IRSG

INTERNATIONAL
REGULATORY
STRATEGY GROUP

FINANCIAL SERVICES PRIORITIES FOR THE ITALIAN G7 AND BRAZILIAN G20 PRESIDENCIES

February 2024

CITY OF LONDON

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EXECUTIVE SUMMARY

In its communique of October 2023, the G20 Finance Ministers and Central Bank Governors under the Indian Presidency welcomed the Brazilian Presidency of the G20 in 2024, looking forward to continued work on enhancing global economic cooperation to achieve strong, sustainable, balanced and inclusive growth. Brazil, which takes over the presidency this year, has recognised the importance of the G20 as the main global forum for dialogue and coordination on economic, social, development, and international cooperation issues. Similarly, Italy, which takes over the G7 presidency from Japan, is committed to co-ordinate G7 action against a challenging global backdrop. The International Regulatory Strategy Group (IRSG) strongly supports the commitment by the Italian G7 and Brazilian G20 presidencies to tackle global challenges through joint and co-ordinated global action.

This year, Italy's G7 presidency has the opportunity with its Brazilian G20 presidency counterparts, to bring key global decision makers together to address challenges and opportunities around climate change, economic growth, and new technology. The IRSG supports the G7 and G20 commitment to strengthen multilateralism against a backdrop of costly geopolitical polarisation and fragmentation.

With this report, the IRSG contributes the perspective of the UK financial and related professional services (FRPS) sector to this year's agendas for the G7 and the G20, and proposes detailed thinking on how the G7 and G20 can achieve significant progress in the following priority areas:

1. Leadership on sustainable finance for inclusive economic development
2. A drive for free trade and open markets
3. Digital innovation

1. Leadership on sustainable finance for inclusive economic development

Climate change remains the biggest universal challenge for our planet and sustainable finance has a key role to play in the race towards net zero. The IRSG calls on the G7 and G20 to continue to promote green and sustainable finance for inclusive economic development. The G7 and G20 also have a role to play to promote the role of transition finance towards a whole economy approach to net-zero.

This year, the IRSG welcomes further work on building carbon markets. A number of steps can be taken on carbon markets, including the G7 and G20 agreement to recognise the role of carbon pricing as a mechanism to assign a real value to emissions reduction, and agreement to establish principles for credible carbon offsetting. We would welcome the G7 and G20 statement of support for the development of Core Carbon Principles and the work of the governing body to operationalise these – the UK Voluntary Carbon Markets Forum, and we welcome the support for the work of the Integrity Council for the Voluntary Carbon Market (ICVCM) on voluntary carbon markets.

Last year, good progress was made on TCFD disclosures, and the IRSG welcomes further progress this year. Namely, the G7 and G20 can support the work of the International Sustainability Standards Board (ISSB), which will build TCFD work, and they can also foster global regulatory coherence on climate related and sustainability-related risk reporting and disclosures by building global consensus on disclosures and tackling the gaps in TCFD adoption amongst jurisdictions. The G7 and G20 leaders can also take steps to ensure that the capital framework for the financial sector is sensitive to environmental risks, including but not limited to, climate change.

Following the establishment of the ISSB, the IRSG urges the G7 to agree to commission, in partnership with the G20, the development of a common set of core/guiding principles to inform the design of sustainable taxonomies, enabling interoperability.

2. A drive for free trade and open markets

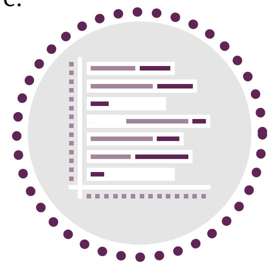
To ensure sustainable growth around the world, reduce poverty, and expand economic opportunities, the G7 can take steps to preserve an open, and resilient financial system, by promoting global trade through a strengthened collaboration with the WTO and the championing of its agenda. Similarly, the G20 can issue a statement on the importance of open trade, including open trade in financial services for ensuring shared global prosperity, urge countries to avoid protectionist measures, 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.

Together, the G7 and G20 can recognise the systemic stability and growth benefits of global finance and reaffirm their Pittsburgh commitments to reducing regulatory fragmentation of global markets. The G7 and G20 can also support the FSB in pursuing its agenda on financial market regulatory coherence to promote strong, sustainable, balanced and inclusive growth.

