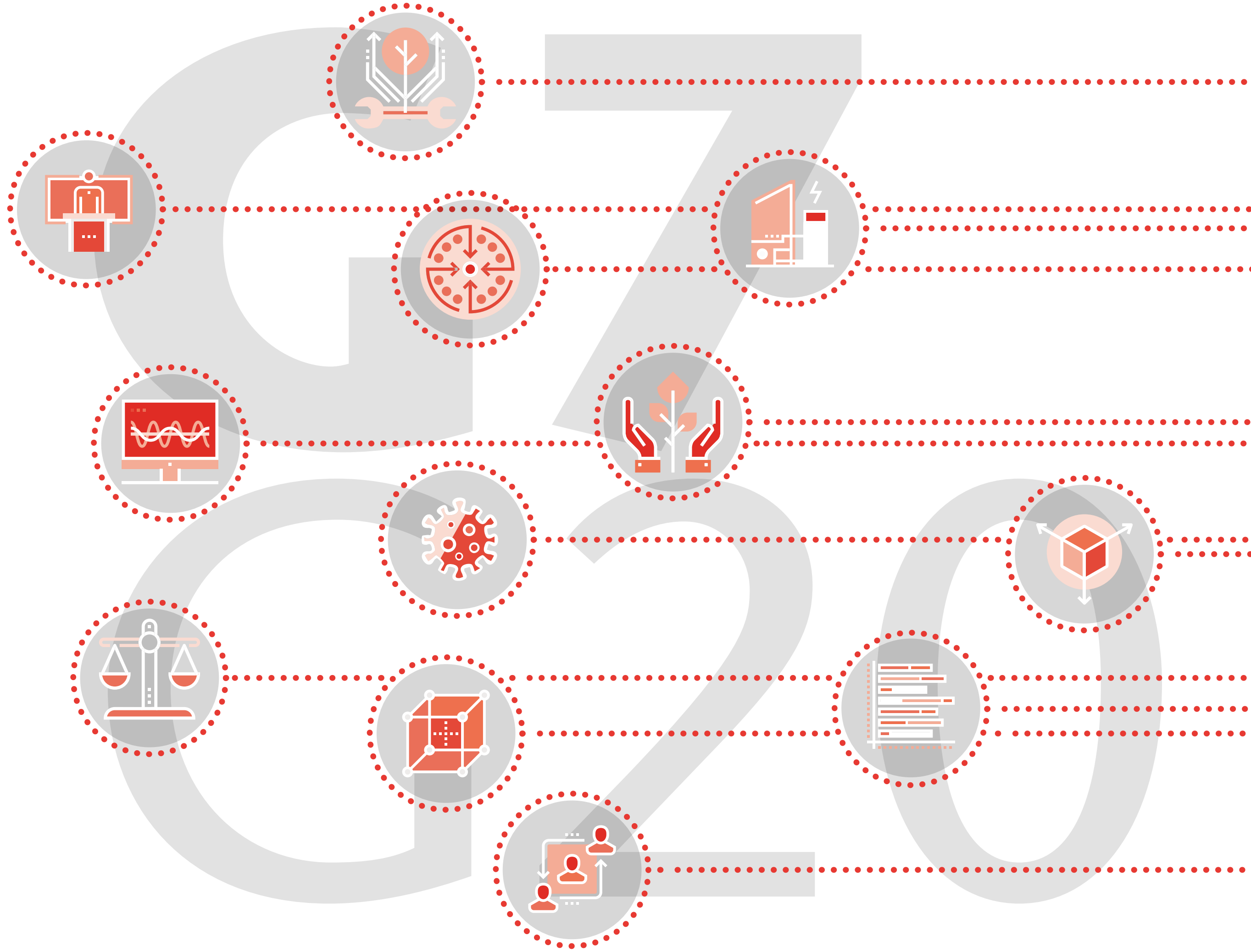
IRSG

INTERNATIONAL
REGULATORY
STRATEGY GROUP

FINANCIAL SERVICES PRIORITIES FOR THE G7 AND G20 PRESIDENCIES



June 2022

CITY OF LONDON

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EXECUTIVE SUMMARY

In its communique of 20 May, the G7 Finance Ministers and Central Bank Governors said "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." 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 these global crises.

