

## Proposal for a joint AMI-Pay – AMI-SeCo group on innovation and Fintech

### 1 Background

In the AMI-SeCo meeting on 2 July 2019, it was suggested and agreed to explore whether the Fintech-TF could be extended to the AMI-Pay.<sup>1</sup> The aim of this note is to outline how the Fintech-TF could contribute to AMI-Pay's objectives. In this regard, it first briefly recalls the current situation before presenting the pros and cons of different options for making it work in practice, and suggesting a way forward.

### 2 Current situation

The current Fintech-TF was established in the AMI-SeCo governance under the Harmonization Steering Group (HSG), to look into possible impact of the technical innovation on the T2S and collateral management harmonisation activities as well as to complete the work on concrete use cases identified by a previous [DLT Task Force](#) and on T2S harmonization objectives. The Fintech-TF has been assessing the impact on post trade use cases also beyond T2S but did not cover topics related to either payments or liquidity as these go beyond the AMI-SeCo mandate. In view of the fact that, for example, discussions on DvP settlement on DLT need to consider implications to both the securities and the cash leg, there seems to be merit in reviewing the current approach. This was noted by the Fintech-TF in its renewed composition on 2 October 2019.

Tasks listed in [the AMI-Pay mandate](#) encompass “*considering innovation-related issues in the field of payments*”. Unlike the AMI-SeCo, the AMI-Pay is currently not supported by any sub-structure to address the innovation aspect of its mandate. So far, it has relied on expert views prepared by individual participants. This results in different approaches for assessing technological developments and their potential impact on the smooth operation of financial market infrastructures and the payment system.

### 3 Options for covering innovation-related issues under both AMIs

To foster the analysis of technological developments and their potential impact on payment systems, three options are proposed in what follows: 1) no significant change to the current set-up; 2) creation of a separate AMI-Pay group on Innovation and Fintech; 3) change of the current mandate of the Fintech-TF to make it a joint AMI-SeCo – AMI-Pay group on Innovation and Fintech.

#### 3.1 No significant changes to the current set-up – option 1

The current set-up could be maintained and work in the AMI-Pay on innovation topics could be strengthened. This would mean that the Fintech-TF of the AMI-SeCo HSG would continue working independently and focus on issues related to securities and collateral, in accordance with its current ToR. To the extent that input is needed on payment-related aspects of relevance to future Fintech-TF work, e.g.

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<sup>1</sup> [2019-07-02 AMI-SeCo - outcome Final.doc](#)

innovation-related analysis on DvP settlement, the AMI-Pay could be approached via the AMI-SeCo. The AMI-Pay would continue receiving ad-hoc updates of innovative market developments from its members as relevant and, where necessary, could launch separate ad hoc work-streams for deeper analysis and developing its opinions. The composition and secretariat support for such ad-hoc work-streams under the AMI-Pay would be agreed on a case by case basis.

Pros	Cons
<ul style="list-style-type: none"> <li>• Reliance on the existing set-up of the AMIs.</li> </ul>	<ul style="list-style-type: none"> <li>• Without a structured approach and an opportunity to monitor and discuss technological innovation beyond the two annual AMI-Pay meetings, the innovation-related impact in the field of payments may be addressed insufficiently.</li> <li>• Lack of agile coordination approach between central banks and other stakeholders for approaching and assessing innovative solutions may create inefficiencies.</li> </ul>

### 3.2 A separate AMI-Pay group on Innovation and Fintech – option 2

Another option would be to create an official stand-alone group under the AMI-Pay that would, similarly to the HSG Fintech TF, work on Fintech and innovation, but with a concrete focus to follow-up on the AMI-Pay’s mandate. This would entail proactive analysis and assessment of market developments and their potential impact on the payments infrastructure, with a view to providing input for the consideration of AMI-Pay on innovation-related issues in the field of payments.

