

FINANCIAL SERVICES PRIORITIES FOR THE G7 AND G20 PRESIDENCIES

June 2022

INTRODUCTION

The International Regulatory Strategy Group (IRSG) strongly supports the commitment by the German G7 and Indonesian G20 presidencies to co-ordinate global action to tackle the global crises of the pandemic and Russia's invasion of Ukraine.

This year, Germany's G7 presidency has the opportunity with its Indonesian G20 presidency counterparts, to bring key global decision makers together to address the economic shocks from the Ukraine invasion and the pandemic and to promote the importance of joint action.

As governments seek to manage supply side resilience and the risks of globally, integrated economies, the G7 and G20 commitment to fight against fragmentation and strengthen multilateralism will go a long way towards reducing the potentially high cost of fragmentation and the detrimental effect this may have on the world economy.

Against this backdrop we have three sets of priorities we believe the G7 and G20 should focus on.

- 1. COLLABORATION AND REGULATORY COHERENCE FOR ECONOMIC RECOVERY AND RESILIENCE**
- 2. LEADERSHIP ON SUSTAINABLE FINANCE FOR INCLUSIVE ECONOMIC DEVELOPMENT**
- 3. DIGITAL TRANSFORMATION**

“Against the challenging backdrop of the pandemic and the massive economic repercussion of Russia’s war of aggression against Ukraine, we remain committed to driving a strong, sustainable, balanced and inclusive global recovery”

G7 Finance Ministers and Central Bank Governors, 20 May 2022¹



¹ <https://home.treasury.gov/news/press-releases/jy0797>

G7/G20 RECOMMENDATIONS

- Recognise the systemic stability and growth benefits of global finance and reaffirm their Pittsburgh commitments to reducing regulatory fragmentation of global markets.
- Support the FSB in pursuing its agenda on financial market regulatory coherence to promote strong, sustainable, balanced and inclusive growth.
- Encourage greater collaborations and coordination on sanctions policy in response to the conflict in Ukraine.
- Develop a set of guiding principles for sustainable product naming/labelling
- Leverage public-private partnerships to a pipeline of investable opportunities, as well as mobilising climate finance into emerging markets
- Recognise that finance alone cannot deliver the transition; we need complementary actions across all sectors, not least to help guide investment into making activity more sustainable
- Endorse the ISSB as the baseline for future disclosure, incorporating TCFD, and develop principles with G20 buy-in to allow for interoperability of taxonomies.
- Support the scaling of voluntary carbon markets and the role of carbon pricing as a mechanism to assign a real value to emissions reduction
- Promote principles for credible carbon offsetting to offer further clarity on when and how carbon offsets can be used as net zero tools.
- Support the development of Core Carbon Principles and the work of the governing body to operationalise these – the UK Voluntary Carbon Markets Forum.
- Address the lack of global interoperability of data standards, and to agree to examine a framework that could improve the global governance framework for data flows, with data interoperability at its core.
- Develop a common framework for managing regulatory intentions to requiring the localisation of data and seek alternative solutions where possible.
- Issue a statement on the importance of free trade for ensuring shared global prosperity and call for the WTO to conclude an ambitious e-commerce JSI that ensures “data free flows with trust” (as per G20 Osaka Declaration) this year.
- Broker a principles-based approach to data localisation, with jurisdictions accepting that the free flow of data (including financial data) should be the default, with only specific narrow exceptions that are objectively justified; this should include recognising the adherence to data protection standards, rather than expecting identical laws.
- G7 to lead on combating economic crime, corruption and illicit finance by tasking the G7 Cyber Expert Group to develop methodologies to achieve common approaches towards global beneficial ownership reform.
- Call for the adoption of the Profile managed by the Cyber Risk Institute as the accepted supervisory base-line upon which national variations can be established for supervisors.
- Drive progress in the development of global standards for a regulatory framework enabling globally interoperable CBDCs.