3. Digital innovation

Digital innovation is arguably the fastest moving area for consideration by the G7 and G20. Digital innovation has, for instance, brought artificial intelligence (AI) to the fore of policymaker thinking this year and so the IRSG urges the G7 and G20 to drive progress in alignment of global standards governing AI.

Data is key to innovation and digital transformation. Here, the G7 and G20 can address the lack of global interoperability of data standards and agree to issue a statement welcoming a framework that could improve the global governance framework for data flows with data interoperability at the core. The G7 and G20 can also develop a common framework for managing regulatory initiatives that would require the localisation of data, while seeking alternative solutions where possible. Globalisation of data is imperative for combatting fraud and illicit financial flows, as these flows are often cross-border in nature.



Cyber security will be an important building block for a resilient global digital architecture. To that end, the IRSG calls on the G7 to lead on combating all types of cyber enabled crime, corruption and illicit finance by tasking the G7 Cyber Expert Group to develop methodologies to achieve common regulatory and supervisory approaches towards global beneficial ownership reform. The IRSG produced a report last year on anti-money laundering (AML) and beneficial ownership, setting out recommendations[1] for a globally coherent beneficial ownership framework and it urges the G7 Cyber Expert Group to review and adopt these recommendations. The G7 and G20 can also 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.

1 IRSG Report – Anti-Money Laundering and Beneficial Ownership | IRSG

1. Leadership on sustainable finance for inclusive economic development

We welcomed the announcements made at COP28 in Dubai last year from private financial institutions and central banks on moves to realign investment towards achieving global net zero emissions. Important progress was achieved across a number of files, not least on the commitment towards bigger, better and stronger Multilateral Development Banks (MDBs) as they have a significant role to play towards driving net zero investment in the Global South in particular. The Net Zero Delivery Summit, hosted by the City of London Corporation and taking place duing the UAE's COP28 Presidency at the halfway point between COP28 and COP29, will aim to ensure a continued focus on delivery of the announcements made in Dubai.

We also welcome the focus of Brazil's G20 presidency and the planned COP30 on biodiversity. A whole ecosystem approach to tackling climate crisis is needed and the IRSG is supportive of including deliverables on biodiversity in this year's G20 as well as G7 agenda. Similarly, we have to be cognisant of the progress achieved on climate change policy to date where we support G7 and G20 work on transition finance. The City of London Corporation will contribute to policy development here with the recently set up Transition Finance Task Force.

The issue of recognising the urgent need of scaling voluntary carbon markets and the industry's approach to fossil fuels is another area of opportunity, with estimates that demand for carbon credits could increase by a factor of 15 or more by 2030 and by a factor of up to 100 by 2050. We support seizing the opportunities that high-integrity carbon markets provide. It will be important to ensure that carbon markets are trusted by corporates and wider society, and that carbon market scaling occurs in tandem with taking direct responsibility for carbon reductions.

The foundation of any green or sustainable investment is data, notably, climate-related and sustainability-related risk reporting and disclosures as well as the 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. However, there are still gaps in TCFD adoption amongst jurisdictions. On taxonomies, 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, where they are used, contributing towards the ISSB's work in this space.

INVESTMENT FLOWS TOWARDS GREEN FINANCE

By making faster progress on key elements required to achieve the commitments made in Paris in 2015, G7 and G20 leaders can pave the road to deliver net zero emissions globally. The IRSG agrees that when promoting and building robust and consistent green financial market frameworks, G7 and G20 action should broadly focus on two areas - 'greening of finance', such as promoting coherence and global consensus on climate-related risk reporting and disclosures, and 'financing green', such as the development of new green financial products and services, with a commonly-agreed sustainable product naming convention, or improving access to finance for green investment, or building skills and capabilities on green finance.

G7 and G20 Finance Ministers and Central Bank Governors should recognise the role of transition in finance. We acknowledge the helpful work that the G20 Sustainable Finance Working Group (SFWG) has done on this topic already.[2] 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 Italian and Brazilian governments should utilise their presidencies to accelerate the growth of green finance, by catalysing the global investment flows needed, including through new

2 2022-G20-Sustainable-Finance-Report-2.pdf (g20sfwg.org)

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. On the latter, the G20 can urge governments to use Overseas Development Assistance (ODA) funds to support projects that allow industry to partner with developing country governments and provide expert advice on how to shape green finance regulatory frameworks that will allow countries to attract more green investment.