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.

With an emerging trend of protectionism in light of the wider geopolitical tensions, which have further exacerbated this trend, 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.

With this report, the IRSG seeks to contribute 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. **COLLABORATION AND REGULATORY COHERENCE FOR ECONOMIC RECOVERY AND RESILIENCE**
3. **DIGITAL TRANSFORMATION**

> **"As the global pandemic continues to affect all sectors of life, the future of our shared prosperity relies on our collective ability to create an inclusive and sustainable foundation for growth."**
>
> **Indonesian Presidency of the G20[1]**

1 https://g20.org/g20-presidency-of-indonesia/

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 responsible finance for the recovery. 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 (International Sustainability Standards Board), 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. COLLABORATION AND REGULATORY COHERENCE FOR ECONOMIC RECOVERY AND RESILIENCE

However, climate is not the only challenge facing the world today. In the past few years, the global economy underwent the most significant economic shocks since the 2008 financial crisis with the pandemic followed by the Russian invasion of Ukraine. Economic recovery is now front and centre on policymaker agendas globally and there are a number of actions the G7 and G20 can take this year.

The IRSG calls on the G7 and G20 to promote economic resilience, with a focus on an investment focused recovery that champions ESG principles.

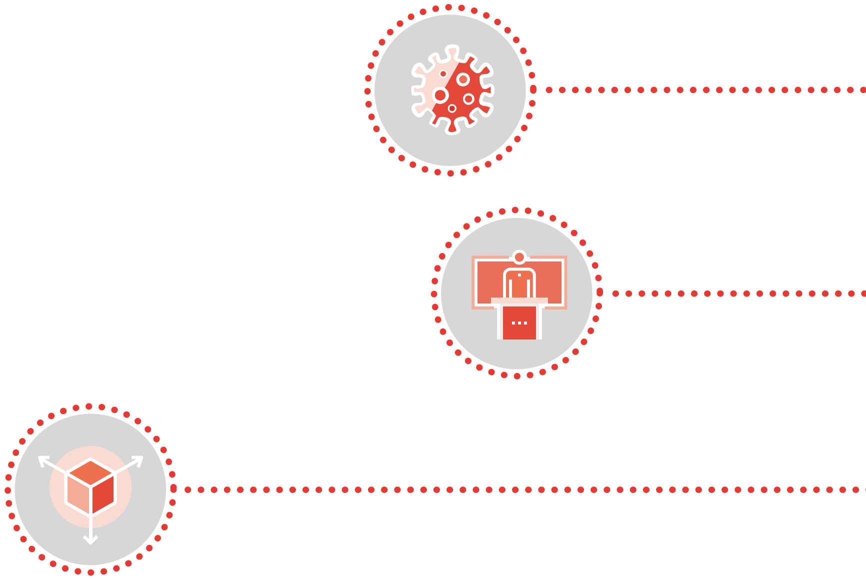
To address the rise in protectionism, the G7 can take steps to preserve an open, and resilient financial system, by promoting global trade through a strengthened collaboration with the WTO and championing of its agenda. Similarly, the G20 can issue a statement on the importance of free trade for ensuring 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.

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 TRANSFORMATION

Digital innovation is arguably the fastest moving area for consideration by the G7 and G20. Digital innovation has, for instance, brought central bank digital currencies (CBDCs) to the fore of policymaker thinking this year and so the IRSG urges the G7 and G20 to drive progress in the development of global standards for a regulatory framework enabling globally interoperable CBDCs. 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. And, the G7 and G20 can develop a common framework for managing regulatory intentions to requiring the localisation of data and seek alternative solutions where possible.

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 economic 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 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. LEADERSHIP ON SUSTAINABLE FINANCE FOR INCLUSIVE ECONOMIC DEVELOPMENT

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.

