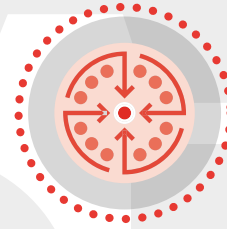
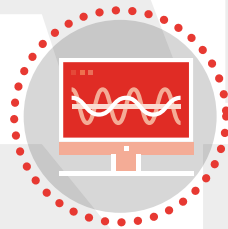
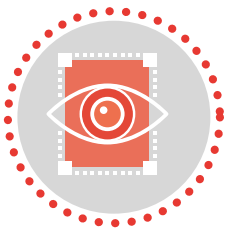


IRSG

INTERNATIONAL
REGULATORY
STRATEGY GROUP

FINANCIAL SERVICES PRIORITIES FOR THE JAPANESE G7 AND INDIAN G20 PRESIDENCIES



December 2022



TheCityUK

EXECUTIVE SUMMARY

The International Regulatory Strategy Group (IRSG) strongly supports the commitment by the Japanese G7 and Indian G20 presidencies to co-ordinate global action in the face of global macroeconomic and geopolitical shocks. In 2023, Japan and India have the opportunity to bring key global decision makers together to address the economic shocks from the Ukraine invasion and the impeding global recession and to promote the importance of joint action. As governments seek to manage current geopolitical and macroeconomic challenges, 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. The IRSG has engaged with both Japanese G7 and Indian G20 stakeholders and we are encouraged by the early thinking both presidencies have already undertaken in preparation. Our recommendations to the G7 and the G20 are rooted in these plans and below we outline **seven priorities** we believe the G7 and G20 should focus on, **with corresponding recommendations:**

Sustainability

1. CARBON MARKETS

Support the introduction and scaling of compliance carbon markets and, while these markets are continuing to scale, supporting voluntary carbon markets and the role of carbon pricing as a mechanism to assign a real, market-appropriate value to emissions reduction

Promote the adoption of Core Carbon Principles for credible carbon offsetting to offer further clarity on when and how carbon offsets can be used as net zero tools

2. SUSTAINABILITY DISCLOSURES

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

Innovation

3. CRYPTO-ASSETS

Develop global standards towards best practice in the use of crypto-assets in the financial markets architecture, in recognition of the inherently global nature of crypto-asset markets, and urge national regulators to take this into account when developing their own regulatory rulebooks; We urge national regulators to collaborate across regulatory regimes to address horizontal issues such as data privacy, and vertical sector specific regulatory issues as well

Take into account the FSB's response to its consultation (closing 13 December 2022) on the international regulation of crypto-asset activities

Explore how such crypto-assets like CBDCs and stablecoins might link to payment systems

4. CBDCs

Task BIS Innovation Hub with the development of globally applicable standards for a regulatory framework enabling globally interoperable CBDCs (based upon agreed regulatory principles such as interoperability, transparency, data privacy, and cybersecurity), with focus on existing and future wholesale CBDCs as well as domestic retail CBDCs made interoperate through bridges, and their integration with legacy architecture. This task should include responsibility for the monitoring of the degree of alignment and divergence on global wholesale and retail CBDC regulation

5. DATA FLOWS

Address the lack of global interoperability of data standards and agree to examine a framework that could improve the global governance framework for data flows and establish a global mutual recognition agreement, with data interoperability at its core

Develop a common principles-based framework for data sharing, which is rooted in an investigation of the comparative economic impact of data policies, focused on jurisdictional adherence to data protection standards, rather than harmonisation. Alternatives to data localisation should be pursued wherever possible: the free flow of data (including financial data) should be the default approach, subject only to specific narrow and objectively justified exceptions

Economy

6. GLOBAL ECONOMY

Encourage greater collaboration and coordination on sanctions policy in response to the conflict in Ukraine to prevent the potential of further damage to the global economy from a prolonged conflict

7. INFRASTRUCTURE

Leverage public-private partnerships to support continuity of Infrastructure Working Group's priorities in order to scale up infrastructure investment, including sustainable, green and digital infrastructure, as well as mobilise infrastructure investment finance into emerging markets and transition projects



INTRODUCTION

Our recommendations also build on the work undertaken by the German G7 and Indonesian G20 presidencies this year. Germany commenced its presidency with the slogan “Progress towards an equitable world” and delivered significant achievements in a number of areas – support for Ukraine including on reconstruction, the establishment of a Climate Club as a response to the global climate crisis, the set up of Global Alliance on Food Security to address world hunger, work towards secure energy supply and finally – enhancing global health with improved pandemic preparedness and response. Indonesia assumed its presidency under the banner of “Recovery

Together Recover Stronger” and delivered in three priority areas – global health architecture, sustainable energy transition and digital transformation. On health in particular it delivered in a number of areas, including a strengthened support for the newly set up Financial Intermediary Fund for the health sector, expanded global research and manufacturing centres, and a joint platform connecting digital systems for health documentation.