Multilateral Development Banks (MDBs) also have an important role to play in scaling up the financing needed for the net zero transition. It is good news that they agreed on mutual cooperation and coordination of their activities at COP28[3]. One way MDBs can scale up finance is by working more effectively with the private sector. We agree that private innovation and blended finance will be crucial in closing the funding gap in the Global South in particular as through blended finance, MDBs can efficiently use their balance sheets to steer capital towards a scale-up of transition finance.[4]

The G7 and the G20 should also focus efforts on ensuring as much compatibility as possible between jurisdictions' efforts in this space and drive innovation in ESG products with a commonly-agreed product naming convention. Italy and Brazil should work with established organisations, regulators and standard setters in this space.

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 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.
- G7 and G20 to include biodiversity deliverables in its recommendations on climate change and net zero to relevant global executive bodies.
- G7 and G20 to support MDB reform towards a sustainable international financial architecture that leverages opportunities presented via public-private partnerships and innovative blended finance products.

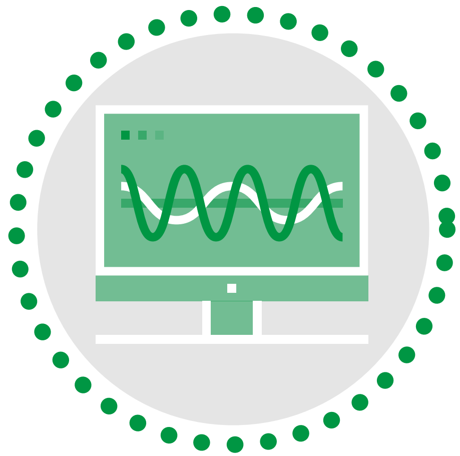
NET-ZERO AND CARBON PRICING

Pricing carbon is recognised by economists as the best mechanism to achieve green transition in the most cost-effective way. Fossil fuel subsidies, explicit and implicit, are slowing the energy transition and their impact needs to be recognised and reduced, ideally by their removal. 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 are also other measures, which the G7/20 could support which enable carbon pricing (e.g., alignment on carbon taxes, ETSs, and CBAMs).

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 work of the governing body to operationalise these – the UK Voluntary Carbon Markets Forum. The secretariat for the Forum is provided by the City of London and the IRSG welcomes this initiative. 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. In light of this, reassurances that as long as they do not replace but rather complement reduction efforts, then they can be viewed as a legitimate net zero tool, are welcome.

G7/G20 RECOMMENDATIONS:

- G7 and G20 build on past endorsement of carbon pricing by acknowledging the role of carbon pricing policy tools, such as Voluntary Carbon Markets as a mechanism to assign a real value to emissions reduction.
- G7 and G20 to promote principles for credible use of carbon credits to offer further clarity on when and how carbon offsets can be used as net zero tools.



3 COP28 Multilateral Development Banks (MDB) Joint Statement (ifc.org)

4 BII investment perspectives (blackrock.com)

SUSTAINABILITY DISCLOSURES AND FINANCING NATURE

The Taskforce on Nature-related Financial Disclosures (TNFD) can make a tangible contribution towards the alignment of financial flows by encouraging and supporting better informed decision making on nature-related risks and it is encouraging to witness the progress made to date by TNFD. Similarly, there is now greater global consensus on TCFD reporting. With the set-up of the ISSB, there is now an even greater momentum on sustainability disclosures. Together with Brazil, Italy can play a role in reinforcing the development of global sustainability disclosure standards as the ISSB furthers this work this year. It will be imporant to ensure that countries take consistent action in a reasonable timeframe to implement the ISSB's move (in IFRS S2) to require companies to disclose Scope 3 emissions.

The intervention of the IFRS towards a global reporting standard is welcome and the ISSB can further assist the progression of climate-related disclosures. We call for regulatory approaches to achieve better and comparable data and disclosure around a harmonised framework/ taxonomy as it will support the efficient reorientation of investment towards sustainability, support climate risk management, and reduce risk mispricing.