This year, the Net Zero Delivery Summit, hosted by the City of London Corporation in association with GFANZ and the UK COP26 Presidency at the halfway point between COP26 and COP27, aimed to ensure a continued focus on delivery of the announcements made in Glasgow.

Climate, sustainability and responsible finance have emerged as vital issues for the FRPS industry. The industry would welcome continued focus on furthering policy development on sustainable finance, including on climate-related financial disclosures. This needs to be developed in a way that is sensitive to the rapidly changing dynamics of the market and avoids a level prescription that turns it into a "box ticking" exercise rather something that is embedded in businesses.

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.[1] Nevertheless, current levels of carbon market trading activity require substantial scaling. We support seizing the opportunities that high-integrity carbon markets provide to support net-zero pathways. 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 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.

However, there are still gaps in TCFD adoption amongst jurisdictions. We welcomed the progress made at COP26 last year on TCFD reporting and around the IFRS Foundation's proposal on sustainability 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. On taxonomies, 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, where they are used, contributing towards the ISSB's work in this space.

1 https://www.mckinsey.com/business-functions/sustainability/our-insights/a-blueprint-for-scaling-voluntary-carbon-markets-to-meet-the-climate-challenge#:~:text=The%20Taskforce%20on%20Scaling%20Voluntary,up-%20to%20

Investment flows towards green finance

By making faster progress on key elements required to achieve the commitments made in Paris five years ago, G7 and G20 leaders can pave the road to deliver net zero emissions globally. In fact, Germany's G7 presidency has already included climate neutrality as one of its key policy objectives, which we fully support.

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.

We welcome the Financial Stability Board's efforts to address climate-related financial risks as outlined in Randy Quarles' letter to G20 Finance Ministers[2], which states that the FSB has invited the Network for Greening the Financial System (NGFS) to participate in FSB climate-related work, and the FSB will apply for observer status in the NGFS. And, we welcome the establishment of the ISSB, which will go a long way in achieving and promoting globally coherent sustainability standards.

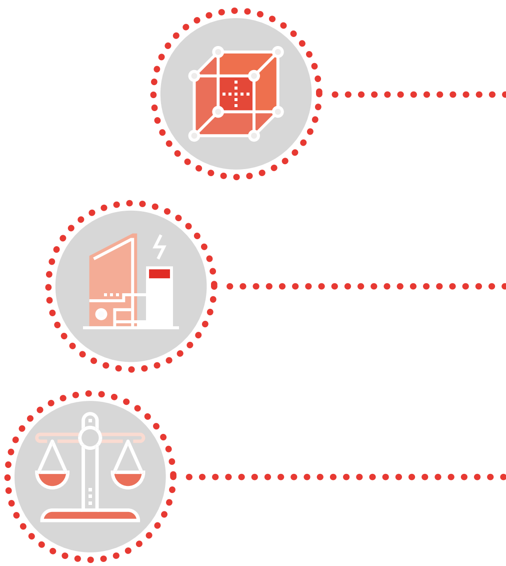
G7 and G20 Finance Ministers and Central Bank Governors should recognise the role of transition in finance. Most activities can play a part in the transition to net zero and financial sector policy should reflect this. Engagement with rather than divestment from high carbon sectors that can support the 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 utilise their presidencies to 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. 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.

They 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. Germany and Indonesia 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.



2 https://www.ifrs.org/news-and-events/news/2022/03/issb-delivers-proposals-that-create-comprehensive-global-baseline-of-sustainability-disclosures/

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**, 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 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[3]. The secretariat for the Forum is provided by the City of London and the IRSG welcomes this initiative.[4] 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 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.

