

International Financial Architecture for Stability and Development

T20 Recommendations Report

Draft // Work in Progress

Compiled by: Dennis Görlich (dennis.goerlich@ifw-kiel.de), Katharina Lima de Miranda (katharina.miranda@ifw-kiel.de) and Juliane Stein-Zalai (juliane.stein-zalai@ifw-kiel.de)

Version: March 26, 2019

Content

- 1. Overarching Narrative 3
- 2. G20 Commitments and Initiatives..... 4
- 3. T20 Task Force 2: International Financial Architecture for Stability and Development... 5
 - Task Force Description (T20 Japan 2019) 5
 - A. Global Financial Instability under the Changing Monetary Policies and Financial Crisis Management 5
 - Challenge..... 5
 - Policy Briefs / Literature 5
 - Implementations 7
 - B. Crypto-assets (Title to be refined) 7
 - Challenge..... 7
 - Policy Briefs / Literature 7
 - Implementations 9
 - C. Financial Structures in the Wake of Natural Disasters 9
 - Challenge..... 9
 - Policy Briefs / Literature 9
 - Implementations 10
 - D. Strengthening the Global financial Safety Net 10
 - Challenge..... 10
 - Policy Briefs / Literature 10
 - Implementations 11
 - E. Innovation and evolution of Fintech, and reforming the financial systems in the digital age 11
 - Challenge..... 11
 - Policy Briefs / Literature 11
 - Implementations 12

1. Overarching Narrative

-- to be added --

2. G20 Commitments and Initiatives

-- to be added --

3. T20 Task Force 2: International Financial Architecture for Stability and Development

Task Force Description (T20 Japan 2019)

Task Force 2 (TF2) aims to promote an international financial architecture for stability and development, with a focus on Crypto-assets and Fintech. To this end, the TF2 will review the T20's aspirations and achievements during the past decades with respect to the design and improvement of the international financial architecture. As a result of this review, TF2 will identify and recommend new priorities for policy action. Firstly, TF2 will introduce the topic of global financial instability in an era of changing monetary policies and financial crisis management. Lessons learned from the global financial crisis 10 years ago and global analysis of capital flows will be included. The effects of the Federal Reserve Board's interest rate hikes on currencies and interest rates in emerging markets will also be discussed. Secondly, Japan's experience of introducing comprehensive regulations on crypto-assets in April 2017 could serve as a starting point for discussing crypto-assets regulations in the G20. Thirdly, TF2 will try to offer suggestions to strengthen global financial safety nets. Finally, TF2 will discuss innovation and evolution of Fintech. This includes how traditional financial institutions, Fintech companies, and big tech players in the financial ecosystem can coexist harmoniously for consumers, and the future implications for society.

Source: <https://t20japan.org/task-forces/international-financial-architecture-stability-development-crypto-assets-fintech/>

A. Global Financial Instability under the Changing Monetary Policies and Financial Crisis Management

Challenge

Capital flow will be analyzed based on the chapter "Capital Flow in Asia, Currency and Financial Crisis Management" of "Financial Risk and Crisis Management after the Global Financial Crisis" by Professor Ogawa, published in 2017.

The lessons from Global Financial Crisis 10 years ago will be verified by the global analysis of both above capital flow analysis and the chapter "Global Financial Crisis and Eurozone Crisis".

Currently, the data is updated and the methodology is upgraded for "Effects of FRB's Raising Interest Rates on Regional Currencies and Regional Monetary Cooperation: A Case of East Asia" paper by Professor Ogawa in 2017. Effect of FRB's raising interest rates on currencies and interest rate in East Asia will be analyzed.

Policy Briefs / Literature

Steven L. Schwarcz (Centre for International Governance Innovation (CIGI))

Maziar Peihani (Centre for International Governance Innovation (CIGI))

[Addressing Excessive Risk-Taking in the Financial Sector: A Corporate Governance Approach \(T20 Policy Brief\)](#)

Excessive corporate risk-taking by systemically important financial institutions (SIFIs) is widely seen as one of the primary causes of the global financial crisis. In response, an array of international reforms, under the auspices of the G20's standard-setting bodies, has been adopted to try to curb that risk-taking. However, these reforms just impose substantive requirements, such as capital adequacy, and cannot by themselves prevent future systemic collapses. To complete the G20 financial reform agenda, SIFI managers should have a duty to society (a "public governance duty") not to engage their firms in excessive risk-taking that leads to systemic externalities. Regulating governance in this way can help supplement the ongoing regulatory reforms and reduce the likelihood of systemic harm to the public.

