



1st Finance and Central Bank Deputies (FCBD) Meeting

SESSION II: FINANCIAL SECTOR ISSUES AND GLOBAL PARTNERSHIP FOR FINANCIAL INCLUSION

KEY OBJECTIVES:

- to discuss and agree on the proposed priorities and work program for financial sector issues in 2024; and
- to discuss and agree on the proposed priorities and work program for financial inclusion in 2024.

Brasília, December 2023

FINANCIAL SECTOR ISSUES

I. PRIORITIES PROPOSED BY THE BRAZILIAN G20 PRESIDENCY

A crucial contribution of the G20 in recent years is its work to maintain the stability of the financial system. This has important impacts on the livelihoods of populations and our group should continue to pursue it. Our cooperation has proven critical in overcoming a series of challenges faced by the global economy and we should continue to improve our practices to be better positioned to provide answers to questions posed by a rapidly evolving environment.

The Brazilian G20 Presidency supports the work done in 2023 and recognizes the need to continue working on topics such as lessons learned from the recent banking crisis, cross-border payments, the implementation of recommendations regarding crypto assets and stablecoins, and the vulnerabilities of non-bank financial institutions (NBFIs), among others.

Brazil's priorities regarding the financial sector under its G20 Presidency include contributions regarding sustainability-related risks, especially those under the Roadmap for Addressing the Financial Risks from Climate Change ('Roadmap'). The Presidency proposes that the group carry out further work on nature-related financial risks and biodiversity loss.

In addition, we believe that the G20 must be positioned to tackle the issues posed to the financial system by the digital age, in which developments such as decentralized finance, the tokenization of assets, artificial intelligence and other innovative market-led technologies are quickly becoming a reality. These technologies tend to become more ubiquitous in the next few years and could be leveraged to benefit both the financial system and the population. Nevertheless, it is important to strike a balance between harnessing the benefits and mitigating the risks associated with their implementation.

The priorities that are being proposed to structure the work around financial sector issues are aligned with the mandates and expertise of the FSB and BIS, and the overarching priorities of the Brazilian G20 Presidency.

i. Sustainability-related financial risks

The Brazilian Presidency considers deepening the works on sustainability-related risks as a priority for 2024, especially those under the Roadmap for Addressing Financial Risks from Climate Change. This issue has gained importance in the agenda of regulators in recent years.

We understand that it is important to recognize the interconnection between climate-related and environmental-related financial risks. Thus, in addition to the work on the implementation of the Roadmap, we propose that the FSB conduct stocktaking on regulatory and supervisory initiatives associated with identification and assessment of nature-related

financial risks. This would build on the conceptual framework on nature-related financial risks¹ to guide the actions of central banks and supervisors, developed by the NGFS. It would also include an investigation of the perceptions of central banks and supervisors regarding whether the risk of biodiversity loss is a relevant financial risk. It is critical to have an integrated approach to deal with climate change and biodiversity loss, considering their interdependence and mutual reinforcement.

The FSB has reported annually to the G20 regarding the Roadmap's progress since its endorsement in 2021. It is important that it continues to evolve across its four areas: disclosures, data, vulnerabilities assessment, and regulatory and supervisory policy, monitoring the progress in implementation by jurisdictions and firms of disclosures and reporting, monitoring climate-related vulnerabilities, and assessing them in a forward-looking manner. In addition, the FSB should continue fostering discussions on the relevance of transition plans for managing transition risks and financial stability.

Planned deliverables

- The Brazilian Presidency asked the FSB to work on a stocktaking of regulatory and supervisory initiatives associated with identification and assessment of nature-related financial risks, and to investigate the perception of central banks and supervisors regarding whether the risk of biodiversity loss is a relevant financial risk. This output will be delivered at the July FMCBG meeting.
- The FSB will deliver the Climate Disclosures Progress Report in November.

ii. Digital Innovations

The current decade is bringing robust advances to the financial system. However, it is important to continue monitoring the risks posed by digital innovations. The G20 needs to be positioned to tackle the issues posed to the financial system by the digital age, in which developments such as decentralized finance (DeFi), tokenization of assets, artificial intelligence (AI) and other innovative market-led technologies are quickly becoming a reality.

The private sector is leveraging on new technologies like tokenized assets and DeFi, while the public sector is also playing its own role in innovation. Central banks, monetary authorities and other government agencies are also designing or implementing digital public infrastructures (DPIs), including fast-payment services and central bank digital currencies (CBDCs).