"We need a sustainable revolution that is on the scale of the industrial revolution but at the pace of the digital transformation"

Mark Carney, UN Special Envoy on Climate Action and Finance, and Co-Chair, GFANZ. Speech delivered at the Net Zero Delivery Summit, 10 May 2022[5]

3 https://www.iif.com/Portals/1/Files/TSVCM_Report.pdf
4 https://www.cityoflondon.gov.uk/supporting-businesses/economic-research/uk-voluntary-carbon-markets-forum

5 https://www.theglobalcity.uk/net-zero-delivery-summit/catch-up

Sustainability disclosures

Encouragingly, the G7 Climate, Energy and Environment Ministers' Communiqué of 27 May 2022 recognised the contribution that the Task-Force on Nature-related Financial Disclosures (TNFD) can make to the alignment of financial flows by encouraging and supporting better-informed decision making on nature-related risks. We welcome the G7 support expressed in this Communiqué for market participants to engage in the development of the TNFD's framework, and the governments and regulators to support its development.

It is encouraging to witness the progress of the Taskforce on Nature-related Financial Disclosures (TNFD). Similarly, there is now greater global consensus on TCFD reporting. Last year, with the set up of the ISSB, there is now an even greater momentum on sustainability disclosures. Together with Indonesia, Germany can play a role in reinforcing the development of global sustainability disclosure standards as the ISSB furthers this work this year.

The intervention of the IFRS towards a global reporting standard is welcome and the set up of the ISSB will 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.

The IRSG welcomed the G20 request to the FSB last July to report on ways to promote consistent, high-quality climate disclosures that are in line with the recommendations of the Task Force on Climate-related Financial Disclosures and on the data necessary for the assessment of financial stability risks.

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, Germany's G7 presidency and Indonesia'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 less developed economies. We suggest that the newly set up International Sustainability Standards Board 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. COLLABORATION AND REGULATORY COHERENCE FOR ECONOMIC RECOVERY AND RESILIENCE

Unprecedented economic shocks

In the past few years the global economy has suffered from the most significant economic shocks since the 2008 financial crisis. 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.

To that end, we welcome the recognition of the disruption the conflict in Ukraine has on global energy security and supply chains, as well as food security, as stated in the G7 Climate, Energy and Environment Ministers' Communiqué of 27 May 2022, expressing the G7 determination to accelerate a coordinated multilateral response to preserve global food and energy security.

Macroeconomic and financial stability

The unprecedented economic shocks from the pandemic and now the Ukraine invasion have once again underlined the importance of global cooperation to protect against the effects of this crisis and its emerging challenges.

In order to avoid recession, it will be imperative to address macroeconomic and financial risks over:

- how governments **unwind quantitative** easing measures;
- how they deal with moving from the all-time **low interest rate** environment;
- how they manage the risks of **high inflation** and **low growth**;
- **debt sustainability**, the role of private vs sovereign creditors;
- how to avoid **liquidity issues** turning into **solvency issues**;
- how to build back better, including post-conflict reconstruction in war torn areas, while keeping in mind the **climate** agenda.

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. To that end, we welcome and urge the G7 and G20 to endorse the OECD report[6] on Fostering

Economic Resilience in a World of Open and Integrated Markets, which last year offered a broad range of recommendations to the G7 on building economic resilience, serving as a roadmap to last year's G7 presidency's Economic Resilience Panel[7]. This year, 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 Trust[8]. Likewise, we welcome Indonesia prioritising a sustainable energy transition[9].

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

Protectionism and regulatory fragmentation

There has been an emerging trend of **protectionism** and strategic autonomy, particularly in global trade. Most recently, 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. To that end, 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.[10]

This may be a lengthy process since protectionism has been on the rise for over a decade, and has intensified in recent years – fuelled by the pandemic and compounded by current geopolitical tensions. Since the G20 Summit in 2018, G20 governments have imposed subsidies four times more often than between 2014 and 2017 and that the pandemic has further prompted a surge in import and export restrictions.[11]

Together, the German G7 presidency and the Indonesian 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.

The G7 and G20 should also issue a joint statement reiterating the importance of free and open trade and the dangers of protectionism, calling for regulatory co-operation to manage shared global risks.

