April 19, 2017

Mr. Agustín Carstens
Chair, International Monetary and Financial Committee

Sri Mulyani Indrawati
Chair, Development Committee

Dear Chairs:

The Spring Meetings of the IMF/World Bank in Washington D.C. provide a welcome opportunity to assess prospects for the G20 goals set out in the Baden Baden Finance Ministers and Central Bank Governors Communiqué. In support of these efforts, and to highlight a broader range of views from the private financial sector, this letter offers our perspectives on:

- Importance of international regulatory standards and coordination; assessing the effectiveness of the global regulatory framework;
- Promoting open trade and avoiding a retreat into protectionism;
- Scaling up infrastructure investment—mobilizing private sector funds;
- Providing finance for green investment and job creation; and
- Fighting financial crime, by removing information-sharing barriers and accelerating deployment of regtech.

I. Underscoring the importance of international regulatory standards and coordination; assessing the effectiveness of the global regulatory framework

Following the construction of a new regulatory framework in the aftermath of the global financial crisis, the role of international regulators and standard-setters has come under greater scrutiny. While there is room for improvement in how these bodies operate—notably in transparency, governance, public consultation and cost-benefit analysis—international regulatory consistency and coordination provide essential support for economic growth and financial stability.

Consistent international standards are vital to underpin the efficient flow of capital to investment opportunities. International financial intermediation provides the necessary cross-border connection between borrowers and savers, contributing to financial sector depth—which in turn directly supports GDP growth. Cross-border connection and market deepening enable borrowers—including SMEs in both emerging and mature economies—to tap more diverse pools of capital and access a broader range of financial products. This brings down borrowing costs and helps firms hedge financial risks, underpinning corporate investment.
By providing a sound environment for global capital flows, international regulatory coordination and consistency also encourage banks, insurers and institutional investors to seek out the best investment opportunities around the world based on investment fundamentals rather than regulatory arbitrage—to the benefit of individual savers and consumers. Benefits of increased competition include more product innovation, better delivery channels, more choice of products and providers, and more access to credit—including in underserved geographies. Moreover, consistent rules for cross-border finance make the system more efficient, reducing regulatory burden and compliance costs. This allows banks and other financial intermediaries to lower costs to end users. Finally, in a highly integrated and interconnected financial system, international regulatory coordination plays a key role in financial stability. In particular, an internationally accepted resolution framework for global systemically important banks—as well as greater consistency in capital and liquidity standards and OTC derivatives regulation—helps ensure resilience in the event of systemic events, greatly reducing spillover risks.

Given the importance of consistent international standards and coordination, any threat to the coherence of the global regulatory framework is of serious concern. Recent changes in the political landscape—particularly greater emphasis on national approaches to regulation and less commitment to multilateralism—could pose such a threat. We urge the international standard-setting bodies to proactively pursue reforms to improve their transparency, give credit to underlying differences in banks and capital markets, and undertake greater impact analysis. This will allow them to confront their critics head on, and ensure that they can continue to make their very positive contributions to the global economy.

Digital finance has great potential to enhance financial inclusion, with the potential to transform the economic prospects of billions of people, reduce poverty, empower women and help build stronger institutions. For all stakeholders, incumbents and new entrants, the global regulatory framework could do more to promote digital finance by finding an approach that balances the benefits of innovation and digitalization with concerns about consumer protection, prudential issues, and financial stability. Further, while encouraging and supporting innovation, regulations should be designed to be business-model neutral and platform-neutral, to avoid distortions that would arise from a non-level playing field.

With so much at stake, we welcome the emphasis in the Baden Baden G20 Communiqué on monitoring the implementation and effects of financial regulatory reforms, and addressing any material unintended consequences. However, we remain concerned over continued uncertainty in the prudential framework. The industry looks forward to an appropriate completion of Basel III, in a way that will achieve the important goals of balancing risk-sensitivity and greater consistency, without significantly increasing overall capital requirements or regional disparities of capital requirements. We reiterate that an analysis of the impact of the regulatory response to the crisis should be carried out to ensure the final framework is globally effective and does not result in unintended consequences, noting the underlying differences across markets. The role of the Financial Stability Board (FSB) in developing a structured framework for impact assessment is crucial; we look forward to providing input from the private financial sector through the public consultation process.
II. Promoting open trade and avoiding a retreat into protectionism

Growth in global trade and investment has delivered tremendous economic growth and prosperity, lifting nearly a billion people out of poverty over the past 30 years. Indeed, World Bank estimates suggest that developing countries that lowered trade barriers during the 1990s saw per capita real income grow nearly three times as fast as those that did not. It is widely acknowledged that openness to global competition supports innovation, strengthens institutions and contributes to productivity gains. However, globalization has also left many behind—people who face stagnant real wages, loss of well-paying jobs and economic insecurity. This has contributed to a broad shift towards populism and economic nationalism. Indeed, the WTO’s latest assessment reports that there were nearly four times as many protectionist measures in place at the end of 2016 as there were in 2010, and that growth in global trade fell last year to its lowest level since the financial crisis.

To support open markets and promote the free flow of capital across borders, effective policy frameworks that address persistent imbalances—with symmetrical adjustment on the part of both surplus and deficit countries—should be put in place. Such frameworks—including measures to mitigate labor market displacement and promote inclusive growth as well as a focus on education and training—can help maximize the benefits of globalization, encouraging firms to engage in the international economy with consequent gains in productivity and competitiveness. Support for trade finance is essential—in this context regulatory capital requirements more appropriately calibrated for trade finance—which has a low risk profile and low default exposures—would be helpful. In addition, we would welcome efforts to establish a binding global mutual recognition process to build sustainable bridges between different national product, environmental and labor standards, and, for regulated industries such as financial services, local implementations of agreed international standards.

