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## Chair's Summary

### G20 Finance and Central Bank Deputies Meeting Berlin, Germany, 1 December 2016

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#### 1. Germany's 2017 priorities

G20 Finance and Central Bank Deputies met for the first time under Germany's G20 2017 Presidency on 1 December 2016 in Berlin.

The Chair highlighted three key priorities areas in the finance track for 2017: enhancing resilience; supporting investment, particularly in Africa; and shaping digitalisation. In addition, the Chair emphasised the German Presidency will continue to progress key issues on the G20 agenda, including on international financial architecture, international tax policy and financial sector development and regulation. The Presidency also aims to take forward work on green finance, anti-money laundering and counter terrorist-financing, phasing out of inefficient fossil fuel subsidies and cyber security in the financial sector.

#### 2. Global Economy and Framework for Growth

Deputies discussed the global economic outlook and challenges faced by the global economy. These included geopolitical risks, uncertainties about a potential shift towards inward-looking policies, low productivity growth and the macroeconomic risks associated with high public and private debt levels. Deputies agreed that the Framework Working Group (FWG) should discuss concepts and approaches to assess the effectiveness of macroeconomic policy measures and report back to Deputies in March 2017.

Deputies discussed economic and financial resilience and agreed that resilience should be included in the work under the Framework for Strong, Sustainable, Balanced and Inclusive Growth. As a first step, Deputies held a discussion on a *Draft Note on Resilience Principles*. These principles were categorised into public debt, private debt (including the financial sector), the real sector and the external sector.

Members stressed the need for the principles to be flexible enough to tailor domestic policy measures to member-specific circumstances. Deputies agreed to further discuss the *Draft Note on Resilience Principles* and to present a revised version to Ministers and Governors for endorsement, by March 2017 if possible. There was broad agreement that concrete measures to strengthen resilience should be included in the updates to

Members' Growth Strategies. Deputies also emphasised that continuing and intensifying G20 work on the Enhanced Structural Reforms Agenda can also strengthen resilience. The FWG will report back to Deputies in March 2017 on possible ways forward on this Agenda.

Members emphasised the importance of discussion on inclusive growth at this juncture, recognising that inclusive growth has many different facets and diverse circumstances in G20 economies. Deputies mandated the FWG to discuss further work on inclusive growth and report back to Deputies and Ministers in March 2017.

### **3. International Financial Architecture**

Deputies agreed on the importance of discussing capital flows and increasing the availability of data. While some non-OECD G20 members expressed a willingness to move towards adherence to the *OECD Code of Liberalisation of Capital Movements*, others indicated a willingness to discuss and progress on the issue but held reservations regarding their own speedy adherence to the Code. Discussion on the issue will continue through the International Financial Architecture Working Group (IFA WG).

Deputies agreed to continue efforts to further strengthen the global financial safety net, with a quota-based and adequately resourced IMF at its centre. Deputies agreed that the IFA WG should regularly take stock of ongoing discussions in the IMF and review progress.

Deputies agreed to strengthen discussions on sustainable financing and mandated the IFA WG to develop *Operational Guidelines for Sustainable Financing*. Deputies also supported further work to analyse state-contingent debt instruments, especially GDP-linked bonds, and establish a set of criteria for issuances.

Deputies agreed that the IFA WG should continue engagement with the multilateral development banks (MDBs) with regard to balance sheet optimisation and the MDBs' *Joint Declaration of Aspirations on Actions to Support Infrastructure Investment*. Deputies also supported the development of MDBs' *Aspirations for Crowding-in Private Sector Investment* and asked the IFA WG to discuss ways to further enhance coordination among MDBs and the IMF.

Given its ambitious agenda, the Chair noted the intention to continue the IFA WG also after the Leaders' Summit in Hamburg.

Deputies asked to receive updates on the international financial architecture agenda by their meeting in March 2017.

### **4. International Taxation**

Deputies remain committed to international tax cooperation to achieve a globally fair and modern international tax system. Deputies generally agreed that the implementation of the recommendations against Base Erosion and Profit Shifting (BEPS) is on track.

Moreover, the importance of tax transparency and exchange of information was emphasised, in particular with respect to the identification of beneficial ownership. Deputies also expressed their continuing support for the ambitious agenda for Domestic Resource Mobilisation and capacity building programs for developing countries. Deputies welcomed the initial findings by the OECD and IMF on tax certainty and exchanged views on further work in this important area. Additionally, Deputies had a first discussion on the tax aspects of digitalisation and asked the OECD to prepare a background document for Ministers and Governors in preparation of a first discussion at their meeting in March 2017.

## **5. Financial Sector Development and Regulation**

Deputies agreed on priorities to implement and further improve financial sector reform, including finalising the necessary refinement of the Basel III framework and guidance for Central Counterparties (CCPs) resilience, recovery and resolvability, addressing structural vulnerabilities associated with asset management and assessing the adequacy of the policy response to risks from shadow banking activities. Deputies agreed that further policy recommendations should be developed to establish a structured framework for the evaluation of the effects of reforms, without compromising on resilience. Deputies supported the work of the FSB in these and other areas to further strengthen resilience in the financial sector.