Japan’s G7 presidency priorities:

With a caveat that these are yet to be formally announced and so may be subject to change, it is our understanding that the Japanese G7 presidency will have a three pillar focus on global economy, global security and global public goods.

On the global economy, two aspects have risen to prominence due to the current macroeconomic and geopolitical situation – the need to address the consequences from the Ukraine invasion, and the rising prominence of digitalisation and all this entails – central bank digital currencies (CBDCs), crypto-assets and integrating digitalisation with legacy systems.

On global security, the focus next year should be on building supply chain resilience, addressing the public debt burden, and promoting infrastructure investment. And, on global public goods, work will be undertaken on governance frameworks for cross border data flows, carbon markets as well as carbon credit trading and more broadly – reassessing how GDP is measured.

India’s G20 presidency priorities:

Like their G7 counterparts, and with a caveat that these are yet to be formally announced and so may be subject to change, India’s G20 presidency is considering a number of potential areas of focus under a “One World” banner for its work programme next year, among them – addressing the global energy security issue and global conflict, as well as work on digital and technology innovation, including health tech and education tech, and addressing climate challenges with strategies on issues such as water and green hydrogen, green bonds, decarbonisation and carbon mitigation as well as infrastructure investment.

Across the two presidency tracks of Finance and Sherpa, India will focus on debt and sustainable development goals,

promoting multilateralism, digital transformation and digital transactions, international taxation, food and energy security, urban infrastructure, growth, climate action, diversity and inclusion.

The goal is to achieve an inclusive, sustainable and resilient global growth, backed by a solid infrastructure investment pipeline (with focus on urban infrastructure and smart cities). For this, the digital transformation agenda will be key, with issues such as cross-border data flows, digital governance, fintech, crypto-assets and innovation high on the agenda.

G7
JAPAN
G20
INDIA

Sustainability

1. CARBON MARKETS

Following COP27 in Egypt, the G7 and G20 can build progress towards a transition to net zero in a number of important areas, with one notably being carbon markets. To that end, 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. We welcome early expressions of interest in this space from both presidencies, such as Japan's G7 focus on examining carbon credit trading. We further urge Japan's G7 to continue the work on the Climate Club established by Germany and the efforts on addressing carbon leakage. It is an area that has seen cross-jurisdictional collaboration in 2022 with one example being a Singapore carbon exchange teaming up with Germany's main bourse to launch futures trading for carbon offsets to meet the growing demand from companies to hedge their risks from greenhouse gas emissions¹. Likewise, we are encouraged by the announcement by John Kerry, US Climate Envoy, of a carbon offset plan².

In addition, we strongly support the work to create a consistent framework for high quality transition plans across sectors. A robust transition planning framework is essential to enable financial services to support companies in their transition, to facilitate transition finance, and to enable the delivery of net zero ambitions. Greater standardisation of the

transition planning framework will also help companies provide the information required by financial institutions. This should be led by governments, in conjunction with established global industry and expert-led groups such as GFANZ (Glasgow Financial Alliance for Net Zero), and not left to market forces.

Pricing carbon

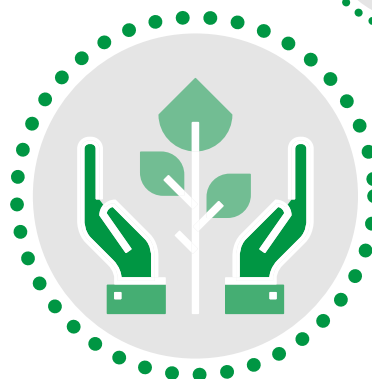
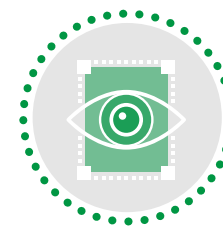
Pricing carbon is recognised by economists as the best mechanism to achieve green transition in the most cost effective way. Fossil fuel subsidies, are slowing the energy transition. Advanced economies must set an example by removing subsidies for fossil fuel. At the same time, carbon offsetting has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

Core Carbon Principles

There is an opportunity for the G7 and G20 to support the adoption 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 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.