Chris Loewald (South African Reserve Bank)

Kazumasa Iwata (Japan Center for Economic Research)

Sébastien Jean (CEPII)

Christian Kastrop (OECD)

Nicolas Véron (The Peterson Institute for International Economics)

[Resilience and Inclusive Growth \(T20 Policy Brief\)](#)

Severe recessions and financial crises are frequent. Their effect on the economy is persistent and often exceeds initial projections. They can also be a strong driver of widening inequality. Therefore it is important that measures be taken to minimise the risk of such events while strengthening the potential for economies to innovate and prosper (Phelps, 2013). An economy's resilience to crises and recessions can also be strengthened. Minimising risks requires the accurate monitoring of home-grown vulnerabilities in real-time; coping with the consequences means identifying and putting in place policy settings and mechanisms that can help absorb the impact of a severe downturn and facilitate a swift rebound of economic activity. Strengthening resilience will also provide a key contribution to solving the global problems of rising populism, nationalism and protectionism.

Fabrizio Saccomanni

Alfredo Gutierrez Girault

Dongming Liu

Aarsi Sagar

José Siaba Serrate

Miguel Otero-Iglesias

[Beyond financial regulation: the need for a broader and more coordinated capital flow management strategy \(T20 Policy Brief\)](#)

To foster a smooth functioning of the international financial system, the G20 should lead the international effort not only to complete the financial regulation reform program, but also to stabilize the regulatory framework, avoiding uncertainty which hampers the supply of credit to the real economy. Financial resilience cannot be achieved by regulation alone, though. The

G20 should endorse a broader approach to promote a more effective international strategy of capital flow management, orienting global financial markets towards monetary and financial stability.

Implementations

-- to be added --

B. Crypto-assets (Title to be refined)

Challenge

Crypto-assets have already experienced surge and falls. What do we learn from this high volatility environment?

Many more are expected to come through planned private and public offerings such as Initial Coin Offerings (ICO). Security Token Offering (STO) is gaining popularity, too. We would like to update how they are regulated as national regulatory orientation may vary widely. There are many promising areas for development: better risk management for cybersecurity measure. In particular, we need to learn from Japan's Coincheck incident in 2018 and the threat of "a 51 percent attack", a theoretical problem that would only come about if one entity came to control more than half of the computing power being used to mine coins. There are potentials to contribute to an improvement of the new financial solutions. World Bank launches world-first blockchain bond. Proof of Consensus (PoC) by Japanese banks may be another example. To manage these risks, we need to assess the current situation as well as its measures of security by crypto-exchanges (e.g. discussion at Virtual Currency Governance Task Force (VCGTF) in Japan).

Japan pioneered the first comprehensive regulations for crypto-assets as a method of payment and for crypto-exchanges in April, 2017. This Japanese experience may be precious for G20, too. Japanese authorities have learned a lot of technological knowledge and rigid procedure of "Know Your Customer (KYC)" through surveillance of crypto-exchanges.

Evaluation of the environmental impacts of crypto-assets should be provided, in particular their energy use. Its high energy intensity may trigger significant adverse global environmental impacts.

Could financial crisis like the impact of subprime mortgage crisis repeat itself after the fall in price of crypto-assets? Is this scenario realistic?

Policy Briefs / Literature

Philipp Hacker (Humboldt University of Berlin, Germany)

Chris Thomale (Ruprecht-Karls Universität Heidelberg, Germany)

[Crypto-Securities Regulation: ICOs, Token Sales and Cryptocurrencies Under EU Financial Law](#)

Akhigbe Iyen Joy (University of South Africa, South Africa)

[The Future of Crypto-Currency in the Absence of Regulation, Social and Legal Impact](#)

The Internet revolution is fast outpacing the law and creating a newer world with the momentum of gripping the unwary crowd into a boundless world of anarchism. Money is defined as a medium of exchange, store of value, and a unit of account (www.cliffnotes.com Date of use: 28/10/2017). Crypto-currency is a new wake in the digital reality that is performing the above functions of money. There are about 1,541 crypto-currencies traded in 8,894 markets by exchangers (www.coinmarketcap.com Date of use: 28/01/2018). Prominent among these crypto currencies, is the Bitcoin which as a single coin had a monetary value of \$0.05 USD in July 2010 and in November 2017, was valued at \$18,000 (www.useyourselfmedia.today Date of use: 28/10/2017). The drivers of crypto-currencies are basically the block-chain which is a technology, others are the exchanges, financial services provider, wallet services provider and miners. Under most jurisdictions, the exchanges and service providers are either not regulated or partially regulated. Regulations in the financial sector, are tools used in monitoring the movement of funds, fraud, financial crimes and money laundering, criminal activities, as well as the protection of consumers. In the absence of regulation, this paper seeks to examine the trend and legality of the crypto currency as a virtual currency and its current and future impact on the society. To achieve this, some monetary regulations will be evaluated and an attempt will be made to adapt these regulations to the crypto-currency framework. At the end of the paper, challenges will be identified with a view to recommending a regulated regime in the use of crypto-currencies for a safer society and consumer protection.

