Council of the European Union
General Secretariat

PUBLIC

Interinstitutional files:
2023/0211 (COD)
2023/0212 (COD)

Brussels, 09 May 2025

WK 5961/2025 INIT

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WORKING DOCUMENT

From:	Presidency
To:	Working Party on Financial Services and the Banking Union (Digital Euro Package) Financial Services Attachés
Subject:	Digital euro - WP meeting on 15-16 May 2025 - Presidency Note on Open Funding

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Digital Euro Regulation

Brussels, 15-16 May 2025

Presidency discussion note on open funding

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I Introduction

This note could be introduced as a follow up to the discussion on compensation model held during the 13th CWP on digital euro on 22 October 2024 and the 16th CWP meeting on digital euro on 26 February 2025. Several Member States stressed the importance to address the issues surrounding reverse waterfall funding from another PSP (in short: reverse waterfall open funding). This concept concerns the situation where the digital euro payment transaction is funded from the end-user's linked private money account with a different PSP ("the funding PSP") than the one providing the digital euro payment account ("the distributing PSP").

To recall, the reverse waterfall allows end-users to make an online digital euro payment transaction where the transaction amount exceeds their digital euro holdings including where the transaction amount is higher than the holding limit. Article 13(4) of the draft regulation mandates that PSPs providing account servicing payment services within the meaning of Directive 2015/2366 (PSD2) must allow digital euro users to link their digital euro payment account with a non-digital euro account for such transactions, no matter if the accounts are held with the same PSP or another PSP. Article 17(1) in conjunction with Annex II, point (f), prohibits PSPs from charging any fees to natural persons for these transactions. According to Article 17(2), the end-user's distributing PSP is compensated via inter-PSP fee, as it provides the digital euro payment services to the end-user. Article 17(7) states that no inter-PSP fee shall apply to the funding and defunding of the digital euro, including reverse waterfall transactions.

II Topic: Requirement of supporting reverse waterfall with different PSPs and consequent need to regulate the compensation

In their oral and written remarks to the October 2024 meeting of the CWP, the Member States put forward various considerations on the question of whether they support the introduction of an obligation to apply reverse waterfall with a different PSP. On the one hand, allowing for this possibility would have a positive impact on competition among PSPs. It would also offer increased flexibility for the digital euro user, who could choose to open a digital euro account at a different PSP than the PSP where they hold their main commercial bank account, while still being able to fund this digital euro account from their main commercial bank account at a different PSP. On the other hand, some Member States cautioned that any undue impact should be avoided and mentioned strategic autonomy considerations, in case the role of distribution of digital euro services would be largely taken over by non-European actors. For these reasons, Member States largely agreed that in case the Regulation would mandate PSPs to support the reverse waterfall initiated by the client in another PSP, the funding PSPs should receive adequate compensation, e.g. via a capped share of the inter-PSP fee that the distributing PSP receives.

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The Presidency deems it important to find a way forward that strikes a balance between all these considerations. The Presidency recognises conceptually two possible ways to address the Member States' considerations as described above:

First, regulating adequate compensation for the funding PSP. This would ensure maximum availability of reverse waterfall functionality for the user while avoiding non-bank PSPs free-riding on funding PSPs. However, identifying an objective criterion for a cap is challenging, as there is no adequate benchmark that could be applied for the reverse waterfall funding transaction, appropriately reflecting the distribution of efforts and responsibilities between the involved PSPs.

Second, restricting the availability of reverse waterfall with different PSPs. To this end, reverse waterfall with different PSPs could either be made non-mandatory, hence leaving it to the PSPs to agree or not on the conditions and compensation under which the funding PSP may support the open funding reverse waterfall service; or the Regulation could exclude the possibility to use reverse waterfall with different PSPs completely. The former option would be more aligned with the principle of an open market economy with free competition, whereas the latter option would provide more assurance from a strategic autonomy perspective, also considering that it is difficult to foresee now possible unintended consequences, and in which direction the market will develop - concretely if open funding would be more widely rather than narrowly used. It can also be considered to be clearer for end-users compared to a situation where the availability of reverse waterfall would vary depending on the combination of distributing and funding PSP. From a user perspective, reverse waterfall with the same PSP where the user already has a private money account would in both cases be a basic service that every user can expect to receive. In contrast, a reverse waterfall with different PSPs would be either not possible or an additional service that the distributing PSP may not necessarily support with every funding PSP the user may have a private money account with. The reverse waterfall functionality would be free of charge for natural persons in all cases, whenever provided.