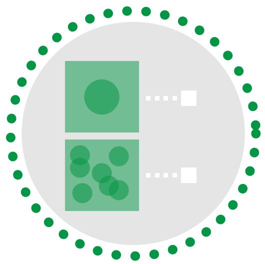
CLIMATE AND SUSTAINABILITY TAXONOMIES

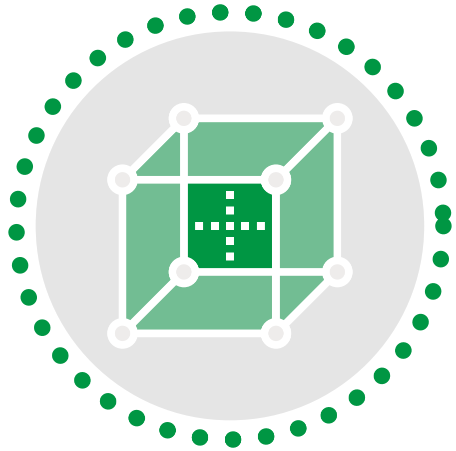
Currently there is no global classification for climate and sustainability. Jurisdictions have chosen to approach this at differing speeds, with some, notably the European Union, moving ahead with the creation of its own taxonomy while others have moved slower. For the ISSB, it will be important to recognise how its contributions will interoperate with existing work in this area, such as the EU Taxonomy Regulation, the European green deal and the EU climate targets for 2030 and 2050, and the work of the Platform on Sustainable Finance in the EU.

To avoid fragmentation, Italy's G7 presidency and Brazil's G20 presidency should drive agreement towards the alignment of taxonomies and classification frameworks around core principles including harmonised reporting, recognition of location of the activity being classified, and accommodating transition, particularly in the Global South. We suggest that the ISSB is used as a vehicle for this.

G7/G20 RECOMMENDATIONS:

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





2. A drive for free trade and open market

This year, the G7 and G20 presidencies have an opportunity to develop together an agenda based on open trade and open markets. Key to supporting this is having global regulatory alignment and the recognition of countries' standards – which can themselves be based on global standards. Key to achieving this is reform of the WTO. Combined, these are crucial building blocks for a globally resilient economy and for ensuring sustainable growth in both the Global North and the Global South.

Work is also still required on the recapitalisation of the corporate sector, and new ways to attract growth equity capital to SMEs through regulatory reform. To that end, we call for building resilience features in Italy's G7 presidency priorities and call for their support for the IMF's plans for a Resilience and Sustainability Trust. Likewise, we welcome Brazil prioritising a sustainable energy transition.

Infrastructure investment will be key for global economic resilience and to that end, we call on further work from Italy's G7 and Brazil's G20 presidencies to scale up the sustainable infrastructure investment via the Infrastructure Working Group (IWG) by leveraging private sector participation.

There has been an emerging trend of protectionism and strategic autonomy, particularly in global trade that has harmed sustainable development and reduced global economic opportunities. The Russian invasion of Ukraine and wider geopolitical tensions in the Middle East and elsewhere have further exacerbated protectionist tendencies. To that end, we call on Italy to commit as part of its G7 Presidency, to work to strengthen multilateralism with a global trade policy and to tackle protectionism and unfair trade practices. Furthermore, preserving financial stability and rule of law as G7 contemplates countermeasures against Russia will be important. This may be a lengthy process since protectionism has been on the rise for over a decade and has intensified in recent years. Since the G20 Summit in 2018, G20 governments have imposed subsidies four times more often than between 2014 and 2017 and that the current geopolitical tensions have prompted a further surge in import and export restrictions.

Together, the Italian G7 presidency and the Brazilian G20 presidency should strive to resolve the existing and emerging global regulatory fragmentation challenges. And in doing so, they should build on the legacy of past presidencies. For instance, the Japanese G20 presidency, recognised the detrimental effect of global regulatory fragmentation and advocated for the inclusion of fragmentation in the FSB's agenda. The G7 and G20 should build on this position by issuing a joint statement reiterating fragmentation risks.

WTO REFORM AND REGULATORY FRAGMENTATION

The WTO provides rules which underpin global trade, facilitating a transformation towards a rise in tradeable services, and how they are being embedded in production processes. Two of the WTO's key functions are dispute resolution and enabling the negotiation of new multilateral trade deals. However, in recent years it has not functioned as well as it could, leading to a call for reform. This will be a primary agenda item for both the G7 and G20 summits, hosted by Italy and Brazil respectively.

