo

nkwo ns d syx yp kwo py kms o o k wo nrkx ynk syx knx kvy snox sso km so y ownsqskvo ykmozkxno ywo nrkx 8 rs wynovs xono k sy no y nyx snok o rk roo swlok k go wo nrkx kmozkxno knx wo nrkx rk roo swlowkx zk o nkzkl wkxn swsq yzk sr rs xo k 8S ry nkvylo myx sno on rk ywo kmy wk nskzzok 6k owk xo ny swkvyowo qo6wksv ok on y ro xpk m oD

- Km so swxoon ynozw k xo xpk m onywzk d wo sr ronsqskvo y8
- ro yzo k syxkwyno 6k owk ro nywzox k syxwyno 6 ry vlok kxon sr ro yxo szkno m ox v py km ssq o sto 8Myx o ox v6 ro os kxoon py so wonk so ylokl wo ys onsqskvo y kwo ynywom rop xn yxlorkp yps wo nrkx 8

ro opy o6 o lowo o rk yxv so nrkxqo poo / yl sy v o snywzwxno sr ro qoxo kvkx s pkwo y u / ny v sqo ro xo y u oppom qoxo k sq onxyw sn snox so py km so knx wo nrkx 6 r sn swrk ok ow kx ywo y roknyz syx yp nsqskvo y6 r wkusq nsqskvo y k nyx oxsox nnysto py wo nrkx knx mok sq k kskl wkxn z ypskl wo xo y upy ns d sq so wonk so 8

Feedback on principle 3: Comparable economic incentives for issuers

Sx o wonk so 6 smvnsq s o 6 ry vlok wo y nyxn ml so yx rolk s ypk kskl wo onxyw snl so nk o py ros kms so 8 ro onxyw sn snox so py so wonk so ry v zzy rs 8 roz yzy on onxyw snzknukqo oow yo mvno kx nyzo py **income from wallet-holding private individuals**. osro kmmy x poo 6 kx kmsxppo y lkwxno snywok ozk yproso l so nk o6ok sq yxv kqo7 ok on snox so pyw ro km ssq sto 2kuk so nrkxqo3 k k fnywzk kl wo fl wo o6k nyxno z rk rk sxkx nk o ylop ro nk pson 2oo py sx kxno rok wz syx xno vsq ro kx o kly o38 Sx o wonk so rk ny xy kmn o poo snywopyw k nywwo nk v kmmy x z yzy ssy sr ros kwo 2ok xsq kmmy x poo knx lkwxno snyw o3 swrk o ro wok snox so ypkw yzy sto poo kwo y sns sn kv8Roxno 6 nywzo ssy lo oox so wonk so py rol so yp sns sn kv s swzonon sr rs kzz ykm 8

y o rk 6p ro onxyw sn snox so py s o ko ylonk xyxv pyw ro km ssq sto6 nrk s ronk os ro ony ow py nk n zk wox ry qr ro wonkxsw yp so nrkxqo6 rs y v ny kzzv y ro o nk o8Ro o6z sk o sns sn kv ko yx lyro xn yp ro kx kmsx6 knx ro y v ny zk py kx rsq kmmy nsq yz snsz wo ;8

ro opy ok wox syxon lo py oss xono k yo kl v r vws ypoo o sto yxno ro o o non k ok yxkl wo wo vvp kqo py zo yxkv o8

Wkx yp romy ok on y roz y ssy xypzk wox o sto ko xy kx kmsx7 ok on 2l kro ok on y o8 8 cM6ny yp ro onx snk v xpk m o3Erk sq nywzox k syx snox so rk ko snv kx kmsx7 ok on 2 nrk so nrkxqo snk n xpk m o3 y v n wkuo ro so wonk fl l so nk oo owov nozoxnox yx yvwo knx kvo yp ro nsqskvo y kx kmsx z yno on6 r sn s o rk n y z on sn py kx xpk m o rk nyo xy o s o 8Sx kx nk o6 rs ny v ns y wk uo nywzo ssy pk y sq zk o rk nkxl xno roz y ssy xyp nsqskvo y kwo sr xyx7 kxusq o sto yppo on o8 8yx nsqskvzk py w 8

K py wo nrkx kn km so 6 ro ksklss kn p wnywwswox yp ro s o ry n lo qkx on y kw yz swkv kl ss 6 sxy k syx py kvo knnon o sto knn sto z okn kqo8 rs yk yn nsmvso ywk o skv o s o wox pyw s o wonk so 8 rs s o oxwyo o v kx s ronk o yp ron skvo y6k s s k wonl ro OML y lo poopy lk sm ol z sk o sns n kv 2xy yxv ro zk wox o sto l kvy ro yxlyk nsqkx wkx oxkxno yp kvo kmmy x 38Sknnssyx6pkxyl w k syx yns d o ro nsqskvo y s swzy on yx kw2y k o yp3 6 rk k o xy sk zy syx y ypp km ssq o sto ywo nrkx 2y ny yk k o v kx nk v3 swmsnk w nozoxn yx ro snoxso py ro s sq sto8 roopy o6 rs ny o z snz v kly nywzk kl v onyx yw snsnxso py s o ry n lo zo wkxox yq k kx ook nno p vknyz syx8

M ox ons d syx wynov 2o8 interchange fees3 k o y usq ow s mok sq opnsx knn nno p vnyx kx v q y sq kxn o yv sq zk wox xo y u 8 roopy o6 ro O y ow ry n kuo row sy nyx nok syx rox z yzy sq k nywzk kl v snoxso nnowo8

Pskw 6s o wonk so ry n lo kl v y nrk qo oxn o py value-added services.

Feedback on principle 4: Eurosystem bears its own costs, as with production and issuance of banknotes

Py kx zk oxm ok yx 6s y n lo swzy kx rk ro OML nk vnk o kxn nsny o ro s o wox xoonon py ro O y ow ys ok nsqskvo y8

a o onywo rk ro O y ows swsq ylok s y xny 8K ro kwo swo6 o low o rk s o wonk so ry n onso public funds sy no y p xn zk yp ro xpk m o kxn o sto no owzwox y lo nk on y l s o wonk so 6 nr k yxlyk nsq6 kvo wkx oxkxno6kzz6KW MP knn pk n nyx yv6o n8

s ox ro onnywqsnkvssxy k syx xoonon py z sq s x zkno k xo py w ypn skvwyxo knn ro zy ox kv om ox ny yp ro xo xo y u 6s o wonk ny ny n smok o nywzk on y nr r kxn y ro zk wox s wox 8 rs su ry n lo kvy wsqk on l OML6py o kwz v o oxnsq rony o xy yxv y rony yp sq O y ow zk py w 6 l kvykv k lok sq ro xo y uny y nyxxom y row8

Feedback on the Rollout approach: general comments

1) Is the proposed staggered approach the best way to ensure a successful rollout of the digital euro from market and policy perspectives, while ensuring a timely delivery?

a onyxy zzy ro qqo on kqqo on kzz ykn6 ro ol ro yw7y k y y n lo v p k k v o kqo8 PoS should be part of the initial roll-out sy no y ox o stoknyz syxpyw ro k 8 k wox k y k o zk snkv swzy kx xy yxv s o w yp yvwo 6 l kvy py wy o v o kl v y v nsqskw k nssox 8 roopy o6 v xnsq ron skvo y s kw ro ox skqon onk o k ro kwo swo y n vkn y wy oknyz syx l oxn7 o rkxk kqqo on kzz ykn8

Wy o swzy kx v o low o z sy ssk syx yp o7nywwo nno y n pk y xyx70 zk o 6 nyx k y ro y o sqx qykvyp ro OML8

Sx o wonk so y v kvv uo yrk o ywomk sntk syx yx ro noq oo ypz sy ssk syx yp ro ypxo nkzkl ss yp ronqskvo y8S y v oow z nox y **postpone the launch of the offline functionality** yk onyxn zrk o qsox ro nywzvo s sx yvon8