Deputies agreed that digital innovation has substantial benefits, but support for it should not lead to risks for transparent and stable financial markets. Emerging risks must be closely monitored and, where necessary, actively addressed. Deputies supported the FSB's work on the key elements of Fintech and their financial stability implications, and the FSB's plan to stock-take regulatory approaches and identify key regulatory issues relating to Fintech. The FSB work-plan on this will be presented to Ministers and Governors in March 2017.

Deputies agreed that digital financial inclusion can be supported by a peer exchange on implementation approaches to be initiated by a World Bank report on emerging approaches at country level, and that understanding the impact of financial literacy programs requires a comprehensive data set on financial literacy, to which the survey on the level of financial literacy in G20 members conducted by OECD/INFE could serve as a starting point.

Deputies agreed to strengthen the foundations for green finance by capitalising on the competence of financial markets to process information and to assess risk. Deputies agreed that the FSB Task Force on Climate-related Financial Disclosures (TCFD) recommendations for voluntary climate-related disclosures by corporates should be presented to Ministers and Governors for assessment in spring 2017. Deputies also agreed that the Green Finance Study Group (GFSG) should categorise existing approaches to risk analysis of environmental and climate aspects used by the financial industry and describe their respective strengths and weaknesses, based on case studies

reflecting existing private sector expertise and solutions. This could serve as an input for the development of a private sector-led platform or task force to deepen the application of risk analysis and educate financial market actors. Deputies further asked the GFSG to map existing sources of publicly available scientific environmental data related to physical or transition risks, identify the location and relevance of such data and develop options for improved accessibility and usefulness. Deputies also asked the GFSG to review progress on other options identified in its *2016 Synthesis Report*.

Deputies further agreed that cyber security is vital for global financial stability and in the G20's common interest. There was consensus that work should be started to improve cyber security in the financial sector and that, as a first step, G20 Finance Ministers and Central Bank Governors should mandate the FSB in March with a stock-take on existing cyber security regulation, as a basis for developing best practices in the medium term. A workshop with relevant stakeholders would support this stock-take. Deputies also agreed that a "declaration of good conduct", where all G20 members explicitly confirm that they disapprove of any cyber-attacks on the financial sector from their jurisdictions, could be a useful addition to this work. The Presidency will prepare a draft wording for the Finance Ministers' and Central Bank Governors' Communiqué for Baden-Baden that should be discussed at the next Deputies meeting in March.

## **6. Other Issues**

### ***Compact with Africa***

Deputies agreed to a three-pronged approach to support private investment in Africa. It tasked the IMF, World Bank and African Development Bank with drafting a report to be submitted to Ministers in Baden-Baden that will inform G20 countries about ongoing initiatives and key reforms and instruments that can support private and infrastructure investment in Africa and to which contributions from other agencies with relevant expertise are welcome. Deputies also agreed that individual African countries should be invited to agree on investment compacts with IOs and partner countries that would aim to boost private and infrastructure investment. The Africa Advisory Group (AAG) will advise the G20 finance track for progressing this work and asked the African Union to inform its member countries about the Compact with Africa via a letter from the G20 Presidency.

### ***Remittances / AML and CFT***

Deputies discussed ways to ensure a healthy environment for remittances based on the view that remittance services must be cost-effective without unnecessary administrative burdens, while also meeting the FATF standards on Combatting Money Laundering and Terrorism Financing. In order to address the issue of decline in correspondent banking services, the Financial Stability Board (FSB) will provide a progress report on its action plan presented to G20 Leaders in November 2015 with a view to the drivers for de-risking and the FATF has published its guidance on correspondent banking further clarifying regulatory expectations. Deputies agreed that the FSB, FATF and the Global Partnership for Financial Inclusion (GPFI), each with its specific insights, should

coordinate further work (outreach) with special focus on Money or Value Transfer Services, including implementation of standards, technical assistance and other capacity building activities. The trade-off between costs and speed as well as the amount transferred should also be considered.

Deputies discussed the substantial increase in public attention and international expectations on the Financial Action Task Force (FATF) and agreed that the G20 should support FATF's review of structure and governance, including potential amendments, where needed.

### ***Inefficient fossil fuel subsidies***

Deputies agreed that the peer review process is a helpful tool to identify inefficient fossil fuel subsidies and encouraged members to conduct a peer review as soon as feasible. Deputies agreed to ask the International Organisations to provide advice on how to further develop and improve the peer review process, based on recent experience, and how to facilitate phasing out inefficient fossil fuel subsidies. Deputies agreed to reflect on the Presidency's proposal to phase out inefficient fossil fuel subsidies by 2025.

### ***Promoting data sharing***

Deputies looked forward to receiving the report on recommendations on data sharing and accessibility based on best practices prepared by the informal G20 working group on data sharing.

Deputies encouraged the IMF to work with other relevant institutions such as the BIS and FSB, as well as regional bodies, to implement a macroprudential database and to ensure access to it for research purposes.