The Presidency notes that defunding, including via waterfall, of the digital euro account held with a different PSP than the one providing the commercial bank account should remain available and free of charges in any case, given that the user's digital euro holdings are subject to limits.

III Proposal: No reverse waterfall with different PSPs

Given the concerns relating to Europe's strategic autonomy and practical challenges surrounding finding adequate compensation for the funding PSP, the Presidency proposes to restrict the availability of reverse waterfall for natural persons to cases where the connected non-digital euro account is with the same PSP that provides the digital euro payment account.

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The majority of Member States have already supported that the Regulation should maintain mandatory distribution of digital euro services, so that a digital euro user always has the option of obtaining a digital euro account with the *same* PSP with which the user holds its commercial bank account. This also ensures that a digital euro user can always have a digital euro account with the possibility to use the reverse waterfall functionality at one PSP.

For cases where the user obtains digital euro services from a PSP *different* from the one(s) providing their private money account(s), access to sufficient and convenient open pre-funding services would need to be ensured. This becomes particularly necessary to ensure that the usability of digital euro is not impaired by the existence of holding limits, because the user cannot rely on the reverse waterfall being available. Member States have been divided so far on the question on whether automated funding and defunding should be a basic service in addition to manual funding and defunding. The Presidency proposes to address this by splitting the notion of "automated funding/defunding" into two possibilities: scheduled funding/defunding and event-driven funding/defunding. Scheduled funding would allow users to pre-fund their digital euro account at regular time intervals defined by the user (e.g. a fixed amount or top up to reach an initial balance every month) and can be compared to standing orders which the legislative proposal already distinguishes from other conditional payments in Annex II. Event-driven funding is triggered by a specific condition, e.g. whenever the user's digital euro holding goes below a certain threshold. To counterbalance the absence of reverse waterfall open funding, the Regulation should mandate scheduled funding from any PSP as a free basic service to support competition among PSPs and to provide flexibility for consumers[1]. If there is no reverse waterfall and if scheduled funding would not be possible, the user would be responsible for keeping sufficient digital euro account balance, increasing the need to manually fund and the possibility of transaction failure. Event-driven funding, on the other hand, could be made available as an additional service for which PSPs could also charge users.

Table: Summary of the proposed changes compared to the Commission's legislative proposal

	Same PSP	**Different PSPs**
Scheduled funding/defunding	Basic	Basic
Event-driven funding/defunding	Basic	Optional
Reverse waterfall	Basic	Prohibited for consumers, basic for merchants

[1] This approach would also be in line with the CWP discussion on the FR non-paper on privacy in September 2024, where the majority of Member States supported the Eurosystem's recommendation to explore targeted improvements to the offline modality, i.e. allowing users to decide on the amount they wish to regularly hold offline and benefit from automated funding in order not to worry about their offline balance.

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Descriptions:
- Manual funding/defunding: A functionality that allows a digital euro user to manually fund or defund their digital euro payment account from or to a non-digital euro payment account chosen by the digital euro user.
- Scheduled funding/defunding: A functionality that allows funding or defunding of a digital euro user's digital euro payment account to be triggered based on a pre-defined date rule set by the digital euro user.
- Event-driven funding/defunding: A functionality that allows funding or defunding of a digital euro user's digital euro payment account to be triggered based on a pre-defined threshold amount rule set by the digital euro user.

Given the restriction that this approach means for non-bank PSPs that provide digital euro payment services, a review clause could be introduced that would make it possible to allow open funding reverse waterfall with different PSPs on the basis of voluntary agreements between the PSPs, depending on an assessment of the digital euro payments market at a later stage, in particular with a view to the objectives of open strategic autonomy and competition in the market for digital euro services.

IV Proposal: Small modifications to modalities of the linked non-digital euro payment account

While unrelated to the core considerations on competition and strategic autonomy as regards reverse waterfall with different PSPs, the Presidency could consider proposing small modifications to the modalities of the linked non-digital euro payment account.