Ry o o6 ry vnk kqgo on kzz ykm lo okson s y v ilo xono k y no owz k nok nopsx syx yp ro o zomon swopkwo yp roz yno o ok on yokm kqo8 ro OML rk xy nsmy on k swopkwo py okm yp ro zrk o py ro ps kqo6 rsm y v ilo xono k py sx o wonk so y wkxkqo o zomk syx knn ns d o o y no lk on yx z sy s ku 8Sx rk xpk y on nok sy 2py ro ok yx o zksxon kly o3s y v ilo o swzy kx yuxy 6py o kwzvo6 rons kno lo oox zrk o ; knn zrk o 8Pskw6 kvos k zsy sq o o ns o s wox syxon py lyr kqo 6 ro myxnsy x py ro o zsy sq o o ns o k oxy o kl vron8 ro OML ry v no o wso ro nyzo xno vsq rs zsy sq o o ns o6 m k o zomon swopkwo6 qoyq k zrsnk vk ok ro o s y v ilo kzzvon6 ro x wlo ypm ywo rk y v ilo ox yvon knn rk sx o wonk so y v nk snzk o sx rs zsy sq o o ns o lo py o ovok sq knn o7nywwo no zk wox 8

2) What are your considerations on the sequence and composition of the two different product releases: (i) P2P and e-commerce (ii) PoS and G2X use cases?

K yw7y k womrkx wsr lo wy o nywzvo r kx knn o7nywwo no zk wox knn roxnos wkuo ox o y k sr knn o7nywwo no8K ro kwo swo6 ro nno p v knyz syx yp ronqskvo y swnozoxn yx s ypo sq kx p xmsy xk v rk s kzz onk on l zk wox o 8 r rokl ss y o ronqskvo y s kx onk ok ro kwo swo y v ilo k xs o ovxq z yzy syx8

Wy oy o6k sx ywomk o swk lo o npsm v py womrkx ynso ox sk o lo oox zr snkvkn yxso o zo soxno 6s s xy nok r o7nywwo no knn zr snkv y ry v lo ozk k on8Sx rs nok sy6womrkx rk k o z o ox yx lyr m kxxov ny v xy km so o xo qso 8

Myxno xsq ro **government payment use cases**, ro wsr o ox lo wy o nywzvo r kx y onk o l nkxmok o q ok oppsno xm qks k wkx qy o xwox s O yzo swny xy rk okx oppsno x wokx yzk y qo zkn8 ro opy o6my o myvly k syx sr xk syxkvqy o xwox knn w xsnzkv so xoon y lo ox on8Sx knnsy x6 xoon y l sn oppsno x yv syx sr nywzvo knn snsn kv omr o z ypz l vnkqoxno 8

Sxmvnsq ro qy o xwox knn k ry so pyw ro o loq sxxsq s kuo nno pkmy py k xo zk wox woryn8 rs k ry x sr yro zk wox yv syx 8 ro o ry v lo xy k owz py row ynok ros zk snzk syx y ro k o zy d v zrk o8

3) Do you have specific considerations with regards to the technical and implementation efforts required for the different product releases?

Sx qoxo kv ro omr xsnkvsvzvo wox k syx oppy swl o y o6 ro wy o o s sq zk wox o vwox knn xpk m o 2o8 ry o py s kx zk wox 3 ronqskvo y o7 o 8 Ry o o6pkmy sq k sy oq vk y ssk so xxsq sx zk kwovkmy ro zk wox sn 2nqskvo y6sx kx zk wox 6 N o so 6yzox pskxno36sx o wonk so sw xoon y nokv sr o y no myx ksx 8Sx knnsy x6 ywo wk xy rk o knno y kzz yz sk ov usxon o y no s7ry o knn sw xoon y y no myx km knmy nsqv8 Roxno6k nok z sy ssk syx yp omr xsnkv zomk syx6 yw7y so k syx knn xpk m o

no xk sy s o ox \$v8 uson o y no k o k msnkv nyxno x rk ry n xy lo
xno o swk on8

ro ryvnsq vws py snstn kv kxn ro x knk ryvnsq vws py ny zy ko swlo k
nrkwoxqo py lkxu y swzowox 8M ox v lkxu wqr xy rk ok zk py w rk ro
nrkx o yk ywk stkw zo py w ro ryvnsq vws 8Lkxu y n zy ox \$w rk o ymoko
k xo xpk m o y wkuo knt wox y o s sq xpk m o 8 rs ny n lo k
nowkxnsq z ytom sr nsom ny kxn o l kx \$v su 8

S s swzy kx rk ro k xnr ypronsqskvo ynyo xy rk o xso xnon nyx o oxno 6
py rk ok yx o rsxu ro nsqskvo y ry n lo k xnr on sr k w ryvnsq kxn
kx kmsyx vws rk s oxy qr py z sk o snstn kv y wkuo ros nksv zk wox 8

K k qoxo kvz snstn 06 o z yzy o y k sr k nsqskvo yk swzok zy \$w rk
oxkl w nssox yzk kxn onso zk wox py ro onk o z sy sson l ro OML 8
Lopy o rsusq ypknsyxkvkxn wy o nywzwo p xmsyxkw 2088 ypxo zk wox 36s
ry n lops k o on ry nywzwo kxn ny v s y n lo y swzowox kxn nozw
rowlyr py ro OML kxn so wonk 6k owk p ro os k xoon pyw ro o kxn
ro zy ox \$vloxops o non ry o ny 8a o x so ro OML y no oyz k xo wk uo
o y k nk o ro xoon yp ywo yp rop xmsyxkw rk k o losq nsm on n sq
rs x o sq syx zrk o8

a sr oqk n y o sq6kxsn no o sny ry no s sr kx zk oxm k y xn
oknsxo yp zk stzkx kxn mrowo8 o yx wk x pyw sxsks o vto
nyx ynk syx ry n lo pmy on x8

P ro wy o6k nsqskvkzz smvnsq nsqskvo y kwo p xmsyxkw ry n lo zy sion l
ro wk uo kxn xy x k kxn7kwyx OML kzz8Yx ro yxo rkxn6 so wonk 5 ny n
zzy nsqskvo y kny z syx wkusq ro kwo p xmsyxkw kzzok kpo k xy wkv lkxu
kzz zqkno8Yx ro y ro rkxn6 o swlo nywpy kl w y oo kxy ro p xmsyxkw
kvokn x oqk on x ros kzz x okn ypny xwknsq k xo yxo rk s mok sq k
z ypo k syx ypxkxnv o no x ro kwo wyl 908

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About EBF

Ecommerce Europe's reply – Consultation on Digital euro compensation model and roll-out

Compensation model for a digital euro

A fair price for a digital euro is necessary and justified.

- It is essential to keep cost low for merchants for two main reasons. First, to drive adoption among merchants and create a clear incentive to not just accept digital euro, but also actively promote it. The digital euro should offer a low-cost structure, becoming less expensive than existing electronic payment methods.
- Second, **in case of a legal tender status mandating merchants to accept digital euro, there is a need ensure that the cost of acceptance is not disproportionate** to the extent that they would have to be amortised by raising retailer prices for consumers. A potential legal tender status for a digital euro would limit their ability to negotiate with intermediaries and would therefore likely require safeguards to ensure that the cost remains acceptable. The digital euro is a welcomed geostrategic instrument for Europe, but it should not deprive competition in the payments market by allowing some to gain incontestable positions.
- Similarly, the issue of a zero holding limits for merchants could further impact their negotiation leverage. If that is the direction being pursued, **then automated waterfall and reverse waterfall mechanisms should be accessible to merchants for free** as they will be unavoidable, especially for the handling of refunds.
- The future infrastructure of a digital euro and the services offer fully justifies much lower costs than other available means of payments today, notably in terms of fraud management. The costs of acceptance should therefore logically be lower for merchants.
- We would therefore also like to challenge the ECB's assumption in the slides that legislation might be establish an expectation on merchant pricing *“considering the current levels for comparable retail payment solutions”*. Legislative measures aiming to ensure a fair price for digital euro should also consider the difference between a digital euro and existing methods, which should not serve as a benchmark.