6 https://www.oecd.org/newsroom/oecd-reports-to-g7-on-need-to-strengthen-economic-resilience-against-crises.htm
7 https://www.g7uk.org/economic-resilience-panel/
8 https://blogs.imf.org/2022/01/20/a-new-trust-to-help-countries-build-resilience-and-sustainability/
9 https://g20.org/g20-presidency-of-indonesia/#priorities

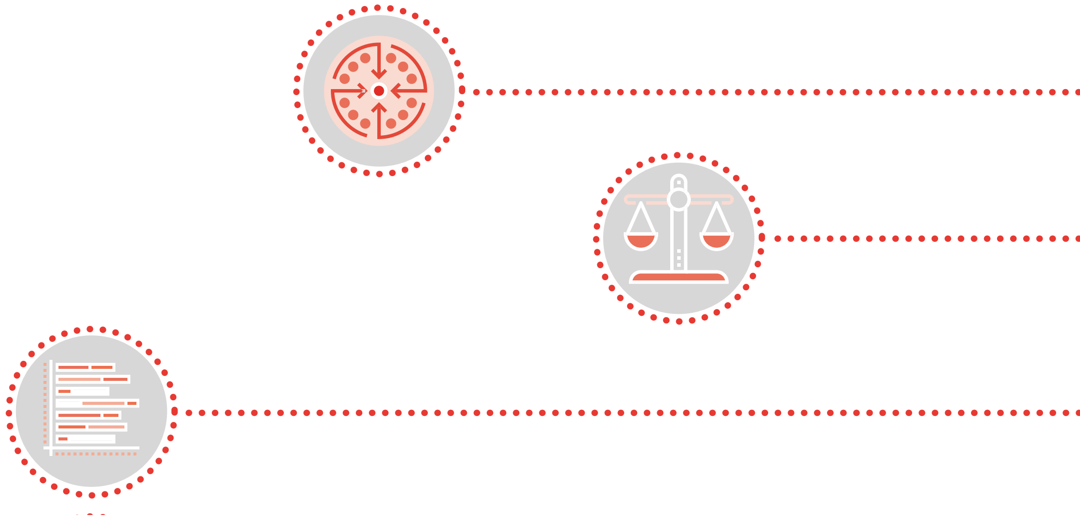
10 https://www.g7germany.de/resource/blob/998352/2000328/6cb78b73c9f000183e69738c255d9cc9/2022-01-21-g7-programm-en-data.pdf?download=1
11 https://www.gov.uk/government/publications/board-of-trade-report-global-britain-local-jobs/global-britain-local-jobs-html-version

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.

"Russia's invasion of Ukraine has profoundly changed the global economic and financial market backdrop. Uncertainty around the outlook for a sustained and broad-based recovery from the COVID-19 pandemic has grown, and inflationary pressures have risen."

Klaas Knot, Chair of the Financial Stability Board. Letter to the G20 Finance Ministers and Central Bank Governors, 14 April 2022.[12]



12 https://www.fsb.org/wp-content/uploads/P190422.pdf

3. DIGITAL TRANSFORMATION

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. Last year, we welcomed the UK's G7 Ministerial Declaration, which set out the G7's commitment to working together across vital areas of digital policy[13]. We further welcome 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.

The pandemic lockdowns accelerated digitalisation as FRPS workforces migrated to working online, the issue of digitally upskilling the general workforce and boosting employment in IT skills has become even more pertinent.

Cyber security 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 last year with the introduction of a global minimum tax rate[14]. Now new innovations have emerged, such as **Central Bank Digital Currencies (CBDCs)**, which require global cooperation and leadership.

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 December 2020, the IRSG launched a report on 'How the trend towards data localisation is impacting the financial services sector'. The report argues that the financial services sector is witnessing increasingly protectionist behaviours across the world in the form of data localisation.

In April 2022, the IRSG published a further report on the Future of International Data Transfers, stressing the importance of the ability to share data across borders.[15] 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.