III. Scaling up infrastructure investment and mobilizing private sector funds

Clear signs of a revival in global business sentiment suggest increasing appetite for investment and capital spending. This bodes well for mobilizing private sector investment in infrastructure, an ongoing G20 priority. The work of the Global Infrastructure Hub, the Global Infrastructure Facility and the multilateral development banks (MDBs)—including initiatives aimed at “crowding in” private finance—is most welcome. Indeed, MDBs can help attract significant amounts of private finance using blending finance products such as partial risk and partial credit guarantees, which are being used successfully by the World Bank in a number of major infrastructure projects. Similarly, national-level initiatives—including the infrastructure plans of the new U.S. Administration—have the potential to galvanize more private sector funding. Well-structured national infrastructure banks, by providing equity capital and technical expertise, can help catalyze private-sector co-investment and efficient use of tax credits and public-private partnerships (PPPs), as well as helping to develop a pipeline of bankable infrastructure projects.

However, a strategy that relies mainly on the use of tax credits and PPPs may not guarantee that sufficient investment will go to critical public infrastructure. Private investors will be best placed to fund projects with reliable and remunerative cash flows, e.g. in fee-for-service sectors such as telecoms, energy and power. Public infrastructure such as transportation, transit networks and bridges—which are in urgent need of upgrade—typically lack a defined revenue stream. These will be more difficult to fund via the private sector, yet are often crucial to
enable the private economy – especially SMEs – to realize its full potential. Investment in digital infrastructure that assures connectivity and access will help promote financial inclusion and sustainable growth. In short, sufficient fiscal resources at all levels of government should be allocated to key public infrastructure programs, while projects that generate reliable revenues should be developed to attract private sector investment. A vital role of the public sector should thus be to enable private sector investment and foster the basic attributes of investable assets (such as clear investment rules, standardization, long-term commitment, market liquidity and transparency), while making sure basic infrastructure that the public sector is best placed to provide is up to the challenges of supporting a high-performing economy.

IV. Providing finance for green investment and job creation

Helped by strong interest from the private sector, green finance has continued to gain momentum in the wake of the December 2015 Paris Agreement, with the development of innovative strategies and products such as green bonds and growing demand from investors. However, the investment needs for a low-carbon and resilient future are massive, meaning that green finance must move well beyond niche status and become more fully integrated into mainstream financial markets. Scaling up of green finance offers an important opportunity to support sustainable economic growth and job creation through new technological advances and efficiencies. Indeed, the number of jobs in the renewables sector has been increasing dramatically—up over 40% worldwide since 2012—as has the sector’s cost-competitiveness.

Investment in green infrastructure offers many benefits. Given the long-term nature of infrastructure investment, funding done now will tend to “lock in” a high- or low-carbon trajectory. Investment in green infrastructure, therefore, would boost economic growth, while also mitigating and supporting the adaptation to climate change risk. Many institutional investors have significant appetite for such investment, as green assets offer portfolio diversification and provide unique opportunities to meet risk-return objectives. As is the case for infrastructure more broadly, development of project pipelines—and a legal and regulatory environment that is clear and facilitates investment in green infrastructure—would help boost investment levels. It is also important to address some of the issues that may inhibit the greater use of green finance, including the need for development of common terminologies and disclosures, as well as ensuring that regulation does not disproportionately discourage private-sector participation in green finance.

V. Fighting financial crime, by removing information-sharing barriers and accelerating deployment of regtech

International coordination is of paramount importance in the fight against financial crime. In support of this widely shared goal, the industry has identified a compelling need for better information sharing—both domestically and internationally—to improve risk management and cooperation with the official sector in anti-money laundering (AML) and counter-terrorist financing (CFT) efforts. However, obstacles to information-sharing remain significant, including inconsistent legal frameworks for data protection, privacy, bank secrecy, and reporting of suspicious activity across different jurisdictions. Concrete steps to remove barriers to information-sharing should include action by the Financial Action Task Force (FATF) on a global approach to reducing known impediments. The IIF Financial Crime Information Sharing Survey Report, published in February 2017, offers detailed suggestions, including updating the FATF
Recommendations to member states to remove barriers to information sharing; support for public-private sector information-sharing initiatives and industry-wide utilities; and regular FATF analysis of member state rules to identify areas where information-sharing can be improved.

Financial institutions play a key role in identifying and reporting suspicious activities to support national law-enforcement agencies. Know-your-customer due diligence and ongoing monitoring of payments systems and client accounts are key to identifying illicit transactions. Regtech solutions hold great promise of improving the ability of financial institutions to analyze and share data, as well as to comply with AML/CTF regulations. New technologies can enable more effective detection, reduce human error, and increase transaction security, thereby reducing fraud and cutting the cost of regulatory compliance. This could help reverse the current disincentives to maintaining correspondent banking relationships—which can have an adverse impact on emerging market economies. New technologies can also make possible efficient shared utilities, and more intensive collaboration with law enforcement, along the lines of pilot projects in a number of countries. But the full potential of innovation to help banks and law enforcement connect the dots of illicit activity requires the support of the G20, especially to reduce impediments to information-sharing.

We hope you find this brief summary of industry perspectives helpful. As always, the private sector financial community stands ready to work with the official sector towards achieving our mutual goals of supporting global financial stability and sustainable economic growth.

Sincerely,

[Signature]

cc: G20 Finance Ministers and Central Bank Governors