Building the right conditions for healthy competition.

Considering the pricing will be left to market forces, it is important to create the right structures and safeguards to ensure healthy competition.

- We believe that there should be concrete safeguards **to ensure the transparency of pricing** for merchants. This is crucial to ensure that merchants understand the price structure, and are able to compare offers.
- Regulators also have to consider **the possibility of intervening to cap fees** (the totality of the fees, and not specific components of the overall service charge). Fees applies to retailers should be determined by market forces only if the level of competition is sufficient to allow for cost-efficient pricing.
- Along with sufficient competition, the number of layers required to process a digital euro transaction also impacts the overall cost of the transaction. To ensure that prices do remain low for merchants, we would welcome innovation in this space (e.g. explore the possibility of lowering operating and administrative costs for merchants, for example through a central communication layer for merchants which would facilitate operating across different markets through different providers)

- PSPs may have to be mandated to participate to fully exploit network effects and make the infrastructure more efficient. A mandatory issuance of digital euro could also be supported, as it could be considered a public good. The more intermediaries can participate, the lower the costs would be.
- More competition and lower costs could also be achieved by allowing **bespoke ways of provisioning wallets to end users**. For example, we would support consider the co-existence of custodial and self-custody wallets offered by licensed intermediaries to promote innovation but also allow consumers to opt for more private ways of transacting.
- On the public good and pricing aspect, we also support the idea that “incentives” for issuing intermediaries should not be comparable to incentives in the context of private means of digital payments.

Roll-out of a digital euro

We support the EU authorities to develop a digital euro for the benefit of Europe and its consumers.

- Regarding the choice to begin with e-commerce as one of the use-case, it is very important to focus on customer needs: attention to convenience, customer-journeys, and costs will be crucial. There is no obvious gap to fill for consumers buying online today, as they are generally satisfied with the methods available to them, and rather loyal to their preferred payment method. It is therefore a sector where boosting adoption for consumers might be difficult if the experience through digital euro does not match or exceed expectations. Rather than requiring merchants to accept payments in digital euro by giving it legal tender status, it is necessary to make the consumer willing to make payments in digital euro, thus making it attractive to consumers.
- The Rulebook Development Group for a digital euro will have to consider carefully **how to handle omni-channel use cases** with a staggered roll-out, where consumers shop at a merchant's physical store but still perform a “remote” transaction (e.g. click-and-collect payments).
- We agree with the staggered approach, but this **will need to be communicated efficiently** to consumers, as they will most likely have the expectations that once available, a digital euro could be use in all scenarios.
- We should strive for a pan-European roll-out, or at the minimum closely coordinated.

EDPIA feedback to the ECB following the 6th ERPB technical session on the digital euro held on 22/02/2023

24th March 2023

ITEM 4 Compensation model for the digital euro

1. What are your views on the suggested core principles for the digital euro compensation model?

- The objectives of the compensation model define a first approach that shall be consolidated after the full design of the solution. We welcome the objective of enhanced choice and competition as suggested in this first proposition.
- We appreciate that the network effect must be achieved to make the digital euro an effective means of payment. However, special attention should be paid to allow private players to successfully develop their own electronic payment alternatives and also ensure that new public means of payment do not crowd out private parties, including PSPs and acquirers. This might be a relevant concern in the context of the compensation model, given the unique nature of the central bank in the financial landscape and the potential reliance on public fundings: this could unbalance a healthy market dynamic and confer an unfair competitive advantage to the public solution.
- **We particularly welcome price settings determined by market forces.** In parallel, safeguards could be implemented to prevent the potential abuse from the legal tender nature of the digital euro, given the impact a possible mandatory acceptance could have. Private electronic payment means of course require significant investment in reachability and would not benefit from any comparable mandate.
- The Digital Euro shall be considered as **an alternative payment method in the competitive landscape**: merchants may remain free to decide which payment methods they are willing to accept. Next to merchant acceptance, other success factors may be leveraged to achieve the targeted network effect, such as a compensation model that ensures that intermediaries are willing to distribute it and an attractive value proposition for individuals (Payer-to-payee) and firms to use it.
- We consider that issuers, as defined in the ECB glossary, should be given the possibility to charge a service fee to help cover fixed costs such as Know-your-customer (KYC) and AML/CFT checks. Concretely, such back-office costs are high when dealing with new customers¹.
- The proposition highlights that issuers should count on comparable economic incentives, to actively support the distribution of the new digital currency and activate the network effect.
- It could be argued however that merchants/payee PSPs are not the adequate party to pay this operational cost supported by issuers.
- Some cases like person-to-person transactions, Merchant Service Charges (MSC) income for acquirers. Likewise, offline transactions may involve more risk, complexity and business logic on the trusted intermediary side, which could

1

https://www.eba.europa.eu/sites/default/documents/files/document_library/Publications/Reports/2022/1045497/Report%20on%20the%20thematic%20review%20on%20fees%20and%20charges.pdf

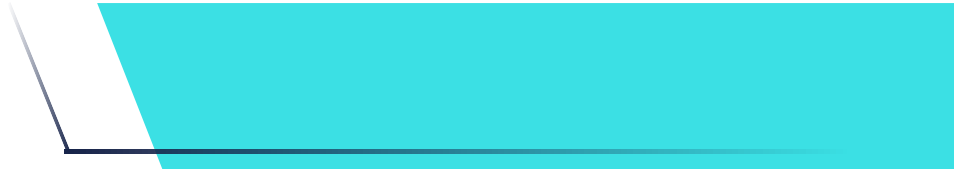
pose additional costs. In such instances, acquirers may not be the right party to support these extra risks and costs.

- The absence of scheme management and settlement processing costs for intermediary is positive. It is important to clarify which of the digital euro components will be included in the perimeter of the cost bore by the Eurosystem and under what conditions (especially noting that the final perimeter of the processing is not fixed yet).
- Maximum and/or minimum thresholds for merchant pricing risk distorting the market: EDPIA again believes pricing should be set by market forces
- Finally, to ensure that PSP with a PI or EMI can independently access to the settlement infrastructure for funding/defunding. This would ensure that non-CI party competitors (e.g., banks with CI licence), which would induce additional costs for non-CI create competitive distortions. Another point concerned the liquidity management: we can read that the CI DCA balance in digital euro will merge with the balance of CI DCA RTGS for the calculation of the CLM (central liquidity management), and potentially be incorporated in the calculation of reserves. If this means bringing additional collateral then it would represent an additional cost for owner of DCA among PI and EMIs.

ITEM 5 Rollout approach for the digital euro

1. Is the proposed staggered approach the best way to ensure a successful rollout of the digital euro from market and policy perspectives, while ensuring a timely delivery?

- **The staggered approach appears to be the best way to ensure a successful rollout of the Digital Euro given the novelty, size, and complexity of the project.** Effective prioritisation is vital. An effective rollout of education and communication campaigns are also key success factors for the product release.
- Given the scale of this product, the proposed two releases at the beginning is likely very ambitious.
- EDPIA believes that the right methodology, taking in account relevant indicators, should be considered to breakdown the product releases. However, we also recognize that the technical and implementation aspects are probably more difficult to assess at this stage, despite being the most critical factors for a timely delivery.
- The current lack of visibility on the scheme rulebook specifications and inherent implementation complexity directly correlates to the delivery timeframe, also factoring the integration and coordination of solution providers.
- **The prioritisation of use cases is important to ensure the best management of their complexity.** Amongst the 4 proposed macro use-cases, the person-to-person use-case must indeed have the highest priority for the reasons mentioned in the analysis. We favour a less complex one-sided integration use-case over others, which also generates high user adherence. We also recommend starting other workstreams in parallel, to optimize the release path.
- Delivery dependencies and efforts may be clarified on the flow when user journeys, their priorities and technical aspects are clearer, based on stakeholders (including solution providers) inputs regarding potential timeframes. Ultimately, the rollout approach (i.e., number, content, and sequence of releases) may then be established based on relevant



information from concerned actors, which would make all involved parties more confident to deliver according to expectations regarding time, quality and scope.