To address these challenges, with the G7 presidency, Germany should take action to uphold the global trading system. The G7 and G20 should call on WTO Members to conclude an ambitious digital trade agreement in the Joint Statement Initiative talks on E-Commerce. Any agreement should restrict unjustified data localisation measures (including localisation measures affecting financial data), protect digital intellectual property, provide for a permanent extension of the WTO Moratorium on Customs Duties on Electronic Commerce, and enable paperless customs checks.

13 https://www.gov.uk/government/publications/g7-digital-and-technology-ministerial-declaration
14 http://www.g7.utoronto.ca/summit/2022elmau/2022-01-21-g7-programm-en-data.pdf

15 https://www.irsg.co.uk/publications/irsg-report-the-future-of-international-data-transfers/

Central Bank Digital Currencies (CBDCs)

The IRSG welcomes G7/G20 collaboration in emerging areas such as CBDCs where currently no global standard exists to regulate these but where progress could be made to achieve a global regulatory and standards framework that enables globally interoperable CBDCs, building on the 2021 CBDC policy principles[16]. To that end, we welcome the acknowledgement of this as an area of potential cooperation by the German G7 presidency.[17]

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 recently launched TechSprint by the Bank for International Settlements (BIS) Innovation Hub and the Bank of Indonesia is now the third G20 TechSprint Initiative as one of the side events of Indonesia's G20 Presidency, focusing on developing new solutions for central bank digital currencies (CBDCs), and a good example of where the G7 and G20 agendas align this year.[18]

G7 RECOMMENDATIONS:

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

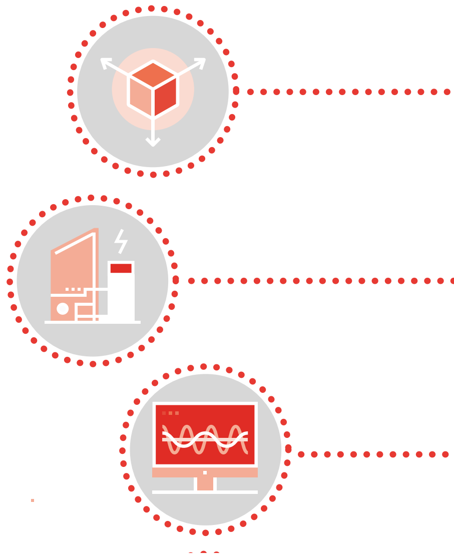
Global interoperability of data standards

Germany and Indonesia also have an opportunity to call for global interoperability of data standards on data 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.

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.[19] 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.



16 https://www.bundesfinanzministerium.de/Content/EN/Downloads/G7-G20/2021-10-13-g7-central-bank-digital-currencies.pdf?__blob=publicationFile&v=2
17 http://www.g7.utoronto.ca/summit/2022elmau/2022-01-21-g7-programm-en-data.pdf
18 https://www.bis.org/press/p220425.htm
19 https://www.dfat.gov.au/trade/services-and-digital-trade/australia-and-singapore-digital-economy-agreement

Arriving at global interoperability of data standards may be a lengthy process, so intermediate steps should be taken en route. To that end, 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.
- 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.
- 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 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 Profile[21], 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.

> **"Digital innovation in payments is a key driver of economic progress and development, notably through faster, cheaper, more transparent and more inclusive cross-border payment services."**
>
> **G7 Finance Ministers and Central Bank Governors Meeting Communiqué, 20 May 2022[20]**

20 https://home.treasury.gov/news/press-releases/jy0797

21 https://cyberriskinstitute.org/the-profile/

IRSG

INTERNATIONAL
REGULATORY
STRATEGY GROUP

The International Regulatory Strategy Group (IRSG) is a practitioner-led group comprising senior leaders from across the UK-based financial and related professional services industry. It is one of the leading cross-sectoral groups in Europe for the industry to discuss and act upon regulatory developments.

With an overall goal of promoting sustainable economic growth, the IRSG seeks to identify opportunities for engagement with governments, regulators and European and international institutions to advocate an international framework that will facilitate open and competitive capital markets globally. Its role includes identifying strategic level issues where a cross-sectoral position can add value to existing views.

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

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