1. COLLABORATION AND REGULATORY COHERENCE FOR ECONOMIC RECOVERY AND RESILIENCE

Unprecedented economic shocks

While the global economy has been recovering from the shock of the pandemic, it received another shock in the form of the Russian invasion of Ukraine in February 2022. These twin shocks have had a profound effect on the global economy as well as energy security. Global collaboration will be needed first, in regards to sanctions in order to deter further escalation of the conflict in Ukraine and limit the impact on energy security, and second, to assure economic recovery and a resilient global system, which is able to withstand these shocks.

Recovery and resilience

In relation to COVID economic recovery, work is still required on the **recapitalisation** of the corporate sector, and new ways to attract growth equity capital to SMEs through regulatory reform. We welcome the extent to which building resilience features in Germany's G7 presidency priorities and their support for the IMF's plans for a Resilience and Sustainability Trust¹. Likewise, we welcome Indonesia prioritising a sustainable energy transition².

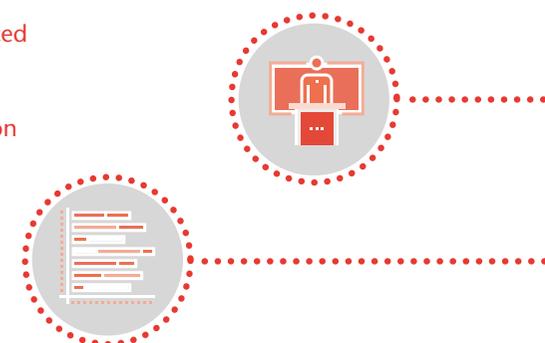
Infrastructure investment will be key for long term recovery and resilience and we welcome the Indonesian G20 Presidency's commitment, through the Infrastructure Working Group (IWG), to scale up sustainable infrastructure investment by leveraging private sector participation.

Protectionism and regulatory fragmentation

The Russian invasion of Ukraine and wider geopolitical tensions have further exacerbated protectionist tendencies, which is proving challenging for the G20, but has had a unifying effect on the G7. So, we welcome Germany's commitment as part of its G7 Presidency, to work to strengthen multilateralism with a global trade policy and to tackle protectionism and unfair trade practices.³

G7/G20 RECOMMENDATIONS:

- G7/G20 recognise the systemic stability and growth benefits of global finance and reaffirm their Pittsburgh commitments to reducing regulatory fragmentation of global markets.
- G7 and G20 to support the FSB in pursuing its agenda on financial market regulatory coherence to promote strong, sustainable, balanced and inclusive growth.
- G7 and G20 to encourage greater collaborations and coordination on sanctions policy in response to the conflict in Ukraine.



1 <https://blogs.imf.org/2022/01/20/a-new-trust-to-help-countries-build-resilience-and-sustainability/>
2 <https://g20.org/g20-presidency-of-indonesia/#priorities>

3 <https://www.g7germany.de/resource/blob/998352/2000328/6cb78b73c9f000183e69738c255d9cc9/2022-01-21-g7-programm-en-data.pdf?download=1>

2. LEADERSHIP ON SUSTAINABLE FINANCE FOR INCLUSIVE ECONOMIC DEVELOPMENT

Introduction

COP26 can be considered the 'finance' COP as private financial institutions and central banks announced moves to realign trillions of dollars towards achieving global net zero emissions. Among them is the Glasgow Financial Alliance for Net Zero (GFANZ), with over 450 firms across 45 countries that control \$130 trillion in assets, requiring its member to set robust, science-based near-term targets.

Investment Flows

The IRSG agrees that when promoting and building robust and consistent green financial market frameworks, G7 and G20 action should focus on two areas - 'greening of finance', such as promoting coherence on climate-related risk reporting and disclosures, and 'financing green', such as the development of new green financial products and services.

One area of focus should be efforts to ensure as much compatibility as possible between jurisdictions' efforts in this space and drive innovation in ESG products with a commonly-agreed product naming convention. Germany and Indonesia should work with established organisations, regulators and standard setters in this space

It is important to recognise the role of transition in finance. Most activities can play a part in the transition to net zero and financial sector policy should reflect this. Engagement with rather than divestment from high

carbon sectors that can support the green transition and investment to transform those sectors rapidly, in line with ambitious climate and environmental goals, should be prioritised.