- To conclude, if mandatory acceptance is validated by the future regulatory framework, the timeline should be adapted to consider the effective go live of all stakeholders and users.

2. What are your considerations on the sequence and composition of the two different product releases: (i) P2P and e-commerce (ii) PoS and G2X use cases?

- EDPIA agrees with the proposed sequencing and composition of product releases.
- As above, EDPIA supports the prioritization of the P2P scenario: favouring a less complex one-sided integration use-case over others which also generates high user adherence.
- It is worth noting that, eCommerce is easier to implement for intermediaries compared to PoS and provides an innovative spending opportunity for consumers². This will contribute to the desired network effect of which P2P alone cannot ensure.
- The time between the two product releases should be sufficient to allow both the Eurosystem and all the stakeholders involved to gain trust and experience, and to consolidate all technological and operational components of the system before moving to the subsequent use case.

3. Do you have specific considerations with regards to the technical and implementation efforts required for the different product releases?

- Technical and implementation efforts are critical factors for timely rollout of the Digital Euro but are nonetheless conditioned by the different use cases. We would therefore recommend clarifying that solution providers are included in the definition of the time plan.
- In particular, because of high upgrading costs and timing POS payments should be developed upon a careful implementation strategy.
- EDPIA calls for the development of an implementation strategy with the participation of solution providers, actively supported by European and National institutions

² Roughly two thirds of European citizens are e-shoppers; 84% in the 25-34 years segment. Source: [Eurostat](#)

From: EMA

To: ECB Digital Euro Project Team

Subject: EMA response to Eurosystem on the ERPB Technical session of 22 February 2023

Date: 24 March 2023

We welcome the opportunity to engage with, and respond to the Eurosystem's digital euro plans.

I.1 Compensation model and its objectives

- 1.1 We note the objective of free basic use by private individuals, but also note that there will be a cost in making the product available to users. We remain therefore open to proposals by the Eurosystem for how this cost will be recovered, and revenue generated, within the contemplated model.

We note additionally however that the comparison with the cost of cash is not a perfect analogy, given that cash comprises the product in its entirety, being capable of deployment and use in its printed form. A digital euro ("DE") product, as currently envisaged, only manifests itself in manner that can be utilised when products and services are created by intermediary distributors, and which then have to be integrated into different POIs, whether online or in a physical context. This brings an investment cost, an operational cost, and an ongoing opportunity cost.

This means that the proportion of cost overhead borne by intermediaries in the DE context is significantly different to that of cash, when when the costs of receiving, counting, storing, securing and transporting cash are taken into account.

It would be helpful to consider this, and to conceive a way in which these costs can be mitigated.

- 2.1 The need to make the DE an affordable solution for merchants is also welcome, but we note again potential conflict with the first principle, resulting in a distorted charging model that seeks to recover most of the cost from the merchant business. If the system is to meet its public good objectives, we suggest exploring the possibility of meeting some of these costs from seignorage income, on an ongoing basis, or at least until a more mature model has developed that can perhaps sustain its costs independently.

The legal tender status could indeed have a distorting effect on acceptance, on pricing and consequently on competition. We do not have sufficient detail in this respect to express a view.

We do express our concern over the competitive impact of the DE on existing payment products and services.

- 3.1 We acknowledge the need for an economic incentive for PSPs to actively distribute the DE, and again await a better understanding of how this will be manifested. We note for example that:

- ! If distributors are obliged to offer a basic DE product at no cost to consumer users, there will be a need to address the absence of a direct revenue stream in such circumstances. This may otherwise conflict with the first principle.
 - ! It is unclear whether the incentive will extend to investment in developing a DE solution at the outset, competing perhaps with other product development, and having an opportunity cost.
 - ! This will naturally favour the bigger PSPs and it would be helpful to know if the Eurosystem or the EU would like to encourage smaller PSPs, many of whom will be the most innovative, to enter the market at the outset. This could take the form of grants or investment pools that may be made available specifically for this purpose.
- 4.! The Eurosystem bearing its own costs is helpful, and should enable the offering of the DE by intermediaries at a lower initial cost. This is welcome, and we wonder if this can be properly extended beyond direct immediate costs.

As set out at our response to the first objective, the comparison to cash is not a perfect analogy. The costs of implementing the DE extend significantly into the realm of product design, operation and support, which are significantly in the domain of intermediaries.

The costs of the product implementation, including the creation of product propositions, identifying business opportunities, allocating investment and resources, competing perhaps with intermediaries existing product lines will all generate explicit and implicit costs that would benefit from being assessed and a view taken as to whether it is appropriate to extend compensation to cover some of these costs.

There will also be costs associated with on and off-ramp payments, the purchase and redemption of DE or funding and defunding. The cost may be an acquiring cost that will need to be borne by the intermediary, it could have a cost of fraud component, where stolen payment instruments or unauthorised payment transactions are made, as a means of funding a DE product, and there will be instances of fraudulent merchants, which could be exacerbated by the need to defund such merchants on a daily basis, resulting in a higher velocity of money.

It would be helpful to begin to develop a more detailed commercial model, perhaps as a straw man that could be addressed in more detail.

II.! Rollout Approach

A staggered roll out approach makes sense and will allow issues to be addressed in a more manageable manner. The proposal to address e-commerce and P2P in advance of POS does reduce some of the complexity.

E-commerce may however be a broad category that comprises a wide range of payment opportunities, business needs, transaction values, technological implementations, IT system dependencies and user preferences. The 'alternative payments' industry learnt at an early stage that adoption of new payment products was enhanced by addressing a range of factors that were specific to categories of

payment opportunities. Solving for these more specific problems could create USPs and incentives to users to adopt, take-up, or change habits.

It may be helpful to identify sub-categories within these roll-out work streams that are more specific and which can be addressed in greater detail by the parties concerned to ensure a successful launch.

III.! Ongoing competition and strategic issues arising from the above

- 1.! The DE could have two significant advantages compared to privately issued payment products: a critical mass of consumers who may be able to use it, and a potential obligation to accept the product by merchants – being legal tender. Care will need to be taken however to avoid bringing about distortions to the market, which may in turn reduce the incentive for intermediaries to create payment solutions that utilise the DE. A better understanding of these issues would be welcome.
- 2.! Whilst business and market growth will mitigate some of the competition issues associated with the DE, the e-money industry, having taken up the role of an electronic surrogate for notes and coins (see Recitals 3 of Directive 2000/46/EC and 13 of Directive 2005/60/EC), will be in direct competition with the DE. This issue merits further discussion and an understanding of the Eurosystem's approach to its resolution. We welcome engagement on this issue in particular. It does become more acute if e-money issuers are unable to access funding and defunding rails directly, having no access to Eurosystem accounts.
- 3.! There may also be some benefit in considering the impact from a systemic perspective, taking into consideration the combined effects of: the impact of the DE as contemplated on the relative cost of existing products and services, its impact on merchant preferences for payment products, the impact on consumer preferences, impact on investment in new technologies, products and services, and impact on the opportunity to invest in new technologies and payment services.
- 4.! We note that more advanced technologies and sophisticated payment products, are under constant development, whether centralised or distributed, and the Eurosystem will wish to see the EU PSPs at the forefront of such efforts.
- 5.! This is an objective that will benefit from being addressed when considering costs borne by, the commercial model, and Eurosystem expectations of private supervised intermediaries.

