

Financial services priorities for the UK's G7 presidency

In January 2021, the UK will take over the presidency of the G7 from the USA. The UK's presidency will be pivotal for driving UK leadership on the international stage following the Covid-19 outbreak. Pandemic recovery, climate and the digital agenda are all expected to feature strongly among the UK's priorities for its G7 presidency. To that end, the IRSG is developing detailed thinking to propose to the UK to ensure the UK's presidency tackles the most pressing challenges for the global economy.

In summary, the IRSG would like the UK to focus on the following 4 areas:

- **Global regulatory coherence for pandemic recovery**
- **Leadership on climate agenda ahead of COP26**
- **Digital policy continuity, including on digital taxation**
- **Alignment with G20 global policy priorities**

1. Global regulatory coherence for pandemic recovery

As world economies shift gear towards pandemic recovery, it will be important for the UK and its G7 partners to work together to support global recovery. To that end, joint coordinated action and global regulatory coherence is needed to minimise potential future fragmentation and protectionist policies in the wake of the pandemic. The pandemic underlines the importance, now more than ever, of promoting regulatory coherence. It is important that the pandemic recovery is a sustainable, equitable and citizen-centric recovery. Suggestions for action include:

- Share best practice on recapitalisation of the corporate sector to promote recovery
- Challenge policy and regulatory localisation on capital, liquidity, total-loss absorbing capacity (TLAC), data, and operational resilience
- Address fragmentation challenges by calling for a resolution of Basel III timetables and
- Undertake a stock take of bank branch and subsidiary requirements

Regulatory fragmentation remains a significant challenge, particularly regarding a preference for localised capital, liquidity, TLAC, derivatives, market structure, infrastructure, data, and operational resilience. To that end, we welcome international cooperation with the Financial Stability Board (FSB), the International Organization of Securities Commission (IOSCO), the International Association of Insurance Supervisors (IAIS), the Basel Committee on Covid-19 financial regulatory responses. Finally, we welcome the extended Basel III implementation deadline to 1 January 2023 but have concern around risks of inconsistent implementation.

2. Leadership on climate agenda ahead of COP26

With the UK assuming the G7 presidency in January 2021 and co-hosting alongside Italy the 26th UN Climate Change Conference of the Parties (COP26) in Glasgow on 1 – 12 November 2021, this is an opportune moment to achieve real progress on the climate agenda through strong leadership on sustainable finance. Priorities in this area include:

- *Financing green* – Build a sustainable product naming convention, guiding consumers and investment flows towards sustainable assets, and leveraging public-private partnerships to a pipeline of investable opportunities, as well as mobilising climate finance into emerging markets
- *Greening finance* - Foster global regulatory coherence on climate-related and sustainability-related risk reporting and disclosures by encouraging global commitment towards Task Force

on Climate-related Financial Disclosures (TCFD) reporting and tackling TCFD reporting gaps across jurisdictions

- Move forward the debate from TCFD measurement towards International Financial Reporting Standards (IFRS) proposal on sustainability reporting, promoting net-zero across financial institutions where appropriate
- Promote the scaling of voluntary carbon markets and robust carbon pricing
- Support development of International taxonomies on climate and sustainability

On climate-related financial disclosures, the UK's G7 presidency presents an important opportunity for the UK to lead on global regulatory coherence issues arising out of insufficient or inconsistent reporting of climate-related and broader sustainability risks. To that end, we are supportive of the government's ten-point plan and the UK TCFD Taskforce Roadmap, with the Chancellor's recent commitment to mandatory TCFD disclosures by 2025.

The UK should drive global commitment among the G7, the G20 and beyond towards net zero targets ahead of COP26. Member countries should be called upon to align their policy and financial regulatory systems to Paris through scaling voluntary carbon markets, through robust carbon pricing and ending of fossil fuel subsidies, developing net zero finance strategies.

3. Digital policy continuity, including on digital taxation

The UK's 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. The OECD have made significant progress in this area with its digital taxation framework and the UK should, through its G7 Presidency help reach an agreement on this framework. Proposed actions include:

- Support continuity on G7 policy on digital taxation, by calling for an agreement on the OECD's digital taxation framework
- Drive the development of a global regulatory solution to tackle systemic risk challenges arising from concentration of outsourcing to large technology vendors
- Raise digital capability by promoting digital skills and talent and fostering global regulatory cooperation and public – private partnership models on AML, cyber security, data RegTech and SupTech via regulatory sandboxes, tech sprints, and global best-practice sharing
- Address existing global data challenges, including a lack of a global data standard and the fragmentation risks of data localisation, while promoting greater international consistency around privacy regulation to facilitate global data flows
- Lead on global beneficial ownership reform, to combat economic crime, corruption and illicit finance

4. Alignment with G20 global policy priorities

It will be important for the UK's presidency to align with the G20's wider objectives, but also on specific objectives for financial services. We would urge continuity on key themes, as outlined by the Saudi G20 presidency, including promoting sustainable and inclusive pandemic recovery, fostering private sector participation in infrastructure investment, smooth transition away from LIBOR, and promoting digital financial inclusion. The UK should use its G7 Presidency to:

- Leverage cooperation on finance track policy with Italian G20 presidency for pandemic recovery, climate and digital
- Support continuity on finance track objectives of Saudi G20 presidency.