In cooperation with the FRPS sector, the German and Indonesian governments should accelerate the growth of green finance, by catalysing the global investment flows needed, including through new public-private funds (the G7/G20 should urge all member governments to establish such funds), building green skills across the financial sector (the G7/G20 should call on governments to back industry/ university partnerships to build green finance skills) and mobilising climate finance into emerging markets.

G7/G20 RECOMMENDATIONS

- G7 and G20 to develop a set of guiding principles for sustainable product naming/labelling
- G7 and G20 to leverage public-private partnerships to a pipeline of investable opportunities, as well as mobilising climate finance into emerging markets
- G7 and G20 governments to recognise that finance alone cannot deliver the transition; we need complementary actions across all sectors, not least to help guide investment into making activity more sustainable



Disclosure

The foundation of any green or sustainable investment is data, notably, climate-related and sustainability-related risk reporting and disclosures and the related issue of taxonomies. On disclosures, the FSB's Task Force on Climate-related Financial Disclosures (TCFD) figures are promising with total TCFD supporters: +2,000; market cap: \$20 trillion; number of Financial Firms: 880; financial firms responsible for assets of: \$178 trillion and number of countries represented: 7. It is encouraging to witness the progress of the Taskforce on Nature-related Financial Disclosure.

However, there are still gaps in TCFD adoption amongst jurisdictions. We welcomed the progress made at COP26 last year on TCFD reporting and the International Sustainability Standards Board (ISSB), which has now been set up. Indeed, the ISSB can serve as the go-to avenue for addressing fragmentation risk on disclosures. However, there is not currently one global taxonomy or classification enabling easy comparison of climate and sustainability credentials by companies. The G20 Sustainable Finance Working Group can serve a useful role in developing taxonomy principles, to allow interoperability of taxonomies, contributing towards the ISSB's work in this space.

G7/G20 RECOMMENDATION

- Endorse the ISSB as the baseline for future disclosure, incorporating TCFD, and develop principles with G20 buy-in to allow for interoperability of taxonomies.

Net-zero and carbon markets

Pricing carbon is recognised by economists as the best mechanism to achieve green transition in the most cost effective way. **Fossil fuel subsidies**, are slowing the energy transition. Advanced economies must set an example by removing subsidies for fossil fuel. At the same time, **carbon offsetting** has a role to play in achieving net zero and increasing carbon sequestration.

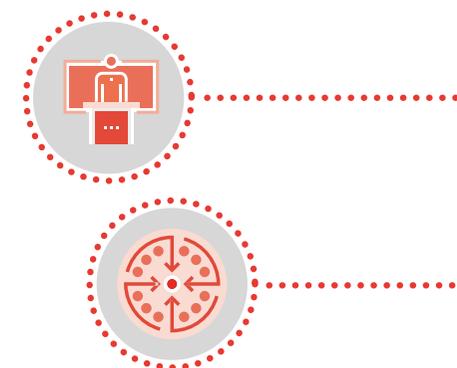
There is an opportunity for the G7 and G20 to support the development of **Core Carbon Principles** by issuing a statement of support, and the work of The Integrity Council for the Voluntary Carbon Market (ICVCM) and the UK Voluntary Carbon Markets Forum⁴. The secretariat for the Forum is provided by the City of London and the IRSG welcomes this initiative.⁵ Most urgently, we welcome the G7 and the G20 agreement on when and how carbon offsets can be used. Carbon offsets have an important role to play in accelerating the transition to net zero.

G7/G20 RECOMMENDATIONS:

- G7 and G20 to support the scaling of voluntary carbon markets and the role of carbon pricing as a mechanism to assign a real value to emissions reduction.
- G7 and G20 to promote principles for credible carbon offsetting to offer further clarity on when and how carbon offsets can be used as net zero tools.
- G7 and G20 to support the development of Core Carbon Principles and the work of the governing body to operationalise these – the UK Voluntary Carbon Markets Forum.