There are numerous challenges facing the WTO, mainly stemming from the fact that their rules on trade of goods and services are becoming out of date. Similarly, due to geopolitical tensions and legacy issues, there is a lack of multilateral consensus on core issues and the principle of a global rules-based system. There has also been a lack of coverage on issues directly related to services trade in concluded negotiations at the WTO since 2010, and a failure from Members to properly inform the Organisation of any new or changing laws, regulations, or administrative guidance which could impact trade in services.

Achieving WTO reform is challenging. A solution should focus on encouraging WTO members to make use of plurilateral negotiating tools such as Joint-Statement Initiatives to make incremental progress towards improving the WTO's rulebook. Additionally, regarding reform of the Organisation's appellate body, a global coalition of like-minded partners should be developed to put pressure on the US to support the appellate body's reform.

The G7 and G20 should issue a joint statement reiterating the importance of free and open trade, calling for regulatory co-operation to manage shared global risks. The international financial architecture has a role to play in global economic resilience and so the G7 and G20 should support reform and the strengthening of some of its organisations, such as the World Trade Organisation (WTO) and MDBs already mentioned above.

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, and issue a statement that recognises the benefits of open trade, including open trade in financial services, and urges countries to avoid protectionist measures.
- 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 support WTO reform as part of a broader move towards reimagining global economic and financial governance/Bretton Woods institutions towards stronger, more resilient and sustainable international financial architecture.

3. Digital innovation

The G7 presidency predecessors prioritised digital policy during their presidencies. Both, France and the United States made inroads on digital policy, including on data and technology, as well as digital taxation, and the UK continued this work. We welcomed the UK's G7 Ministerial Declaration, which set out the G7's commitment to working together across vital areas of digital policy. We further welcomed the inclusion of digitalisation in Germany's and digital transformation in Indonesia's key policy priorities for their respective presidencies of the G7 and G20. And we were pleased to see progress across these files during last year's Japan's G7 and India's G20 presidencies.

However, digital innovation has accelerated exponentially in recent years as new innovations have been introduced most notably in the field of artificial intelligence (AI). Cyber security too has been impacted by the changing landscape of digital provision. With that, come questions to governments and regulators about how they regulate and supervise the digital landscape and what is required to do so efficiently. A coherent approach to digital taxation and a global data interoperability is crucial, and we welcomed the progress made on the former in recent years with the introduction of a global minimum tax rate.

Data localisation policies have had a particularly significant effect with restrictions or practices affecting cross-border data flows, digital products, Internet-enabled services and other restrictive technology requirements being pursued by several countries. In April 2022, the IRSG published a report on the Future of International Data Transfers, stressing the importance of the ability to share data across borders. The report recommends that unilateral decisions by jurisdictions with strong data protection cultures should recognise and accept the legitimacy of differing cultural and societal approaches to data handling; that overarching/global/interoperable codes of conduct and certifications should be established, and that there should be a global set of principles governing cross-border data flows. This would allow to achieve the sharing of data across borders sustainably and would even allow to tackle some of the larger issues facing us today, like climate change. We welcome progress made to date on global commitment to establish a set of high-standard rules to govern the global digital economy, with the WTO Joint Statement Initiative on E-commerce issued by Ministers of Australia, Japan and Singapore in January 2023.5 We call on the G7 and G20 presidencies to further this work in 2024.

ARTIFICIAL INTELLIGENCE (AI)

The IRSG welcomes G7/G20 collaboration in emerging areas such as AI, where currently no common global regulatory approach exists, but where progress could be made to towards a coherent global regulatory and standards framework, that minimises divergence. To that end, we welcome the acknowledgement of this as an area of potential cooperation by the Italian and Brazilian G7 and G20 presidencies.

It may seem premature to talk of a global 'standard' on AI regulation. But given the speed at which AI solutions have integrated into day-to-day business of cross-border FRPS, the international nature of AI supply chains and the fact that different regulatory models are already emerging, it will be important to find common ground and align international regulatory approaches where possible. Avoiding fragmentation will help minimise undue burden on business operations. More importantly, fragmentation could cause AI safety problems too, if some jurisdictions do not regulate AI appropriately.