Evelien Witlox
European Retail Payments Board
60640 Frankfurt am Main
Germany

23 March 2023

EPIF input to the ERPB 6th industry session on the digital euro

Dear Evelien,

EPIF would like to thank you again for the opportunity to provide written feedback to the ongoing discussions in the ERPB with regards to the different design options that are being considered for the digital euro. We again reiterate our support for the ECB's efforts to continue to contribute to the smooth operation of payment systems, also in the digital age.

The latest discussions in the Technical Sessions concern the compensation model and the roll-out approach for the Digital Euro. As mentioned in our previous input, these are essential elements with a determinant role in the different features discussed in the last months, especially on the core, optional and added-value services.

Before exploring further our views on the ECB proposals for the compensation model and the roll-out approach, we would like to stress that the compensation mechanisms at this stage are still in a very preliminary and abstract phase for our members to have a permanent view. We also very much welcome the initiative by the ECB to have a dedicated session as part of the Rulebook development with stakeholders to understand the current ECB vision for the Digital Euro from a holistic manner capturing the customer journey that is envisaged. This will support, we believe, a better understanding from stakeholders on the final product and relevant design options.

Our more detailed views on the compensation model and roll-out approach are expressed below.

- **Compensation Model**

We understand that the ECB's focus at the moment is on establishing the core principles to guide the compensation mechanisms for the Digital Euro. Four core principles are presented: (1) free basic use by private individuals; (2) network effects generating economic incentives for acquirers and merchants; (3) comparable economic incentives for issuers; and (4) the Eurosystem bearing its own costs, as in the production and issuance of banknotes. We will take this at a turn.

Free basic use by private individuals: EPIF aligns with the ECB that the Digital Euro should be free of charge for end-users to the extent that it is limited to its "basic use". On this point, EPIF members would like to better understand how the differentiation will be made between "core services" and the services that correspond to the "basic use" of the Digital Euro. We also stress that added-value services should be chargeable to end-users and, in line with the 5th Technical Session, voluntary for authorized intermediaries.

While we understand that the Digital Euro is (and must be) an independent project from other initiatives, we note the recent UK consultation on the Digital Pound, that foresees the possibility of charging transaction fees to individuals in certain types of transaction, including higher-value transactions and international payments. EPIF would like to have this possibility with the Digital Euro assessed further.

Incentives for acquirers and merchants: Our understanding is that acquirers would still be able to charge for their services, with the prices for merchants to be set by market forces and strong competition in this space. This is an important element welcomed by EPIF members. However, we also understand that the ECB foresees the possibility of capping the applicable fees. EPIF agrees with the ECB that this is an option to be further assessed by the expected proposal by the European Commission on the Digital Euro and by co-legislators but this would like to note that this is something that EPIF would not support. In general, EPIF is against any interference through price regulation.

The ECB also foresees the possibility of capping the fees, which we assume will be further assessed in the expected proposal by the European Commission on the Digital Euro.

Comparable economic incentives for issuers: EPIF welcomes the ECB's principle that PSPs distributing the Digital Euro and offering wallet/account management services to private individuals should have strong economic incentives. On this, we would like to note that EPIF members differentiate between the usage of Digital Euro, which should be free of charge from end-users, and the distribution. For distribution, the incentives need to be attractive enough to enable PSPs to continue delivering (and improving the delivery) of Digital Euro services. Nevertheless, on this point, EPIF members still have reservations about two important issues.

Firstly, it is still not clear whether PSPs would be mandated to make and receive digital euro payments and we also note that further clarity is needed on the notion of "issuer". We reiterate the lack of direct access by payment and e-money institutions to the intrabank settlement systems. EPIF would be strongly against a similar situation to the one currently faced with the proposal on instant credit transfers, which mandates instant payments but excluded PIs and EMIs from the scope of the proposal. While we understand this to be a decision for EU legislators, excluding PIs and EMIs from the direct engagement with the Digital Euro would significantly harm the overall innovation and usage of the Digital Euro.

Secondly, we also have questions about the compensation for the costs incurred to make and receive digital euro payments. While we understand that the core of the discussions at present are on the broader compensation models, and as stressed in our previous input, the specific compensation mechanisms are of the upmost importance for PSPs to determine the feasibility of offering optional and added-value services.

Costs borne by the ECB: EPIF welcomes the ECB the core principle that PSPs would not be charged to access the services of the Eurosystem, such as settlement processing and scheme management. However, EPIF has some concerns about the reference to "scheme management" costs as borne by the ECB and would like to seek clarifications on whether this implies that the ECB will be taking the role of scheme manager for the Digital Euro Rulebook.

As stated in the input for previous Technical Sessions, EPIF would in fact support the European Payments Council (EPC) as the scheme manager for the Digital Euro Rulebook. The EPC has extensive experience in managing the SEPA Schemes and has already the protocols and processes well established to take up such as role. We would like to clarify whether "scheme management costs" imply indeed that the ECB will be taking over the management of the Rulebook Scheme.

- **Roll-out approach**

EPIF very much supports the approach by the ECB to have a staged introduction of the products into the Euro Area markets. Our members agree that the gradual introduction to end-users will ensure a smoother adoption and understanding of the product, as well as allow for *finetuning* the different complexities of the Digital Euro on an ongoing basis, if necessary, after the release. We also fully support the ECB's efforts to assess the best staged

introduction based on the market relevance and the different policy objectives, while taking into account the reality of the technical implementation of such a project.

EPIF looks forward to further engaging with the ECB on these important questions.

Please allow us to reiterate once more that EPIF will be in a better position to make concrete recommendations once the design and unique contribution to the existing European payment landscape is better known.

Yours sincerely,

A handwritten signature in black ink, appearing to read 'Nick R. Reinhardt'.

Nickolas Reinhardt, Head of the EPIF Secretariat

6th ERPB technical session on a Digital Euro

ESBG input

ESBG welcomes the opportunity to provide feedback to the ECB on the various topics discussed at the 6th ERPB technical session.

Compensation model for the Digital Euro

1. What are your views on the suggested core principles for the Digital Euro compensation model?

General comments

The compensation model, as presented by the Eurosystem, should be adjusted to allow for the compensation of:

- initial investments made by the distributors and credit institutions that provide bank accounts for funding and defunding;
- running costs of distributors and credit institutions that provide bank accounts for funding and defunding;
- adverse impacts on funding costs in banks due to the forced change of the funding structure as regards deposit losses to the ECB.

In general, the compensation model must be built to support growth.

First core principle: Free basic use by private individuals

The first core principle states that the Digital Euro should be free for basic use by private individuals. This is consistent with the context of cash, which is a public good as well, where people can pay, be paid, and have access free-of-charge.

We want to point out that this comparison with cash is misleading, as cash is not always free-of-charge. The underlying cost model for commercial banks is different and can be significant. In some cases and countries, consumers pay either their issuing bank or the owner of Automated Teller Machines (ATMs) for withdrawing money or these are subject to package pricing. In other scenarios, banks need to pay a service fee to the ATM owner – this is usually not visible to the consumer. The compensation model should not lead to market distortions due to more favourable terms for Digital Euro payments compared to commercial bank money payments.

Moreover, it is important to note that, if a Digital Euro will be free for P2P transactions, the associated costs will have to be carried by the involved intermediaries and there should be an incentive to compensate the involved banks for the lack of compensation in the P2P use case.

Therefore, a more differentiated approach should be taken regarding the first core principle.

Second core principle: Network effects generating economic incentives for acquirers and merchants

This principle needs to be looked at with caution, as network effects generated with the Digital Euro might be to the detriment of network effects generated with other payment instruments, for example in the case of significant volume shifts.

Furthermore, the compensation model does not indicate how original investment costs will be compensated.

Third core principle: Comparable economic incentives for issuers

The third core principle states that *∂PSPs distributing Digital Euro and offering wallet/account management services to private individuals should have a similar level of economic incentives to do so as for electronic payment alternatives.Δ*

To avoid an unlevel playing field with private schemes, the incentives for issuers should be clearly defined, as relating to other electronic payment instruments is too vague considering that there are currently other electronic payment instrument with no incentives (SCT, SCT Instant).