CARBON MARKETS G7/G20 RECOMMENDATIONS:

- Support the introduction and scaling of compliance carbon markets and, while these markets are continuing to scale, supporting voluntary carbon markets and the role of carbon pricing as a mechanism to assign a real, market-appropriate value to emissions reduction
- Promote the adoption of Core Carbon Principles for credible carbon offsetting to offer further clarity on when and how carbon offsets can be used as net zero tools



2. SUSTAINABILITY DISCLOSURES

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 but there are still gaps in TCFD adoption amongst jurisdictions. We welcomed the progress made at COP26 on TCFD reporting, the subsequent set up of the International Sustainability Standards Board (ISSB), and further attention on sustainability disclosures at COP27. Indeed, the ISSB can serve as the go-to avenue for addressing fragmentation risk on disclosures. We also note that there is not currently one global sustainability regulation and reporting and disclosures classification system 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.

SUSTAINABILITY DISCLOSURES 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

¹ Singapore Carbon Exchange Plans Futures Trading for Offsets – Bloomberg

² Letter: Kerry's initiative is exactly what the carbon market needs | Financial Times (ft.com)

Innovation

3. CRYPTO-ASSETS

In recent years, lockdowns accelerated the already exponential digitalisation, in turn leading to questions for governments and regulators about how they regulate and supervise the digital landscape and what is required to do so efficiently, and in no other area has this been as prevalent across jurisdictions as in the crypto-assets space. For instance, in March this year, the White House issued its Executive Order on *Ensuring Responsible Development of Digital Assets*. Many countries have followed suit with similar regulatory and legislative proposals in the crypto-assets space.

Moreover, it is clear that crypto-assets will have a particularly significant impact in emerging economies where the incumbent banking systems may not be as established and there is a great degree of currency fluctuation. This is an opportunity for economies with populations currently underserved by access to banking. Nevertheless, this is also important for developed economies as the recent FTX crash with a significant impact on US consumers demonstrated. Ensuring there is best practice and global regulators are working together is important to limit the impact and potential systemic risk when things go wrong. To this end and on an international level, we welcome projects like Nexus by BIS Innovation Hub, serving as a blueprint for instant cross-border payments³.

CRYPTO-ASSETS G7/G20 RECOMMENDATIONS:

- Develop global standards towards best practice in the use of crypto-assets in the financial markets architecture, in recognition of the inherently global nature of crypto-asset markets, and urge national regulators to take this into account when developing their own regulatory rulebooks; We urge national regulators to collaborate across regulatory regimes to address horizontal issues such as data privacy, and vertical sector specific regulatory issues as well
- Take into account the FSB's response to its consultation (closing 13 December 2022) on the international regulation of crypto-asset activities
- Explore how such crypto-assets like CBDCs and stablecoins might link to payment systems



3 Nexus Overview – BIS Innovation Hub – Nexus

4. CENTRAL BANK DIGITAL CURRENCIES (CBDCs)

Continuity to build a regulatory framework enabling globally interoperable CBDCs

Much has happened in the CBDC space over the past year. We welcomed the statement made by the German 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”. We are encouraged to hear that CBDCs will be an area of focus for the Japanese G7 and Indian G20 presidencies too. In fact, earlier this year, the IRSG launched a report, setting out recommendations for a regulatory framework enabling a globally interoperable wholesale CBDC, that we urge the G7 and the G20 to review and adopt.

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. We urge further collaboration between the G7 and G20 with BIS Innovation Hub given their substantial work on CBDCs such as Project mBridge⁴, connecting economies through CBDC,

4 Project mBridge: Connecting economies through CBDC (bis.org)

Project Dunbar exploring international settlements using multi-CBDCs or most recently – Project Tourbillon exploring cyber resiliency, scalability and privacy in a prototype CBDC⁵. In addition, we welcome the utilisation of CBDC research, policy and pilots to advance wider payments system improvements and reforms. It is important that governments explore the improvements a wholesale as well as retail CBDC would bring to the structures, which exist and ensure the regulation is future proofed.