Distributed ledger technology (DLT) also has the potential to improve efficiency and democratize access to financial and capital market products and services but may pose new

1. Nature-related financial risks cover both climate-related risks and environmental-related risks, as defined in *A call for action – Climate change as a source of financial risk* (NGFS 2019, p. 11).

financial stability challenges for regulators and supervisors. Furthermore, the introduction of a new type of financial market infrastructure, known as a “unified ledger”, has the potential to fully capitalize on the advantages of tokenization. These expanded possibilities could lead to a broader spectrum of economic outcomes. Concerns about the safety of such markets and settlement tools are yet to be evaluated.

Current implementations of delivery-versus-payment settlement protocols have a weak link in their payment component, and there are different possible settlement models, each with unique advantages and challenges. While CBDCs address a range of issues, its retail and wholesale versions imply different risks. Likewise, private digital money, in the form of tokenized commercial bank money or stablecoins, brings about another set of concerns. Therefore, understanding the risks involved in settlement brought by different options is the first step towards providing an efficient, regulated and security-layered alternative to the space covered by tokenized assets and DeFi.

Correspondingly, the integration of AI into the financial sector could potentially affect financial stability. Striking a balance between harnessing the benefits of AI for improved financial activities and mitigating the specific risks associated with its implementation is essential to fostering a stable and adaptive financial environment.

Furthermore, it is crucial to implement the G20 Roadmap on Crypto-Assets prepared during India’s G20 Presidency, and report on its progress. It will be important to identify any gaps in the proposal and work together to ensure that guidelines and recommendations reach non-G20 jurisdictions, avoiding potential regulatory arbitrage. A coordinated implementation is key to ensuring a comprehensive, effective, and flexible policy response to crypto-assets. It is also extremely important to consider the specificities of emerging market economies.

Planned deliverables

- The FSB will deliver an assessment of the financial stability implications of the tokenization of assets at the October FMCBG meeting.
 - The BIS and the CPMI will deliver a report examining the meaning of tokenization in the context of money and other assets, and how to envision a tokenized environment that builds on the best attributes of the current monetary and financial system, while discussing potential future implications, at the October FMCBG meeting.
 - The FSB will work on a report on the financial stability implications of AI, to be delivered to the G20 by November.
 - The FSB, in collaboration with the IMF and other SSBs, is to implement the Roadmap on Crypto Assets to ensure effective, flexible, and coordinated execution of the comprehensive policy response to these assets. It will deliver the first status report on the Roadmap to the G20 by October.
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iii. Lessons learned from the recent banking crisis

The Brazilian G20 Presidency considers it a top priority to advance the work started by the FSB and BIS in 2023 on the lessons learned from the recent banking crisis, and to continue the assessment of the need to improve supervisory, regulatory, and resolution frameworks.

The recent banking crisis was the first since the 2008 global financial crisis, which culminated in the creation of the FSB itself, among many other reforms. The failure of medium-sized banks in large economies has proven to be a source of financial instability with spillover effects to other authorities and regions. Recent episodes have demonstrated that senior management and the boards of directors of certain banks failed to effectively manage risks that are well known in the literature, such as liquidity and interest rate risks. Therefore, supervisors must strengthen their assessment of these and other risks to identify crucial vulnerabilities resulting from banking activities and, just as importantly, act in a timely manner to address potential vulnerabilities in the financial system.

Planned deliverables

- The FSB will produce a summary of the works on interest rate and liquidity risks in the financial system, and on deposit behavior and the role of technology and social media. The summary will be delivered to the G20 by October.
 - The Basel Committee on Banking Supervision (BCBS) will deliver a progress report on its follow-up work to the 2023 banking crisis at the October FMCBG meeting. The report will update the G20 on the work conducted by the BCBS since the publication of its October 2023 Report on the 2023 banking crisis, with a particular focus on liquidity risk.
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II. OTHER FOLLOW-UP WORK

The Brazilian G20 Presidency has identified the need to continue working on the following tasks:

i. Assessment of vulnerabilities in non-bank financial institutions (NBFIs)

The regulatory reform agenda of NBFIs is unfinished and requires continued attention. The outlook for this sector remains challenging due to rising interest rates, economic uncertainties and inherent structural vulnerabilities: liquidity imbalances, leverage, and interconnectivity with banks and companies in the real economy. It is important for the FSB to continue the discussion regarding possible policy approaches to address systemic risks to financial stability related to the activities of NBFIs.