Pros	Cons
<ul style="list-style-type: none"> <li>• Would strengthen a structured and coordinated approach for addressing innovation-related issues under the AMI-Pay on a continuous basis.</li> </ul>	<ul style="list-style-type: none"> <li>• Providing secretariat for two stand-alone groups would create redundancies and be more resource-consuming.</li> <li>• Running parallel Fintech and Innovation groups creates complexity in terms of organisation and possibly also with respect to public communication.</li> </ul>

### 3.3 A joint AMI-SeCo – AMI-Pay group on Innovation and Fintech – option 3

The third option would be extending the scope and membership of the current HSG Fintech-TF with a view to creating a joint group directly under both AMIs. Involving fintech and innovation experts from both AMIs could allow tackling horizontal and/or field-specific topics whenever needed. The composition of the Fintech-TF could be steered by the topics in the work programme, which could be approved at the annual joint meeting of the AMIs in line with the respective mandates and issues at hand. The joint Fintech-TF could report on deliverables at the annual meeting, but would preserve the possibility to advise AMI-SeCo or AMI-Pay on specific topics separately, if relevant.

Pros	Cons
<ul style="list-style-type: none"> <li>• Clear communication that both AMIs monitor Fintech and Innovation developments via a single structure.</li> <li>• Would give emphasis on assessing the impact of innovation and new Fintechs on market infrastructures and, in the field of monitoring innovation, strengthen coordination between AMIs as well as increase cooperation at European level.</li> <li>• Efficient from the secretariat point of view.</li> </ul>	<ul style="list-style-type: none"> <li>• Since payments and securities / collateral management issues require different expertise, the number of participants will need to be restricted for efficiency reasons,.</li> </ul>

## 4 Way forward

Addressing innovation and technological development in the field of securities, collateral and payments is equally important. Considering that this entails horizontal topics as well as field-specific work, a clear and efficient structure to address all relevant topics is desirable.

Options one and two would in principle both be workable. Nevertheless, they would create parallel structures and multiple Fintech groups, which would lead to complexity in terms of organisation and possibly also for public communication. The third option could cover innovation-related issues relevant for both AMIs efficiently under a single structure. It could increase horizontal cooperation and allow for flexibility to work on specific securities-, collateral- or payments-related topics individually.

**Based on the assessment and outlined rationale, it is suggested to support the third option and create a joint AMI-SeCo and AMI-Pay task force on Innovation and Fintech. The joint Fintech-TF would directly report to the AMIs and no longer be a sub-structure of the Harmonization Steering Group (HSG).** The objective is to support both AMIs in assessing innovation related developments and forming opinions on the potential impact in the field of securities, collateral management and payments.

For ensuring continuity of ongoing work, it is suggested to start from the current composition of the Fintech-TF, as approved by the HSG in September 2019. Members of the AMI-Pay whose institution is represented in the Fintech-TF<sup>2</sup> would be invited to assess whether there is a need to alternate two members in the joint Fintech-TF, depending on the priorities of the work programme. The AMI-Pay is invited to consider nominating members into the joint Fintech-TF with the view to having a sufficient representation of payment service and infrastructure providers. Considering that the existing Fintech-TF includes 33 institutions and brings together 35 experts, the size of the joint group needs to retain an efficient working structure.

The joint Fintech-TF would continue to analyse implications of new technologies in the securities post-trade and extend its focus to implications on the clearing and settlement of payments. The modus operandi would be flexible and enable work on developments of joint interest as well as launch field-specific work streams on topics related to securities, payments or collateral management only. For instance, to fully cover the securities' lifecycle, the DvP settlement in distributed ledger technology (DLT) based securities settlement systems under consideration by some FMI will be in focus. The analysis of implications of innovation on the payment infrastructure is another broad topic to be covered. For instance, a first focus could be on the development of innovative payment solutions using DLT and the possible need to facilitate interoperability (both between them and with the broader "legacy" payment ecosystem) to ensure the efficiency of the payment system.

The experts representing market stakeholders in the Fintech-TF cover incumbent intermediary service and infrastructure providers, aiming at leveraging on innovative developments, as well as Fintech-newcomers. Considering the broadened scope of the joint Fintech-TF, the members would need to actively liaise with relevant experts within their institutions and mobilise internal resources to actively contribute to work of the group. In addition, as much of innovation in the field of securities, collateral management and payments is done outside the institutions within the AMIs, it is suggested to consider extending the composition of the joint group beyond the AMI-Pay and AMI-SeCo community. The bilateral contacts (e.g. with new fintechs and/or academia) that currently are mostly at national level could be efficiently used to feed into the discussions and analysis at European level, and where relevant vice versa.