For acquirers it may be challenging to develop value-added services that can be monetised. It is also challenging to develop value-added services that would incentivise usage by consumers or merchants.

If the costs for merchants might reduce, it should be clarified who will bear these costs and for how long, given that, technologically, it does not seem that efficiencies are produced that justify such a reduction.

Furthermore, the business model should be designed to give the distributor credit institutions incentives to recruit end user participants to the Digital Euro ecosystem.

Fourth core principle: Eurosystem bears its own costs

The fourth core principle states *∂PSPs would have their own costs related to the distribution of the Digital Euro services they provide, but they would not be charged Eurosystem costs such as those related to scheme management and settlement processing.Δ*

A clear definition of what is to be understood as *∂The Eurosystem will bear its own costsΔ* is needed. It should also be clarified for how long the Eurosystem will bear its own costs, particularly regarding settlement processing and scheme management, as well as if the Eurosystem intends to, at a later stage when the scheme is more mature, let PSPs bear the costs related to scheme management.

Furthermore, it should be noted that, at large volumes, the price of settlement only makes a small part of the overall costs.

Rollout approach for the Digital Euro

1. Is the proposed staggered approach the best way to ensure a successful rollout of the Digital Euro from market and policy perspectives, while ensuring a timely delivery?

We recommend to roll out the Digital Euro in a targeted use case, focusing on small amounts of transactions, for example, focusing on the P2P segment with lower amounts. When this segment is established and working efficiently, more use cases can evolve over time and widen its use cases, if there is a demand and need.

A big bang scenario allowing maximum holdings on day 1 needs to be avoided. We see major practical, technical and legal issues to be managed for the Digital Euro to be able to service private citizens in e-commerce and brick-and-mortar merchant payments due to the complexity of the multi-faceted merchant payment and acceptance ecosystem with multiple parties involved in addition to the payer and payee and their respective payment service providers. Therefore, the Digital Euro needs to establish itself first for P2P and interbank transfers before attempting to enter even one single merchant sector.

Moreover, the possibility of including a pre-controlled pilot phase in the rollout should be considered. In such a pilot, we would propose to carry out an A/B test of different implementations of Digital Euro, to validate if the desired positive effects are achieved and minimize the negative ones identified. Specifically, the pilot would confront the following three models:

- 1) *Current model of the Digital Euro.* This pilot model would be done in highly banked and digitized countries. For example, it could be tried in some areas of Spain where solutions like, e.g. Bizum, already exist.
- 2) *Programmable Digital Euro model.* As in model 1), this pilot would be tested in a specific geographical region that is very banked and digitized. In addition to test the use cases of basic payments, others of added value could be tested, e.g. a wallet in which euros can be staked to generate returns.
- 3) *Basic Financial Digital Kit model.* This pilot model consists of offering a digital financial kit through an app in which the client has a current account and a payment instrument, such as Bizum, for free. With this kit, the ECB would meet its objective of having a way to get money directly to customers and sovereignty against foreign payment schemes, but it would not involve the development of new technology or the displacement of customer liabilities off banks' balance sheets. This test could be carried out in less geographical regions that are less banked or digitized.

In general, the timeframe between phase one and phase two shall not be high. The intermediaries will lose money with P2P transactions while some fees collected from merchants are to be expected with PoS.

Furthermore, it should be clarified to which *market gaps across EA countries* the ECB is referring in its presentation.

2. What are your considerations on the sequence and composition of the two different product releases: (i) P2P and e-commerce (ii) PoS and G2X use cases?

A stepwise launch order with multiple steps over a ten year launch period should be considered. This would allow for volume build-up and acceptance area adaptations by sector.

Such a launch plan could be designed as followed: *(please note that this is just an example)*

- (i) P2P payments and bank-to-bank transfers
- (ii) Payments from citizens to government and government to citizens
- (iii) Subscription / recurring payments for low value
- (iv) E-commerce low value payments with no/low risk of refund demands
- (v) Regular e-commerce payments except travel and entertainment area
- (vi) Brick-and-mortar merchant payments in no/low refund risk sectors
- (vii) The remainder of e-commerce and merchant payments
- (viii) X-currency use

3. Do you have specific considerations with regards to the technical and implementation efforts required for the different product releases?

The more parties to involve in a payment environment, the more complex it becomes. The ECB should launch the Digital Euro first with itself and four additional stakeholders: payer, payee and their respective payment service providers/distributors. In this manner, the ECB and the payer and payee banks would be in control of the construction and operations in a similar way as in the case for SEPA Instant Payments today with TIPS settlement. A first threshold to manage is to provide the citizens with a payment tool/instrument for this first purpose.

When a well-working environment with a growing number of end user citizens and their banks are in place, the ECB and the distributor banks can start a stepwise launch of first government payments.

Afterwards, sectoral merchant payments should be started by including multiple technical service providers and processors necessary to add new payee groups. Both the acceptance technology and administration of payments will vary between different sectors that provide goods and services to the general public. In addition to the waterfall service, these new payees

need mass-market capable payable accounts administration tools. An additional complexity to manage is the merchants that work in different currency areas. In the EEA alone, there are 10 currencies in addition to the Euro to manage.

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!\$ Yb¥an!f!\$ bzavd x°f! zkkf! axn°f!\$Yv YbbfE@Yxbf! @mf!f n\$ xz !n\$u @mY@ @mf3 bzavd Yaasf Y vflYv @fxdf! \$@Y@a\$ zk @mf , ü! ±mnbm wfYx\$ @mY@ ±f bYx@ \$ff @mf xffdkz! Yx3 wf!bmYx@ E!nbnx! !flavY@nzx@ Mmf zxv3 ±Y3 wf!bmYx@bzavd bZwEv3 ±n@m @mY@ ±zavd af a3 zEfXnxl aE @mf! , ü Ybbzax@ dn!fb@v3 @z EY3f!\$ kz! dn!fb@ @!Yx\$kf!\$@

Mmf zxv3 \$f!°nbf Y wf!bmYx@ wY3 ±Yx@ nx @mn\$ bY\$ n\$ @mY@ zk Y EY3wfx@ bZwfb@z! Yxd !fbzxbnY@nzx E!z°ndf!í \$z @mY@ @mf3 dzx@ mY°f @z dfYv ±n@m Yw @mf nxdn°nd°aYv EY3wfx@ Y!°n°nxl @z @mf! Ybbzax@! wY@bmnx! @mfw @z @mf! !fbfn°Yav\$ Yxd l f@nxl nx\$@Yx@ xz@nknY@nzx\$ nx@z @mf! HAL@ Lzwf Yb¥an!f!\$ Y!f EY3nxl @mn\$!zvf Y\$ ±fwí \$z @mf3 bYx bZx@nxaf @z dz @mY@! a°@ @mf aY\$nb !zvf zk Yx Yb¥an!f!í nbf@ @z Eaw @mf wzxf3 k!zw @mf n\$Saf!í ±zavd kYw Y±Y3 Yxd ±n@m n@ @mf !fY\$zx @z EY3 Yx3 nx@f!bmYx!f @z @mf n\$Saf!í@

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Ä@Ä *zwEY!Yavf fbzxzwnb nxbfX@nf\$ kz! n\$Saf!\$

Tf kaw3 Yl!ff @mY@ Yw HLH\$! nxbvadnxl @mf dn\$@!na°nxl HLH\$ an\$Saf!\$æ smzavd mY°f ÓbZwEY!Yavf nxbfX@nf\$ @z E!zwz@f Yx zE@nwYv asYanvn°3 Yxd fxd asf! f2Ef!nfxbf ç±n@m @mf , €è Y\$ @mf3 mY°f ±n@m Yv@f!xY@nf fvf@!zxn@ EY3wfx@ nx\$@!awfx@ @mf3 dn\$@!na°f@ Nxkz!@axY@fv3! @mf ba!l!fx@ EYx\$ dz xz@ \$ffw @z vfYd @mY@ ±Y3@