Planned deliverable

- The FSB will continue to coordinate and oversee specific follow-up initiatives on NBFIs, which will be conducted within the FSB as well as by SSBs and international organizations. It will deliver the final recommendations on open-ended funds to the G20 at the February FMCBG meeting. The Annual NBFIs progress report, including the status of the work on NBFIs leverage policy options, will be delivered at the July FMCBG meeting.

ii. G20 Roadmap for Enhancing Cross-Border Payments

The G20 Roadmap for Enhancing Cross-Border Payments is a multi-year workplan created during Saudi Arabia's G20 Presidency. It contains a comprehensive set of actions, together with a framework for monitoring progress toward achieving the established quantitative targets. The Roadmap is currently in its implementation phase, and it is important to identify the challenges faced by members while implementing the actions outlined in the building blocks.

Planned deliverables

- The FSB will deliver the Progress Report on the G20 Roadmap for Enhancing Cross-Border Payments (in collaboration with the CPMI), as well as a cross-border payments quantitative targets progress report, at the October FMCBG meeting.
 - Building on the October 2023 interim G20 report, the CPMI will develop and submit the framework on the governance and oversight of cross-border fast payment systems (FPS) interlinking arrangements to the G20 in October.
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- The CPMI, together with the G7 and the G20 Presidencies, will organize 1-2 fast payment system conferences (e.g. in April and July) to convene payment system operators, seek input and showcase successful experiences to expedite the work on interlinking arrangements. Additionally, the CPMI (together with the IMF and the World Bank) will develop a related Issues Note, focusing on emerging markets and developing economies.
- The IMF will deliver to the G20 by the end of the Brazilian Presidency a report on the desirable characteristics, from a policy standpoint, of cross-border platforms intended for the exchange of money and assets.
- The CPMI will develop recommendations for greater harmonization of application programming interfaces (APIs) used in cross-border payments. These recommendations will be submitted to the G20 by October.

iii. The FSB is to continue working to promote resilience to cyber and operational risks

This has been part of the FSB's agenda in recent years. Discussions have been focusing on the ability to anticipate and respond to cyber-attacks and on strengthening the ability of financial institutions to manage third-party risks and outsourcing.

Planned deliverable

- The FSB will deliver the FIRE report at the October FMCBG meeting.

iv. FSB Annual Report

The FSB will continue working to assess current and emerging vulnerabilities in the global financial system and will report to the G20 on its ongoing work on financial stability issues and on the implementation and effects of G20 reforms.

Planned deliverable

- The FSB Annual Report will be delivered by November.

III. QUESTION FOR DISCUSSION

1. Do Finance and Central Bank Deputies support the suggested priorities and work program for financial sector issues?

GLOBAL PARTNERSHIP FOR FINANCIAL INCLUSION

I. PRIORITIES AND WORK PROGRAM FOR FINANCIAL INCLUSION IN 2024

Financial inclusion is a powerful driver of economic growth and social progress, enabling countries to achieve at least seven out of the 17 Sustainable Development Goals (SDGs) and contributing to the 2030 Agenda for Sustainable Development. It allows households to be better prepared for financial shocks, small businesses to be empowered with credit and resources, and countries to be better prepared for attaining sustainable economic development.

When the topic of financial inclusion entered the global agenda, the levels of exclusion were such that it was natural for policymakers to focus primarily on access to financial products and services. Over time, access and usage have evolved consistently as a result of financial inclusion policies worldwide, frequently catalyzed by technological evolution and innovation in financial markets. It is also important to mention the impact of the COVID-19 pandemic on digital financial inclusion. The global health crisis and government responses accelerated the shift to digital finance in many economies.² By 2021, according to the World Bank's Global Findex database,³ 71 percent of adults in developing countries had an account at a formal financial institution, up from 42 percent a decade ago. Globally, 76 percent of adults had an account in 2021.

Under the Brazilian G20 Presidency, financial inclusion will be a central pillar to promoting economic and social development and reducing inequality. To that end, it is necessary not only to continue to advance access and usage of financial services, but also to improve and increase the focus on the quality of financial inclusion and financial well-being. Thus, the Brazilian Presidency will work on the topics set out by the 2023 GPMI Financial Inclusion Action Plan (FIAP) and on the Presidency Priority, as detailed below.