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<sup>2</sup> BNP Paribas, Citi, Deutsche Bank, Erste Group Bank, Main Incubator (subsidiary of Commerzbank), European Banking Federation as well as Deutsche Bundesbank, Suomen Pankki and Oesterreichische Nationalbank

The efficiency of this joint task force would be reviewed while conducting the regular review of the AMIs functioning (i.e. after every two years).

**AMI-Pay and AMI-SeCo are invited to agree on:**

- ***turning the current Fintech-TF into a joint AMI-SeCo and AMI-Pay task force on Innovation and Fintech that would directly report to both AMIs;***
- ***the Terms of Reference annexed to this proposal.***

**Subject to the agreement of the AMIs on the proposed change to the FinTech TF set-up, AMI-Pay members are invited to**

- ***alternate existing or nominate additional members of their institutions for having a sufficient representation of payment service and infrastructure providers' expertise in the joint Fintech-TF.***

## **A JOINT AMI-PAY AND AMI-SECo TASK FORCE ON INNOVATION AND FINTECH**

### **1 Background**

AMI-Pay and AMI-SeCo (jointly referred to as “AMIs”) identified a need for a coordinated approach for monitoring innovation and fintech developments in the field of securities, collateral and payments, with a view to assessing the potential impact on European financial market infrastructures and payment systems. A single structure was considered the most efficient way to address technology innovation topics of relevance for the AMIs. This is why the AMI-SeCo Harmonization Steering Group’s (HSG) Fintech Task Force has been changed into a joint AMI-SeCo and AMI-Pay Task Force on Innovation and Fintech.

### **2 Objective**

The AMI-Pay and AMI-SeCo Task Force on Innovation and Fintech (Fintech-TF) shall support the AMIs in assessing and forming an opinion in relation to innovation- and/or fintech-related developments and their potential impact in the area of securities, collateral and payments. The Fintech-TF would function as a forum for open information sharing between market stakeholders, industry associations and EU authorities as well as a platform of analysis that may be channelled to the Eurosystem in the form of publicly available reports of the relevant AMI(s).

### **3 Scope and timeline**

The scope of the Fintech-TF shall cover the mandates of both AMIs and focus on how new technologies could influence relevant market infrastructures, business processes and models across Europe. Concrete deliverables and timeline shall be determined in an annual work programme agreed by the AMIs.

The efficiency of this arrangement would be reviewed while conducting the regular review of the AMIs functioning.

### **4 Working procedures**

The Fintech-TF shall work in an open and transparent manner. Meeting agendas and summaries shall be published on the ECB’s website to allow market participants and NSGs to follow the relevant discussions.

The Chair will decide the frequency of the meetings.

### **5 Chairperson and secretariat**

The Chair of the Fintech-TF will be appointed by the Chairpersons of AMI Pay and AMI SeCo.

The Chair shall ensure regular updates to the AMIs, as needed jointly or individually, on the deliverables of the Fintech-TF.

Based on the required expertise and topics being discussed, the Fintech-TF Chair may invite, on an ad-hoc basis, observers and external participants to present their views or fintech initiatives in the meetings.

The secretariat of the Fintech-TF will be provided by the ECB. The secretary shall support the Chairperson also in preparations for updating the AMIs.

## **6 Membership**

The list of members of the task force is approved jointly by the AMIs, based on candidates proposed by members of the AMIs and NSG chairs. The proposed members shall come from the institutions represented in (either of) the AMIs or an NSG, or from well-established institutions from the Fintech industry and academia.

The members of the Fintech-TF shall:

- Have an appropriate level of expertise in Fintech innovation in the field of payment and clearing systems, post-trade arrangements or collateral management, covering respective technical, business and legal aspects.;
- Be able to initiate actions and mobilise appropriate resources in their institutions in order to actively contribute (incl. drafting) to the deliverables of the Fintech-TF.