- Article 13(4) and Article 22(4) in the draft Regulation state that for waterfall and reverse waterfall, the digital euro payment account can be linked to only a *single* non-digital euro payment account. This means that the linked account must be the same for waterfall and reverse waterfall functionalities, which can be an unnecessary limitation, leading to complications mainly for merchants which may need to link their digital euro account to two commercial bank accounts: one for waterfall and another one for reverse waterfall (e.g. for refunds). Consumers may also be limited in the ability to link to more than one account. This would be consistent with other forms of funding/defunding, for which linking to one or more accounts is possible according to Article 22(4). For these reasons, the Presidency proposes to remove this limitation from Article 13(4) and Article 22(4).
- Since the digital euro can be used by non-residents (as defined under Article 12a), it should be possible for those non-resident users to link the digital euro account to a non-digital euro payment account that is not denominated in euro. All transactions between the digital euro payment account and the non-digital euro payment account would imply currency conversions, which would be charged with a conversion fee. (Reverse) waterfall transactions could also be charged with a conversion fee. This would allow both visitors and former residents to open a digital euro payment account without having to open a non-digital euro payment account denominated in euro.

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Therefore, the Presidency proposes to remove this limitation "denominated in euro" added during the Belgian Presidency to Article 13(4) and Article 22(4).

Proposed way forward

The Presidency suggests amending Article 13(2) and (4) of the Regulation to delete the possibility for natural persons to link non-digital euro payment accounts for reverse waterfall with a different PSP. To allow linking to one or more non-digital euro payment accounts for merchants, and to allow that the linked non-digital euro payment would be non-euro denominated, the Presidency suggests amending Article 22(4) and Article 13(4). In addition, scheduled funding should be included in Annex II. Recital 36 would need to be adjusted accordingly.

The suggested amendments are presented as amendments to the COM proposal for clarity reasons. Member States, after having considered the proposal of the Polish Presidency, could express whether they still want to retain the Spanish Presidency legacy drafting suggestions from end-2023 on Article 13 that sought to increase clarity of the Article 13 provisions pertaining to open funding – see the annex.

The text in bold blue is PL PCY's amendment

Recital 36
The digital euro should allow for a smooth payment experience. Any instruments that the European Central Bank might employ to limit the digital euro's store of value function should take this objective into account. Automated mechanisms that link a digital euro payment account with a non-digital euro payment account should allow for an uninhibited payment functionality of the digital euro, by ensuring that transactions are successfully executed in the presence of individual digital euro holding limits that may become binding on the payer's or payee's side. In particular, digital euro users should be able to initiate a digital euro payment transaction even though the amount of their digital euro holdings is inferior to the amount of the transaction, by automatically mobilising funds from a non-digital euro payment account to complement the transaction amount ('reverse waterfall functionality'). Conversely, digital euro users should be able to receive digital euro payment transactions even though the amount of the transaction exceeds the limit set on their digital euro holdings, by automatically transferring funds in excess of the limit to a non-digital euro payment account ('waterfall functionality'). Such payment functionalities should be expressly authorized by digital euro users. Where **a** digital euro payment account held by one payment service provider is linked with non-digital euro payment account held by another payment service provider, they should enter into an arrangement specifying their respective roles and responsibilities under data protection rules, as well as agree on the security measures necessary to ensure secure transmission of personal data between the two payment service providers. **For the purposes of the reverse waterfall functionality, natural persons should only have the possibility to link their digital euro payment account to a non-digital euro payment account with the same payment service provider.**

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Article 13

(…)

2. Payment service providers that provide **account** servicing payment services within the meaning of Directive 2015/2366 shall enable digital euro users to manually or automatically fund or defund their digital euro payment accounts from or to non-digital euro payment accounts, or euro banknotes and coins where~~n~~ a payment services provider provides cash services, subject to any limitations that the European Central Bank may adopt in accordance with Article 16 of this Regulation.

For the purposes of the first subparagraph, the obligation to enable automatic funding of digital euro payment accounts shall be limited to scheduled funding operations when the digital euro payment account is held with a different payment service provider than the non-digital euro payment account.