2. GPMI (2021). Available at: https://www.gpmi.org/sites/gpmi/files/sites/default/files/5_WB%20Report_The%20impact%20of%20COVID-19%20on%20digital%20financial%20inclusion.pdf.

3. See: <https://www.worldbank.org/en/publication/globalfindex>.

II. FINANCIAL INCLUSION ACTION PLAN DELIVERABLES FOR 2024

i. Identify policy options for improving 'last mile' access and quality inclusion

The growth in financial inclusion indicators observed worldwide in recent years has not occurred homogeneously, with some countries still exhibiting low levels of financial inclusion. It is essential to understand the factors and barriers that are, in practice, preventing the access and use of financial products and services on a broad basis in these countries, as well as how to advance further in regions where access and usage can still be improved.

Access to financial services without adequate policies to ensure the quality pillar of financial inclusion can end up bringing new vulnerabilities to populations who are normally already underserved. Quality considers the needs and conditions (sociocultural, economic) of the end user and, when placed at the forefront, seeks to ensure that access and usage promote improvements in the financial well-being of the population.

Therefore, the GPFi will work to identify policy options for improving 'last mile' access and quality inclusion for individuals and MSMEs through digital infrastructure, including digital public infrastructure, consumer protection and other FIAP objectives.

Planned deliverables

- Report with policy options for improving 'last mile' access: Develop an empirical analysis of the reasons behind the lack of substantial progress. The analysis should identify the challenges in achieving 'last mile' access to digital financial services.
- Report with policy options for improving quality inclusion: Work on the identification and definition of indicators which can track the evolution of financial inclusion from a quality perspective.
- Leveraging the work conducted on both issues, the GPFi will work to identify best practices and policy options for improving 'last mile' access and quality inclusion for individuals and MSMEs.

Action Plan for MSME Finance

Adequate digital services for MSMEs are essential in promoting sustainable development. Financial services must suit the multiple needs of companies and also align with the sustainability of the ecosystem in which they operate.

Under the 2023 FIAP, the GPFi will work on a new action plan for SME Finance. The proposal is to build on past GPFi work on this issue to develop a new action plan, aiming to identify

crucial action areas and concrete initiatives that would allow countries to fill the gaps in MSME financing. As this is a multi-year project, it is necessary to define a timeline considering the next two years to develop and implement the new action plan.

Planned deliverables

- Development of a new action plan for MSME Finance.
- Organization of a 1-day seminar to discuss the landscape of financial services to MSMEs, to take place together with the 1st GPMI Plenary.

III. PRESIDENCY PRIORITY: CONCEPTUAL FRAMEWORK AND MEASUREMENT OF FINANCIAL WELL-BEING

Financial well-being has been studied by several international organizations in recent years as a way of verifying the impact of public policies related to financial inclusion, financial education, and financial consumer protection. However, there is still no commonly accepted conceptual framework and—crucially—no tested indicators suitable for different country contexts. Therefore, it is still an open issue where a common framework would be useful for harmonizing terminologies, defining measurement tools, and developing policy guidelines to help countries move towards more effective policies for financial inclusion.

Therefore, the Brazilian Presidency proposes to the GPFi to deepen the discussions and seek a unified and consensual concept of financial well-being. Additionally, the group will work to define a list of financial well-being indicators and/or measurement tools that can suit different country contexts and to reinforce the connections between financial well-being and quality of financial inclusion.

The proposal is to seek the following:

- Harmonized terminologies: What do we understand as financial well-being?
- Measurement indicators: How can we measure financial well-being? Which indicators would help measure the quality of financial inclusion? What are the connections between them?

Planned deliverable

- A report comprising:
 - a. A unified and consensual concept of financial well-being.
 - b. A list of financial well-being indicators and/or measurement tools.
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IV. FURTHER ISSUES

i. Reducing remittance costs

Remittances are an important source of external financing in many emerging and developing countries. For 2024, GPMI will update leaders on the progress regarding the remittance plans sent by GPMI Member Countries.

Planned deliverable

- 2024 Report with Update to Leaders on Progress Towards the G20 Remittance Target.

V. WAY FORWARD

Through its deliverables in 2024, the objective of the GPFi is to guide the work of the financial inclusion community, positively impacting the SME ecosystem and the financial well-being of citizens, especially those most in need and, in this way, make an important contribution to building a less unequal world and a more sustainable planet.

VI. QUESTION FOR DISCUSSION

1. Do Finance and Central Bank Deputies support the proposed priorities and work program for financial inclusion in 2024?