CBDCs G7/G20 RECOMMENDATION:

- Task BIS Innovation Hub with the development of globally applicable standards for a regulatory framework enabling globally interoperable CBDCs (based upon agreed regulatory principles such as interoperability, transparency, data privacy, and cybersecurity), with focus on existing and future wholesale CBDCs as well as domestic retail CBDCs made interoperate through bridges, and their integration with legacy architecture. This task should include responsibility for the monitoring of the degree of alignment and divergence on global wholesale and retail CBDC regulation

5 BIS Innovation Hub work on central bank digital currency (CBDC)

Innovation

5. DATA FLOWS

Data localisation versus interoperability

Global data flows represent the next frontier of global cooperation, and we welcome the exploration of 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 already been laid with agreements such as the USMCA, CPTPP, Japan/UK, which are all FTAs where data localisation requirements are kept to a minimum where justifiable and necessary. A new network of advanced digital agreements is being developed which include the Singapore-Australia digital economy agreement. Indeed, we particularly call on Japan's G7 presidency to build on the good work undertaken with the *Osaka G20 Data flows with trust* towards a new governance framework for cross border data flows and greater international cooperation in this space, with a caveat that this may necessitate an establishment of an international body, perhaps attached to OECD. Indeed, the development of a global set of principles or building upon those already in existence will create a stronger foundation for the development within each jurisdiction of technological and practical norms, which protect data. Those principles must focus not on process and rigid procedures or on sectors, but on the outcomes sought.

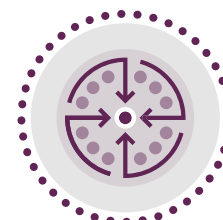
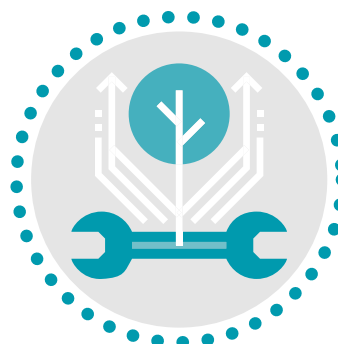
Furthermore, the G7 and G20 national authorities should consider a common framework that establishes what tools and procedures could be used to address

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. As outlined in a recent report by the City of London Corporation on digital trade *Past precedent and future opportunities: assessing digital trade provisions for the UK financial and professional services sector* – there is a real lack of global standards in this space and the G7 and the G20 is the best suited forum to address this⁶.

Data interoperability through a global mutual recognition agreement on data regulation, with the goal of expanding data interoperability 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.

DATA FLOWS G7/G20 RECOMMENDATIONS:

- Address the lack of global interoperability of data standards and agree to examine a framework that could improve the global governance framework for data flows and establish a global mutual recognition agreement, with data interoperability at its core
- Develop a common principles-based framework for data sharing, which is rooted in an investigation of the comparative economic impact of data policies, focused on jurisdictional adherence to data protection standards, rather than harmonisation. Alternatives to data localisation should be pursued wherever possible: the free flow of data (including financial data) should be the default approach, subject only to specific narrow and objectively justified exceptions



⁶ Past precedent and future opportunities –

Economy

6. GLOBAL ECONOMY

Economic shocks arising from the invasion of Ukraine

This year, the global economy received a major shock in the form of the Russian invasion of Ukraine in February 2022. This prolonged invasion has had a profound and disruptive effect on the global economy as well as global food and energy security. The current German G7 and Indonesian G20 presidencies have recognised the importance of global collaboration to tackle this threat. Next year, continuity on global collaboration will be needed on sanctions in order to deter further escalation of the conflict in Ukraine and to limit the impact on energy security, which in turn has an impact on inflation.

Global recession

Furthermore, according to a recent study by the World Bank, as central banks across the world simultaneously hike interest rates in response to inflation, the world may be entering a global recession in 2023 and a series of financial crises in emerging market economies that could potentially do them lasting harm⁷.