Usman W. Chohan (University of New South Wales (UNSE), Australia)

[Oversight and Regulation of Cryptocurrencies: BitLicense](#)

This discussion paper examines the localization of the oversight and regulatory roles for cryptocurrencies using the case of Bitlicense which is issued in New York by the Department of Financial Services, with a view to discussing the possibilities for localized regulatory licenses and agent responses to such regulatory activity.

Olly Jackson (International Financial Law Review, UK)

[EU Can Look to US, Swiss Approaches for Crypto Regulation](#)

Sofia Johan (International Financial Law Review, UK)

Anshum Pant (Schulich School of Business, Canada)

[Regulation of the Crypto-Economy: Securitization of the Digital Security](#)

The article introduces the reader to the current decentralization of the economy, how the blockchain technology has the ability to transform the same. It explores how the initial coin offerings are structured, and how this crowd-funding mechanism has the promise of opportunities for economic innovation. The article examines SEC's initial statements on

ICO's to illustrate the potential problems with applying a dated legal framework to an ever-evolving ecosystem. Recognizing the inability of enforcement of existing regulatory frameworks, this converges with arguments for the collaboration between government agencies and developers in the establishment of a new ecosystem

Neil Shroff (National Law University Delhi, India)

Padma Venkataraman (National Law University Dehli, India)

[Regulating ICO Tokens and Cryptocurrency in India](#)

In this paper, we attempt to lay down a regulatory framework for Blockchain Protocol Tokens, addressing both ICO Tokens and Cryptocurrency. We demarcate 3 broad classes of tokens, further divided in 5 types based on their nature, and risks for both regulators and consumers. We then propose one of two regulatory approaches: strict compliance with existing laws, or incentivized adoption of guidelines, depending on the function and purpose of the token concerned. We have sought to preserve the intended purpose of different ICO Tokens while setting compliance requirements, in accordance with existing laws, including Securities Regulations, Tax Laws, Companies Law and KYC norms ("KYC/AML/CFT"). Though we have placed our regulatory framework within the Indian legal system, the principles and approach we have adopted should be apt for most jurisdictions

Implementations

-- to be added --

C. Financial Structures in the Wake of Natural Disasters

Challenge

Considering the current situation of the natural disasters in Japan, we would like to continue this agenda. We need to discuss with TF on Climate Action and Infrastructure for Development whether this agenda should be handled by us or them.

Policy Briefs / Literature

Amy Parks (PwC UK)

Jessica Shannon (PwC UK)

Joanna Robinson (PwC UK)

Lina Karaoglanova (PwC UK)

Tania Yue (PwC UK)

Tapas Sanyal (PwC UK)

[How Do Countries Build Resilient Financial Structures in the Wake of Natural Disasters?](#)

Natural disasters disrupt the financial and economic infrastructure and stability, particularly in small or low-income countries and those concentrated in a single industry. The authors recommend the G20 and broader international community support financial and economic

resilience in the face of increasing natural disasters. Critical interventions for support include improved local resilience through early warning and response mechanisms and economic diversification initiatives; rapid stimulation of local businesses in critical industries; and coordination of international financial markets in support of local economies.

Implementations

-- to be added --

D. Strengthening the Global financial Safety Net

Challenge

We would like to continue this agenda possibly focusing on reforming the IMF.

Policy Briefs / Literature

Haihong Gao (Institute of World Economics and Politics at the Chinese Academy of Social Sciences)

Pavel Trunin (Gaidar Institute for Economic Policy)

Sergey Drobyshevsky (Gaidar Institute for Economic Policy)

[Strengthening the Global Financial Safety Net](#)

The purpose of the Global Financial Safety Net (GFSN) is to secure financial stability by preventing crisis contagion and providing support for the countries in crisis. Now we are approaching the 10th year anniversary of Lehman Brothers failure and the onset of the global financial (and maybe – structural) crisis, which raised the issue of broader international interactions in building the Global Financial Safety Net to prevent deep and full-scaled financial crisis in single countries or regional economic systems. The old-fashioned system of Bretton-Woods institutions led by the IMF with all its many elements still suffer from serious shortcomings. Hence, the G20 together with all international financial institutions should continue their efforts aimed at strengthening the system in the coming years.