As this is a fast-moving area, we believe it will be more beneficial to have guidance and global dialogue in the first instance instead of a set of rules that do not align with the agile nature of AI.[6]

To that end, we welcomed the G7 Leaders' statement at Hiroshima, indicating their renewed commitment to advancing international discussions on inclusive AI governance and interoperability between AI governance frameworks, as well as UK Safety Summit conclusions on AI.

The G7 and G20 should call for countries to work together to align standards and regulatory frameworks for AI. The presidencies may also wish to commend recent global AI governance initiatives, for instance, the UK convened Bletchley Park summit, the kind of initiative needed to shape common AI safety standards.

7/G20 RECOMMENDATIONS:

- G7 and G20 to drive progress in the alignment of global regulatory frameworks governing the use of AI across borders by calling for countries to work together to align regulatory frameworks for AI, and encourage the development of AI technical standards.

5 igo_20jan23_e.pdf (wto.org)

6 Leaders_Communique_01_en.pdf (g7hiroshima.go.jp)

GLOBAL INTEROPERABILITY OF DATA STANDARDS

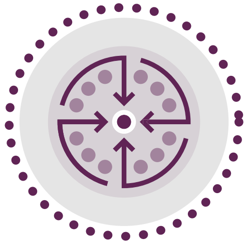
Italy and Brazil also have an opportunity to call for global interoperability of data standards across the G7 and G20 to tackle fragmentation risks from data localisation laws across jurisdictions to enable data free flows with trust. Data localisation and global regulatory fragmentation can increase risks including cyber security and anti-money laundering (AML).

Data regulation standards in this context refers to the interoperability and mutual recognition of regulatory regimes that cover the storage, use and transfer of data. Currently there are fragmented global rules governing the use, storage and transfer of data. In particular, there are rules obliging firms to store data domestically. In many cases, although there can be legitimate regulatory goals, like privacy, these can be better achieved by alternative measures.

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. At the multilateral level, some of the same issues are relevant to the WTO E-Commerce JSI, OECD data protection standards and the Council of Europe's Convention 108, all of which may contribute to global data standards.

The G7 is ideally placed to encourage progress in this area given the ability of a relatively small number of like-minded jurisdictions to set the standard on what good looks like and to broker a core critical high-level commitment globally, in partnership with the G20. 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.

Arriving at global interoperability of data standards may be a lengthy process, so intermediate steps should be taken en route. 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.



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.
- G7 and G20 to 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.

CYBER SECURITY

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

However, it should be noted that cyber crime transcends financial crime. Many nefarious actors within cyberspace are not primarily financially motivated. For instance, some are using cyberspace as a domain of asymmetric warfare on the critical national infrastructure of a country (including their financial sector) – which they see as a viable target. Importantly, the nature of interconnectedness in financial services globally means that there is the potential for huge disruption to economic activity through attacks on such infrastructure, the supply chain and the private sector as well. Some have political causes and are using cyberspace as a domain of "hacktivism". Also, it is worth noting that the process of performing a 'cyber-attack' can have many consequences, of which financial gain can of course be one of them. Disruption to organisations, whether the intention of a cyber-attack or not, and the knock-on impact that can have (although much tougher to measure) can have a far greater impact than the attacker getting a ransom or stealing money.

The IRSG produced a report on AML and beneficial ownership last year, setting out recommendations for a globally coherent beneficial ownership regime and we welcome the G7 and G20 review and integration of these recommendations into their work on cyber security.[7]

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 Profile, 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
- G7 and G20 to review and integrate recommendations set out in the IRSG Report on AML and beneficial ownership on a globally coherent beneficial ownership regulatory framework into their work on cyber security.

IRSG

INTERNATIONAL REGULATORY STRATEGY GROUP

The International Regulatory Strategy Group (IRSG) is a joint venture between TheCityUK and the City of London Corporation. Its remit is to provide a cross-sectoral voice to shape the development of a globally coherent regulatory framework that will facilitate open and competitive cross-border financial services. It is comprised of practitioners from the UK-based financial and related professional services industry who provide policy expertise and thought leadership across a broad range of regulatory issues.

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