Indeed, whether developed or emerging, economies across the world have been affected by unprecedented high inflation. In fact, Britain is suffering the worst inflation crisis of any country in G7 with a 40-year high of 10.1%⁸. It is evident that sound public finance plans as well as resilient supply chains will be key to

⁷ <https://www.worldbank.org/en/news/press-release/2022/09/15/risk-of-global-recession-in-2023-rises-amid-simultaneous-rate-hikes>

⁸ <https://www.thelondoneconomic.com/news/britain-is-suffering-the-worst-inflation-crisis-in-the-g7-332478/>

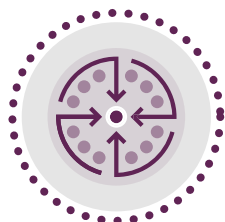
Economy

limit the effects of these levels of inflation and the global cost of living crisis.

Coordinated action across the G7 and G20 is required on a number of fronts – to bring down high inflation; to address the high cost of borrowing and the debt burden via a sound fiscal policy and to boost growth and productivity via global cooperation on investment, and the reduction of tax and trade barriers with a strong World Trade Organisation at the centre.

GLOBAL ECONOMY G7/G20 RECOMMENDATION:

- Encourage greater collaboration and coordination on sanctions policy in response to the conflict in Ukraine to prevent the potential of further damage to the global economy from a prolonged conflict



7. INFRASTRUCTURE INVESTMENT

Recession versus resilience

Despite the likelihood of the world entering global recession in the coming months, this is also an opportunity to build back in a more resilient and sustainable way. We welcomed the extent to which building resilience featured in Japan’s predecessor, Germany’s G7 presidency priorities and their support for the IMF’s plans for a Resilience and Sustainability Trust. We urge Japan and India to continue this work and to prioritise sustainable and resilient energy transition with infrastructure investment at its core.

We are encouraged by the substantial focus on infrastructure investment that Japan has, partly owing to the geographic and climate challenges it is facing (for instance, earthquakes), which has meant that there is significant yearly investment of public funds in infrastructure renewal and upgrade. Similarly, we welcome India’s ambitious plans for a \$1.4 trillion National Infrastructure Pipeline (NIP) – a critical step towards realising the government’s ambition of making India a \$5-trillion economy. It is evident that both – the Japanese G7 presidency and the Indian G20 presidency will have infrastructure investment front and centre in their policy next year, and we welcome this focus.

On investment in green infrastructure, in cooperation with the FRPS sector, the Japanese and Indian 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.

Emerging economies

Indeed, infrastructure investment will be key for long term global economic resilience, as well as contributing towards Sustainable Development Goals, and we would particularly welcome continuity by India on Indonesian G20 Presidency’s commitment, through the Infrastructure Working Group (IWG), to scale up sustainable infrastructure investment by leveraging private sector participation, especially geared towards infrastructure investment finance into emerging markets. The IWG held its last meeting under Indonesia’s presidency in September 2022, outlining six priorities, namely sustainable infrastructure investment, social inclusion and subnational disparities, post-pandemic transformative infrastructure, Quality Infrastructure Investment (QII) indicators, digital infrastructure and InfraTech, and governance of the Global Infrastructure Hub (GI Hub)⁹. We welcome continuity on the above in 2023.

⁹ <https://media.kemenkeu.go.id/getmedia/7ec24520-ce81-477b-b7d3-40b77cf9cf62/ENG-SP-G20-4th-Infrastructure-Working-Group-Meeting?ext=.pdf>

INFRASTRUCTURE INVESTMENT G7/G20 RECOMMENDATION:

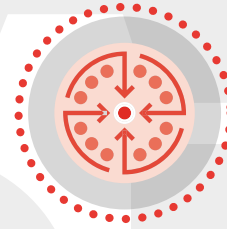
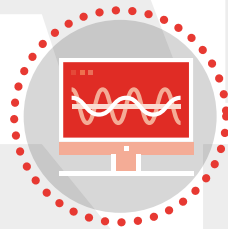
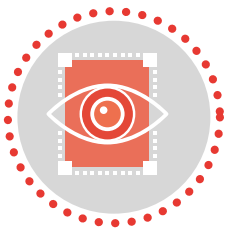
- Leverage public-private partnerships to support continuity of Infrastructure Working Group’s priorities in order to scale up infrastructure investment, including sustainable, green and digital infrastructure, as well as mobilise infrastructure investment finance into emerging markets and transition projects



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.



TheCityUK and the City of London Corporation
co-sponsor the IRSG.



TheCityUK