⁴ https://www.iif.com/Portals/1/Files/TSVCM_Report.pdf

⁵ <https://www.cityoflondon.gov.uk/supporting-businesses/economic-research/uk-voluntary-carbon-markets-forum>



3. DIGITAL TRANSFORMATION

The pandemic lockdowns accelerated digitalisation as FRPS workforces migrated to working online. Digitalization has led to questions for governments and regulators about how they regulate and supervise the digital landscape and what is required to do so efficiently.

Central Bank Digital Currencies (CBDCs)

We agree with the G7 Finance Ministers and Central Bank Governors that “digital innovation in payments is a key driver of economic progress and development”, and we strongly support their statement that “we encourage jurisdictions exploring CBDCs to examine the international dimension of CBDCs, in particular their cross border use”. It may seem premature to talk of the cross border use of instruments that do not yet exist at scale, but the G7 is absolutely right that CBDCs should be designed with interoperability in mind to maximise their value.

The TechSprint by the Bank for International Settlements (BIS) Innovation Hub and the Bank of Indonesia focusing on developing new solutions for CBDCs is a good example of where the G7 and G20 agendas align this year.⁶

G7 RECOMMENDATIONS:

- G7 and G20 to drive progress in the development of global standards for a regulatory framework enabling globally interoperable CBDCs.

6 <https://www.bis.org/press/p220425.htm>

Global interoperability of data standards

Global data flows represent the next frontier of global cooperation, and following the G20's lead, the G7 should explore how the free flow of data can be facilitated via global interoperability of countries' data standards. This and a more effective global governance will be critical to facilitating global economic growth. Groundwork has been laid with agreements such as the USMCA, CPTPP, Japan/UK, which are all FTAs with comprehensive data localisation provisions. A new network of advanced digital agreements is being developed which include the Singapore-Australia digital economy agreement.⁷

Ideally, G7 national authorities would consider a common framework that establishes what tools and procedures could be used to address common localisation issues, and a process for establishing cost-benefit considerations where these do not apply so that a localisation decision is subject to appropriate scrutiny, rolling these out further in the G20.

Data interoperability through a global taxonomy on data will be the first necessary step, under which countries find ways to recognise the validity of each other's data regimes. The goal should be to expand data interoperability.

7 <https://www.dfat.gov.au/trade/services-and-digital-trade/australia-and-singapore-digital-economy-agreement>



G7/G20 RECOMMENDATIONS:

- G7 and G20 to address the lack of global interoperability of data standards, and to agree to examine a framework that could improve the global governance framework for data flows, with data interoperability at its core.
- G7 and G20 to develop a common framework for managing regulatory intentions to requiring the localisation of data and seek alternative solutions where possible.
- G20 to issue a statement on the importance of free trade for ensuring shared global prosperity and call for the WTO to conclude an ambitious e-commerce JSI that ensures “data free flows with trust” (as per G20 Osaka Declaration) this year.
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Cyber security

We would also welcome G7 and G20 leadership in promoting public-private partnership models on anti- money laundering and cyber security measures, with the objective to tackle global financial crime, which is a major drain on the economy.

We recommend the G7 Leaders should establish a principle to ‘do no harm’ to financial services systems among like-minded countries to set an example to wider groupings such as the G20. The Cyber Security Profile⁸, managed by the Cyber Risk Institute, referred to as the Profile, is a powerful tool to assist banks to mitigate the cost of fragmented cyber security regulations – incorporating national requirements from across the globe. Over time, it should become the accepted supervisory base-line upon which national variations can be established so supervisors and banks alike can more efficiently use scarce cyber security expertise.

G7/G20 RECOMMENDATIONS:

- G7 to lead on combating economic crime, corruption and illicit finance by tasking the G7 Cyber Expert Group to develop methodologies to achieve common approaches towards global beneficial ownership reform.
- G7 and G20 to call for the adoption of the Profile managed by the Cyber Risk Institute as the accepted supervisory base-line upon which national variations can be established for supervisors.

8 <https://cyberriskinstitute.org/the-profile/>