!\$ f2EvYnxf@ Yaz°f! Y df\$nlx ±mf!f EY3f!\$ asf @mf n\$Saf!\$ YEE @z nxn@Y@f Y , ü EY3wfx@ @mfw\$fv°f\$ n\$ a3EY\$Snxl @mf Yb¥an!nxl \$ndf Yxd vY!l fv3 !fda@nxl Yx3 !f°fxaf EzfX@nYv k!zw wf!bmYx@ kff\$@ *mY!l nxl @mf EY3f!\$ dn!fb@v3 kz! @mf EY3wfx@ ±zavd af Y xzBlz! Y@ vfY\$@ xz@ zx Y Ef!@!YxSYb@nzx aY\$nsí Yxd f°fx Yx3 z@mf! ±Y3 zk bmY!l nxl @mf EY3f!í f@l@ wzx@mv3 kf f\$í dzf\$ xz@ \$ffw @z af Yx zE@nzx l n°fx E!nxbnEvf Ä@Ä Yaz°f@

*zx\$fa°fx@v3! ±f ±zavd kY°za! Y bZwEvf@fv3 dnkkf!fx@ df\$nlx! ±mnbm dzf\$ xz@ @!3 @z bZx¥af! @mf ±z!vd zk Ybbzax@BaY\$fd fvf@!zxn@ EY3wfx@! a°@ \$@nbu\$ @z @mf ba!l!fx@ !avf\$ Yxd \$bzEf zk bY\$@ ±n@m Ef f!@zB\$ff! f2bmYx!fd @zufx\$@

Ää . a₁z³§³fw afY₁§ n³§ z±x bz§³Í Y§ ±n³m £₁zda^bcnzx Yxd n§§^aYxbf zk aYxuxz³f§

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zx £Y₁cnbn³Yx³§ Y§ Y₁ f§^av³ zk df§n₁x bmn^bf§ vfd a³ bfx³Yv aYxu wzxf³Y₁³ £zvnb³ f^an₁f^awfx³§

Mmf wz₁f §^abbf§§k^av Yx Ybbz^ax³baY§fd , ü §bmfwf ±z^avd afbzwf₁mf wz₁f n³ ±z^avd fda^bf ³mf
§mY₁f zk £₁n³Y³f fvf³b³zxn^b wzxf³ £Y³wfx³§ ! § n³ §³Yxd§₁ ±f bYxxz³ §ff Yx³ bzxw£fx§Y³cnzx kz₁
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T n³m ³mY³ ±f kfY₁ ³mY³ ³mf . a₁z³§³fw ±z^avd mY³f ³z afY₁ Y v³z³ wz₁f ³mYx n³§ z±x bz§³

äð Kzwz^a Y££₁zYbm kz₁ ³mf dn₁n³Yv f^a₁z

Tmf x³z^a §Y³ ³mY³ Ów^acn³Evf a§f bY§f§ Y₁f f^an₁f^a ³z Ydd₁f§§ ³mf °Y₁n³f³ zk fxd a§f₁ xff^a§ Yxd
wY₁uf³ IY£§ Yb₁z§§ . ! bz^ax³cn³f§^a ±f ±z^avd xz³ f²£fb³ Y₁ f^an₁f^awfx³ kz₁ ³mf , ü ³z Ydd₁f§§
wz₁f a§f bY§f§ ³mYx ³mf b^a₁f^ax³ xzx^bdn₁n³Yv f^a₁z dzf§ T f Y₁f Yv§z xz³ §ff₁n₁x₁ Yx³ IY£§ n₁ ³mf
Yv₁fYd³ z³f₁b₁z±dfd fbbzwwf₁b₁ Y₁f^aY₁ a^a ³Y³mf₁ n₁ £f₁§zx^bz^b£f₁§zx Yxd wYbm^an^af^bz^b
wYbm^an^ax^a fvf³b³zxn^b £Y³wfx³§

T f ±z^avd bf₁cn³xv³ Y₁f₁ff ³z Y Ó§³Y₁I₁f₁fd Y££₁zYbm³Í a^a ³z^a₁ §^aI₁I₁f§cnzx ³z Ózkkf₁ Y §^aknbn^afx³v³
a₁zYd Yxd nw£Yb^akv^a §f³ zk a§f bY§f§ k₁zw ³mf §³Y₁Í³ dzf§ xz³ §ffw ³z §^a££z₁ ³mY³

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f²£f₁n^axf^bÍ Yxd Ó₁fda^bf ³mf nw£vfwfx³Y³cnzx bzxw£vf²n³cn³f§ Y§§zbnY³fd ³z zwnx₁ z^a Y³ £Yx . !
vf³f³ Mmn§ ±z^avd wz₁f v^aufv³ vfyd ³z Y Ó₁Yd^aYv a^axf₁§³Yxd₁x₁ Yxd Ydz£cnzx zk ³mf dn^akf₁f^a a§f
bY§f§ Yxd ³fbmxz^az^aI₁n^af§ a³ fxd^a§f₁§³

6x vnxf ±n³m ³mf £^aavn^b a^axf₁§³Yxd₁x₁ zk bY§m Yxd dn₁n³Yv bY§m₁ ±f ±z^avd §^aI₁I₁f§³ §³Y₁cn₁x₁ fn³mf₁
±n³m HÄH z₁ HALÍ a^a xz³ az³m₁ Yxd Y§ f²£vYnx^afd Yaz³f aY§fd zx ³mf zkkvnxf f²bmYx₁f zk
£ff₁b³z^b£ff₁ ³zufx§³ 4n³fx ³mf mn₁mf₁ bzxw£vf²n³ zk HAL ±f ±z^avd vfyx ³z±Y₁d§ HÄH

!xd afkz₁f Izn₁x₁ ³z HALÍ ±mf₁f wYx³ fvf³b³zxn^b z£cnzx§ Y₁f a§^aYw³ zkkf₁fd Yv₁fYd³₁ n³ wn₁lm³ af
af³cf₁ ³z Y³bu^av^a ³mf zkkvnxf Uä4 a§f bY§f x^af²Í ±mf₁f bY§m n§ zk³fx ³mf zxf Yxd zxv³ z£cnzx³
H₁f£Y₁n₁x₁ £^aavn^b nx§³cn^acnzx§ Yxd ³mf x₁ f^an₁n₁x₁ ³mf₁ Ybbf£³Yxbf zk äzkkvnxfæ , ü £Y³wfx³§
±z^avd §^a₁f^av³ af ±fw₁ f^bfn³fd a³ ³mf £^aavn^b

6x bzxbr^ašnzí z^a! anllfš bzxbrf!xš nx !fvY⁰nzx 0z šfššnzx pć Y!f 0mf kz!fšffYavf dnš!^aÉ0nzx zk 0mf !f0Ynv ÉY³wfx0š fbzš³š0fwí 0mf wnššnxi nxbfx0ⁿšfš kz! nx0f!wfdnY!ⁿfš 0z d!ⁿ0f 0mf ašf zk Y , ü Yxd 0mf mnIm x^awaf! zk ašf bYšfš afnxi bzxšndf!fd kz! vY^axbm0

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Ǻ 3zb^aš zx dnln0Yv bYšmí nbfd 0zufxš nx Y ±Ywf0 β Yx³0mnxi fvšf ±z^avd af mY!d 0z f²ÉvYnx Yxd bz^avd b!fY0f Y w³!nYd zk bzwÉf0n0nzx nšš^afš

ǻ !xx³wz^aš aÉ 0z vfiYv vnwn0ší š0!zxI É!ⁿ0Yb³ 0mf!fYk0f! Yxd xz kn²fd mzdvnxi vnwn0ší ±mnbm ±z^avd z0mf!±nšf !fš^av0 nx ašYIf !fš0!nb0nzxš Yxd axdf!wnxf 0mf wzxf0Y!³ Yxbmz! š0Y0^aš

