



THE G20 BRISBANE SUMMIT

Insight & Analysis

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FLEISHMANHILLARD

A YEAR OF TRANSITION IN A CHALLENGING MACROECONOMIC ENVIRONMENT

“The world is in the middle of a balancing act. On the one hand, countries must address the legacies of the global financial crisis... On the other, they face a cloudy future. Potential growth rates are being revised downwards, and these worsened prospects are in turn affecting confidence, demand, and growth today.”

IMF World Economic Outlook, October 2014

“The Brisbane Summit will be the first G20 summit that focuses on the transition from fighting the global crisis to supporting the recovery.”

Jean-Claude Juncker, European Commission President, October 2014

“In Washington in 2008, the G20 committed to fundamental reform of the global financial system. The objectives were to correct the fault lines that led to the global crisis... The Brisbane Summit will mark the end of this phase of global financial reform”

Mark Carney, Financial Stability Board Chair, September 2014

Leaders at the last several G20 summits have all heralded the end of the crisis and a shift of focus towards the economic recovery; most have since been disappointed.

Instead, the recovery in many countries has been timid or non-existent. With the IMF downgrading expected global growth to 3.3% for 2014 and 3.8% for 2015, dramatically slowing growth in China, continued stagnation in the Eurozone, and global monetary policy options appearing to be nearly exhausted, **the demand for new policy initiatives from the G20 this year has been heightened.**

As a result, G20 Leaders this year are more sanguine about the end of the crisis, but have chosen to make a robust shift in their policy orientation. The 2014 Brisbane Summit will see the G20 and the Financial Stability Board (FSB) **claim that the fault-lines that led to the global financial crisis have been largely addressed** and that a new focus on supporting growth is now needed.

The Australian Presidency has aggressively championed a dual focus agenda of **lifting global growth through structural reforms and improving conditions for investment in public infrastructure.**

This shift towards growth over stability oriented reform will nevertheless **happen in parallel to ongoing work on finalizing and monitoring the implementation of regulatory standards.** It does, however, point to a new set of responsibilities for the G20 to take on that will also test the forum on how effective it is outside of its more traditional fire-fighting role.

THE FOUR PRIORITIES OF THE AUSTRALIAN PRESIDENCY OF THE G20

G20 Leaders this weekend are expected to **endorse and give further mandates** to a range of initiatives developed this year by finance ministers, regulatory bodies and international organizations in **four priority areas** identified by the Australian Presidency:

The Brisbane Action Plan on Growth and Jobs: Leaders will commit to an action plan of initiatives aimed at raising collective global GDP by 2% by 2018 above the trajectory level implied by policies in place in 2013. The action plan will focus on structural reforms and mostly feature existing initiatives being prioritized in national jurisdictions (e.g. reviving the market for high-quality securitization in Europe). A preliminary OECD analysis indicates that these measures could together lift GDP growth by 1.8% by 2018.

A Global Infrastructure Initiative: Infrastructure development has been one of the Australian Presidency's headline issues this year. In September, finance ministers agreed to a multi-year Global Infrastructure Initiative that will promote the development of a knowledge sharing platform, address data gaps, and create a consolidated project database to address problems in matching private investors with infrastructure projects. Global and regional development banks will also enhance their cooperation.

Ending Too-Big-to-Fail: Financial Stability Board Chair Mark Carney committed at last year's G20 St. Petersburg Summit that the FSB would propose the rules necessary to end the Too-Big-to-Fail banking issue by the Brisbane Summit. With this week's proposal of total loss-absorbing capital standards (TLAC) and the earlier consultation on cross-border recognition of bank resolution actions, G20 leaders will give the FSB a strong mandate to finalize this work and ensure timely implementation across jurisdictions.

Addressing Tax Avoidance: Leaders will extend a strong mandate to continued work on addressing cross-border tax avoidance. This will include welcoming progress on the G20/OECD Base Erosion and Profit Shifting (BEPS) Action Plan and committing to its finalization in 2015. They will also endorse the final Global Common Reporting Standard for the automatic exchange of tax information and will begin automatically sharing tax information between jurisdictions by 2017/2018.



THE GLOBAL FINANCIAL REGULATORY AGENDA

Complementing the G20's shift in focus towards encouraging economic growth, **the FSB will draw a line under five years of regulatory reform** and declare itself successful in having addressed the financial sector vulnerabilities that led to the crisis.

Chief among this is a claim already made by FSB Chair and Bank of England Governor Mark Carney that the Brisbane Summit represents the point where **all the international regulatory initiatives to end the Too-Big-to-Fail (TBTf) banking issue will have been proposed.**

This is backed by the FSB's 10 November release of a proposal for **total loss-absorbing capacity for banks (TLAC)**, and a consultation on the cross-border recognition of resolution actions (including contractual stays on derivative close-out rights).

The FSB is also still working to **extend the TBTf regime to non-banks** and particularly to insurers, as well as adopting a series of standards to **address risks in the shadow banking sector.**

Finalizing these standards will still require several years of work as they pass through **a complex regulatory rulemaking and approval process** (see graphic below). However, the FSB is now shifting its organizational focus towards the ongoing monitoring of reform implementation, along with establishing itself as **the key global body to assess emerging financial stability risks and vulnerabilities** and to coordinate the work of policymakers and regulators in responding to them.

FSB Regulatory Priorities | 2014

Ending Too-Big-to-Fail

Proposed standards for total loss-absorbing capacity (TLAC)

Consultation on cross-border recognition of resolution and stays

Extension of TBTf regime and capital standards to systemic insurers

Addressing Shadow Banking

Minimum haircut standards for securities financing transactions

Basel supervisory framework for large exposures to equity funds

Implementation of OTC Derivatives Reform

Shifting focus towards assessing vulnerabilities

AT A GLANCE: THE G20 FINANCIAL STANDARD-SETTING CYCLE

