EUROPEAN CENTRAL BANK

EUROSYSTEM

Summary of collected inputs from ERPB members

Compensation model

12 May 2023

Digital euro project team

Compensation Model (1/2)

ERPB members acknowledged the proposed model with different opinions among the three main groups (merchants, consumer representatives, and intermediaries):

- **Merchants** welcomed the model and stressed that as a risk-free instant model it should also not come with high acceptance costs as the low-risk nature would not account for this. Therefore, they would expect that prices would not increase. As it will from their perspective be a highly standardised product, they argue for a basic flat fee per transaction with a possible added fraud fee component. Merchants are very cautious that a potential acceptance requirement should not lead to an overcharging situation. This would need to be accounted for by regulatory means. This specifically applies to waterfalls as these are needed for mandatory defunding.
- **Consumer representatives** support the digital euro compensation model and the consequences linked to it. In particular, they are pleased by the 'free for basic use by private individuals' principle. They call for a strong legal basis and a clear obligation towards the intermediaries to provide the digital euro service in an easily consumable way and not to use it to push costly services which might be linked to it. An important point for consumer representatives is the exchangeability with cash which should be free of charge. They understand and share the perception that issuers and acquirer should be compensated, however, the fee should be reasonable and related to relatively low cost for merchants. The intermediaries should be able to cover their costs, but not have this as a major source of revenue.

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Compensation Model (2/2)

- **Intermediaries** acknowledge the model but are in general not as welcoming as the previous two groups:
  - However, there is the general acceptance that an inter PSP fee model is the right way forward. Especially intermediaries from the banking sector stressed that the considerations neglect costs elements like onboarding costs and the costs for deposit outflows. Particularly on the latter, they wonder whether there will be compensation for the loss of liquidity that they would experience.
  - Further they pointed out that investment costs are not yet covered, and that the analysis is only focusing on running costs.
  - On the principles it was mentioned by several banking representatives that cash is not free, neither for the merchant nor for the user. This should be respected when designing a compensation model which draws also from elements of cash.
  - EMIs and PIs specifically pointed to their specific situation that funding and defunding needs to be facilitated by CIs and that the associated costs should be regulated as well. Overall, there was a general agreement with the design, yet the perception that the revenue received on the distributing side might not be high enough to cover the costs.

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Thank you