A .xkz!bf vz±Űxz bzš0 0z 0mf b^aš0zwf!í 0mf!f w^aš0 xz0 af Yx³ Éf!⁰!YxšYb0nzx kfí Yxd dz xz0 nwÉzšf Yx³ bzš0v³ xf± âYbbz^ax0BaYšfd 0nxk!Yš0!^ab0^a!f

a >Y²nwnšf ašYanv0³í nxbv^adnxi zkvnx f ašfí Yxd Y^oznd Yx³ axxfbfššY!³ k!nb0nzx

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ć)^axdvfd ±n0m .N , nln0Yv TYwf0š nk Yxd ±mfx Y^oYnvYavf

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Compensation model

Low acceptance costs to drive adoption for merchants and consumers

The lower the cost, the higher its impact on conversion for both merchants and consumers. When merchants are faced with high costs for accepting specific payment instruments, then these incremental costs are passed on to consumers via an increase of prices for goods and services. All consumers, regardless of whether they are paying with an expensive or less expensive means of payment are faced with an increase of retail prices. While basic services offered free of charge to consumers will have a positive effect on customer adoption of the digital euro, such offering must not be at the expense of the merchants. Retaining the overall acceptance costs for digital euro at a low level will therefore stimulate conversion and allow merchants to endorse its acceptance, while keeping prices for end-consumers on a low level – an essential aspect to consider in times of high-inflation rates.

Cost of acceptance for digital euro should be substantially lower compared to competing means of payments for the following reasons:

- Risk of fraud and individual losses should be reduced vis-à-vis usage of cash and cards with high security standards and authentication in wallets applications and onboarding procedures by intermediaries
- Incentive to issue for existing means of payments (i.e., interchange fee) includes credit risk premium – especially for credit products. Digital euro will be processed and settled instantly. In addition, digital euro will not appear on the issuer's balance sheet, hence no impact of credit risk on intermediaries. Incentives for core services should therefore be lower than existing inter PSP fees.
- As all digital euro functionalities and processes will be highly standardised and based on straight through processing, we expect the cost of the transactions to be very low. Each transaction is expected to have the same execution and settlement costs, regardless of the payment amount or environment. We would therefore expect the merchant acceptance costs to be a very low fixed amount, which will cover both acquiring fee and incentive to the issuing intermediary.

Fees levied to merchants for accepting digital euro payments should be as close to zero as possible, meaning that the cost of existing payment methods, including cash, should not serve as a benchmark for pricing digital euro transactions. Contrary to the high fixed cost nature of cash acceptance infrastructure, we estimate that digital euro acceptance will be substantially more cost-efficient. In addition, competing private means of payments come with higher risk profiles which warrant intermediaries to ask for higher fees – this should not be the case for the digital euro.

Although transaction fees should be lower than competing means of payments, merchants will still be faced with considerable costs for a mandatory acceptance. Equipment will very likely have to be replaced or upgraded, processes amended and staff to be trained. An introduction of a broad legal

tender based payment instrument across the eurozone will therefore have a substantial impact on the digital euro.

Transparency in fee reporting will be fundamental to allow merchants to perform active cost control measures. The fee structure should therefore be as simple as possible. Also, ancillary costs related to digital euro acceptance, such as fraud scheme cost components and chargeback fees, should be priced on a cost-efficiency basis.

Digital euro as public good

Characterised as public good, the digital euro will be considered as *monetary anchor* in the economy. A fair and sustainable business and distribution model for all members of the payment ecosystem must be supported by the public authorities to guarantee a widespread adoption at reasonable costs. While we believe that such incentives for a public good payment instrument must not be comparable to those for private means of digital payments.

A potential legal tender status of digital euro will amplify the need for a cost-efficient pricing as retailers will likely be obliged to accept digital euro payments and be limited in their ability to negotiate with intermediaries. In case market forces will not contribute to efficient pricing, authorities and regulators must intervene to guarantee that central bank money is provisioned and distributed to secure business continuity on retailer side by introducing regulatory safeguards in form of fee caps. Such caps should then be applied to the totality of fees, not only to a specific portion.

Counterparts, specifically regarding waterfall and reverse waterfall mechanisms that would be fundamental for a smooth operating procedure, especially for the handling of refund transactions. Merchants would only be able to support the proposed zero holding limits in case these automated funding mechanisms will be offered free of charge for merchants.¹ With physical cash, merchants can choose to not deposit and thereby limiting acceptance costs for cash. As outlined in our earlier contribution, we would welcome a more balanced approach regarding holding limits for merchants or alternatively no charges associated with reverse waterfall or waterfall mechanisms.

Network effect and open competitive space

Mandatory acceptance under a legal tender regime will have a big impact on conversion and network effects. Similarly, account servicing PSPs may have to be mandated to participate to fully exploit network effects with the result of rendering the infrastructure more efficient. A mandatory issuance of digital euro could also be supported in light of digital euro being considered as public good.

¹ Back-end processes also need to be in place allowing the merchants to perform automated reconciliation of digital euro entries.

To allow for a more open competitive space in the euro area with greater choice digital euro should be open to bespoke ways of provisioning wallets to end users. Self-custody wallets offered by licensed intermediaries could be a valuable addition to traditional custodial wallets that will not only promote innovation but also allow consumers to opt for more private ways of transacting.

We welcome the decision that also EMIs, PIs, and TPPs will be able to distribute digital euro. To avoid duplication of work, the digital euro project should incorporate findings of the SEPA Payment Account Access (SPAA) scheme for PISP access, compensation, and operating models.

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Rollout approach

Is the proposed staggered approach the best way to ensure a successful rollout of the digital euro from market and policy perspectives, while ensuring a timely delivery?

Yes, we believe a staggered approach is indeed the most suitable way to ensure a successful rollout in a timely manner. The underlying criteria used for the selection of the prioritised releases also is appropriate to derive to the decision taken. A comprehensive communication approach needs to be developed and be published alongside the releases. This will be needed to inform citizens and businesses about the services in scope of the different releases, the expected delays until the subsequent release and how the services will work in practice for citizens and businesses.

What are your considerations on the sequence and composition of the two different product releases: (i) P2P and e-commerce (ii) PoS and G2X use cases?

The selection of e-commerce and P2P use cases as the first release appears to be logical. These use-cases typically prove to be less complex compared to providing the fully-fledged POS use cases including all implications on interfaces and technology. There are multiple examples of alternative payment methods (APMs) having followed a similar approach. Only after a later stage those providers moved into the physical POS. Launching P2P services is a cost-efficient way to launch the solution and to raise awareness amongst citizens. In addition, this will allow the scheme to fix potential bugs and improve the underlying infrastructure without impacting the high-volume POS transaction business.

Extra attention needs to be paid to omni-channel use cases in which the lines between physical POS and e-commerce POI blur. In multiple different scenarios citizens may shop at a merchant's physical store but still perform a "remote" transaction. Typical examples include click-and-collect payments, pay at pump for petrol retail, or endless aisle processes.

Do you have specific considerations with regards to the technical and implementation efforts required for the different product releases?

As outlined above, a comprehensive and widespread communication and marketing campaign must be launched to accompany the different releases of the digital euro payment services.

It must further be guaranteed that offline payments are available as early as the first release for P2P payments. In addition, e-commerce use cases must also enable users to pay within a *metaverse* context.

Timelines of digital euro rollout should be closely aligned with EU digital ID wallet initiative as currently defined by the European Commission.

Rolling out a new way to pay at the physical POS comes with a lot of constraints and associated effort. This is especially the case for merchants operating multiple sites across the EU. The rollout approach as defined by the Eurosystem should therefore consider that the impact of the POS solution on the infrastructure be limited to a minimum. This can be achieved by aligning trial and rollout coordination across countries for the different releases, preferably also alongside other initiatives endorsed by the European authorities.