Antonio Villafranca (Italian Institute for International Political Studies (ISPI))

Franco Bruni (Italian Institute for International Political Studies (ISPI))

José Siaba Serrate (Consejo Argentino para las Relaciones Internacionales (CARI))

[Global Monetary Policy Coordination Meetings](#)

Monetary policies are confronted by short and long term challenges. In the short term, “normalization” of money creation and interest rates, following years of unorthodox policies, puts financial stability at risk in major monetary centres and in EMEs. Longer term challenges extend over the theoretical framework of monetary policies and their institutional settings: a lack of clarity and trust in monetary action weakens its effectiveness and endangers financial

stability. This paper argues that global coordination is crucial to face these challenges. It proposes to convene appropriate official meetings to coordinate short term normalization and to start facing long term challenges.

Implementations

-- to be added --

E. Innovation and evolution of Fintech, and reforming the financial systems in the digital age

Challenge

The technological advancement at an exponential rate together with disruptive business models and digital-native users, has blurred borders between traditional financial institutions and new players in the financial ecosystem.

There are clear differences, however, between advanced countries on their approaches in regulations for both protecting consumers and promoting innovations - by collating recent trends in each market, depict the high-level comparisons of differences in the US, EU, China, Japan.

Big Tech - friend or foe?: Big Tech companies, by leveraging disruptive technologies as well as their brand, customer base and data, are redefining "Finance" - at the same time, some disruptive business models in the Fintech industry are being subsumed under the traditional financial system over the last several years after the dawn of Fintech in early 2000.

Regulations being double-edged sword - balance between innovation, industry development, and consumer protection, and sustaining "Trust" in the system and society for the future of humanity.

Discuss how the traditional financial institutions, fintech companies, and Big Tech players in the finance ecosystem can coexist in the eyes of consumers and the future of humanity, and its policy implications.

Policy Briefs / Literature

Guido Ferrarini (University of Genoa, Italy)

[Regulating FinTech: Crowdfunding and Beyond](#)

The challenges posed by FinTech to regulation are similar to those raised by financial innovation in general. The first is to identify those areas of the law dealing with each type of Fintech instrument or institution. The second challenge is to establish whether regulation should be incrementally adapted to the various types of FinTech focussing on their function, or radically reformed by enacting special regimes and/or introducing ad hoc exemptions for FinTechs. In this paper, I consider loan-based crowdfunding and investment-based crowdfunding as meaningful case studies and analyse their regulatory treatment in European jurisdictions, which may be found in different areas – banking, payments, securities or ad hoc

regulation - depending on the country considered, the business model adopted, the attitude and relative power of financial supervisors. Moreover, I offer an example of functional approach to crowdfunding policy by suggesting ways in which the two main types of crowdfunding (equity-based and loan-based) could be regulated in Europe along the model of securities regulation. In principle, I shun a holistic attitude to FinTech, as well as claims for radical reform in this area such as those advanced by recent scholarship. I prefer a pragmatic approach to FinTech differentiating the services to which existing regulation can be adapted from those - such as electronic payments and mobile payments - that have attracted special reform promoting competition and transparency in the relevant fields.

Chuanman You (University of Sussex, UK)

[Recent Development of FinTech Regulation in China: A Focus on the New Regulatory Regime for the P2P Lending \(Loan-Based Crowdfunding\) Market](#)

This article starts with an empirical survey of the explosive development of the P2P lending industry in China followed by an examination of its underlying economic, institutional and technological driving forces. The second part of this article then turns to inspecting, comparatively, several features of regulatory approaches as adopted by the newly established regulatory regime. The third part interrogates two critical challenges which have not been resolved by the new regulatory regimes. The final part concludes.

Michael Koetter (Halle Institute for Economic Research (IWH) – Member of the Leibniz Association)

Oliver Rehbein (Halle Institute for Economic Research (IWH) – Member of the Leibniz Association)

[Enabling the wisdom of the crowd: Transparency in peer-to-peer finance \(T20 Policy Brief\)](#)

The rapid growth exhibited by peer-to-peer finance markets raises hopes that especially young ventures might obtain better access to funding. Yet, consumer protection concerns are looming as borrowers and projects requesting finance from the crowd are inherently opaque. We suggest clear rules to enable peer-to-peer lenders and investors to more effectively screen projects. We plea for strengthening self-responsibility of the investor crowd by clearly assigning, and limiting the responsibilities of regulatory authorities and recognizing the regulatory difference between new peer-to-peer, and traditional financial markets. As a result the peer-to-peer market can develop to more effectively complement traditional sources of finance, instead of turning into a funding source for bad investment projects looking to exploit uninformed lenders and investors.

Implementations

-- to be added --