4. Payment service providers providing account servicing payment services within the meaning of Directive 2015/2366 shall enable digital euro users:

(a) to have their digital euros in excess of any limitations the European Central Bank may adopt in accordance with Article 16 automatically defunded to a non-digital euro payment account, where an online digital euro payment transaction is received;

(b) to make an online digital euro payment transaction where the transaction amount exceeds their digital euro holdings.

For the purpose of points (a) and (b), and upon prior approval by the digital euro users, payment service providers shall link each digital euro payment account to one or more~~single~~ non-digital euro payment accounts ~~denominated in euro~~ designated by the digital euro users. **For the purpose of point (a), PSPs shall offer d**igital euro users ~~shall be allowed~~**the option** to have those designated non-digital euro payment accounts with different payment service providers than the one where a given digital euro payment account is held. **For the purpose of point (b), PSPs shall only offer legal persons the option to have those designated non-digital euro payment accounts with different payment service providers.**

Article 22

(…)

4. Each digital euro payment account may be linked to one or more non-digital euro payment accounts ~~denominated in euro~~ that shall be designated by the digital euro user.

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Annex II

(…)

(c)~~non-~~ manual and ~~or~~ ~~automated~~ scheduled funding and defunding from **or into a** ~~non-~~digital euro payment account**s**;

(f) ~~**digital euro payment transactions**~~ **funding and defunding operations** referred to in Article 13(4); ~~**and**~~

Questions for the Member States:

Q1. Do you agree with the Presidency proposal to restrict the availability of reverse waterfall for natural persons to cases where the connected non-digital euro account is with the same PSP that provides the digital euro payment account, provided that sufficient open pre-funding options are always available to digital euro users?

Q2. Do you agree with the proposed split of "automated funding" into "scheduled funding" to be mandatorily provided as a free basic service and "event-driven funding" as an additional service?

Q3. Do you agree with the proposed small additional modifications to delete the restrictions that (i) there should only be a single linked non-digital euro payment account, and that the linked non-digital euro payment account should be denominated in euro?

Q4. If you agree with Q1, Q2 and Q3, do you agree with the proposed drafting?

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Annex: Related legacy Presidency drafting suggestions

Text in bold red = ES PCY

Text in bold = BE PCY

Article 13

2. Payment service providers that provide **non-digital euro payment accounts and payment service providers that provide digital euro payment accounts** ~~**servicing payment services within the meaning of Directive 2015/2366**~~ shall **enable their clients** ~~**digital euro users**~~ to manually or automatically fund or defund their digital euro payment accounts**, whether held with the same or another payment service provider,** from or to non-digital euro payment accounts, **respectively,** or euro banknotes and coins when a payment services provider provides cash services, subject to any limitations that the European Central Bank may adopt in accordance with Article 16 of this Regulation.

(…)

4. Payment service providers **that provide non-digital euro payment accounts and payment service providers that provide digital euro payment accounts** ~~**providing account servicing payment services within the meaning of Directive 2015/2366**~~ shall enable **their clients** ~~**digital euro users**~~:

(a) to have their digital euros in excess of any limitations the European Central Bank may adopt in accordance with Article 16 automatically defunded to a non-digital euro payment account, where an online digital euro payment transaction is received;

(b) to **initiate a digital euro payment transaction even though the amount of the payer's digital euro holdings is inferior to the amount of the transaction, by automatically mobilising funds from a non-digital euro payment account, provided that the excess amount of the transaction is available on the payer´s non-digital euro payment account** ~~**make an online digital euro payment transaction where the transaction amount exceeds their digital euro holdings.**~~

For the purpose of points (a) and (b), and upon prior approval by the digital euro users, payment service providers shall link each digital euro payment account to a single non-digital euro payment account **denominated in euro** designated by the digital euro users. Digital euro users shall be allowed to have that designated non-digital euro payment account with a different payment service provider than the one where a given digital euro payment account is held.

(…)

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Article 17

7. No inter-PSP fee shall apply to the funding and defunding of the digital euro, except for digital euro payment transactions referred to in Article 13(4).

Article 22

4. Each digital euro payment account may be linked to one or more non-digital euro payment accounts **denominated in euro** that shall be designated by the digital euro user. For the purpose of Article 13(4), each digital euro payment account may only be linked to one non-digital euro payment account **denominated in euro**.