



G20 MONITOR

G20 2014: Reform of the international organisations, financial regulation, trade, accountability and anti-corruption

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OVERVIEW

MIKE CALLAGHAN¹

This issue of the G20 Monitor contains papers dealing with the role of the G20 in the following areas: strengthening international institutions, introducing *ex ante* regulatory impact statements when considering new financial regulations, and trade liberalisation. Also included is a report on the G20 conference hosted by the G20 Studies Centre in June 2014 on 'Strengthening Accountability and Effectiveness'. With the Brisbane Summit fast approaching, the G20 faces immense challenges. Ivan Oliveira sums it up clearly in the opening sentence in his paper:

In a gloomy scenario for the world economy and its governance structures, circumscribed by an increasingly complex geopolitical framework, G20 leaders meeting in Brisbane next November will have a much harder task than they thought they would some months ago.

G20 AND STRENGTHENING INTERNATIONAL ECONOMIC INSTITUTIONS

My paper focuses on the role that the G20 should play in ensuring that the international economic institutions are effective. This should be a fundamental objective if the G20 is the premier forum for international economic cooperation. Moreover, the G20 will require effective international bodies if it is to be successful in its aim of increasing global economic growth. The G20 should ensure that the representation and governance arrangements of the institutions are appropriate and that their mandates adapt to meet the needs of an increasingly integrated global economy.

There are some specific measures that the G20 should be addressing with respect to the key international economic institutions. These include: their surveillance function, quota and governance reform, regulatory impact assessments by the Financial Stability Board (FSB) and financial standard-setting bodies, the tax agenda, the future of the WTO, and international energy governance.

In order to strengthen the surveillance functions of the IMF, OECD, and World Bank, the G20 should invite these bodies to play an active and ongoing role in providing oversight of the development and implementation of growth strategies by G20 members. While continuing to push for the implementation of quota and governance reforms in the IMF, the G20 should not be fixated on making progress, given the continuing failure by the US Congress to pass the agreed measures. But it should ensure that the delay is not adversely impacting the operations

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of the IMF. In particular, the G20 should ensure that the Fund is even-handed in terms of access to its resources and its surveillance functions.

In addition to taking steps to improve the representation arrangements in the FSB, the G20 should focus on improving the way that the FSB, and the financial standard-setting bodies, approach their work. For example, principles should be introduced for considering new international financial regulations, incorporating mandatory cost-benefit analysis, assessment of implementation difficulties, comprehensive consultation, and an assessment of alternative approaches. Martin Joy's paper on financial regulation focuses on one particular aspect of this issue, namely the importance of *ex ante* regulatory impact assessments when considering new financial regulations.

Combating tax evasion and avoidance is a key G20 priority and the G20/OECD initiative on Base Erosion and Profit Shifting (BEPS) is an important aspect of this exercise. However, ensuring that the international tax arrangements are appropriate for globally operating businesses is an ongoing exercise. At the end of the existing timetable for the BEPS action plan, the world cannot revert to an OECD-centric approach to dealing with international tax issues. The institutional framework for addressing international tax spillovers needs to be strengthened. It needs to be more representative and incorporate mechanisms to more directly involve developing countries in the negotiations. The G20 should be advancing discussions regarding permanent changes to the institutional arrangements for dealing with international tax issues.

Trade liberalisation must be at the heart of the G20's growth agenda. After 12 protracted years negotiating the Doha round, the agreement reached by WTO ministers in Bali in December 2013 was viewed as breathing life back into the WTO. However, India's veto of technical changes by the WTO to advance the trade facilitation aspect of the agreement reached at Bali has thrown doubt over the future of the WTO. Given that the global economy has prospered under a rules-based global trading system administered by the WTO, particularly in dealing with trade disputes, a G20 priority should be strengthening the WTO. The importance of the G20 boosting the role of the WTO and the global trading system is picked up in more detail in Ivan Oliveira's paper.

International energy governance has not kept pace with changes in the global economy and no international agency currently brings together all of the major players on an equal basis for the specific purpose of strengthening cooperation on energy. One outcome from the Brisbane Summit should be the explicit acknowledgement of the need for a global forum that focuses on global energy challenges and brings together all the major countries that will most heavily rely on global energy markets in the twenty-first century.

THE G20: FINANCIAL REGULATION AND REGULATORY IMPACT ASSESSMENTS

The importance of committing to *ex ante* regulatory impact assessments before introducing new financial regulations is one of the issues raised in my paper when discussing the reform of the FSB and covered in detail in Martin Joy's paper. Joy advocates that the G20 should commit to the use of such assessments, along with considering the costs and benefits associated with any application of domestic financial regulation to non-domestic entities (that is, taking into account the extra-territorial impact of new regulations).

Joy points out that neither the FSB nor the standard-setting bodies have consistently undertaken *ex ante* assessments of the costs and benefits of financial regulations before they have been introduced. The most commonly used assessment measure by the FSB has been public exposure of proposed standards through consultation processes. To help improve the regulatory process, Joy suggests that an *ex ante* cost-benefit analysis should be performed as early as possible in the policy-making process and made available for public comment. He also proposes that the assessments should follow the OECD recommended approach. This includes undertaking a cost-benefit assessment that takes into account the welfare impacts of regulation, identifying the specific 'policy needs' being addressed by the regulation, considering alternative ways of meeting the policy objectives, assessing proposals including quantification of the costs, benefits, and risks wherever possible, and incorporating the analysis as part of the consultation arrangements.

Joy's proposals are consistent with some of the recommendations on financial regulation made by the B20.² In particular, the B20 has suggested that the G20 introduce high-level guiding principles for proposed new financial standards, including mandatory cost-benefit assessments and better approaches towards consultation.

THE TRADE AGENDA AT THE BRISBANE SUMMIT: A CRUCIAL MOMENT

As noted, Ivan Oliveira's paper focuses on the importance of the G20 in strengthening the role and future of the WTO. This is particularly important in the wake of the recent stalemate in implementing the Bali Package and the consequential lowering of expectations about the prospects of concluding the Doha Round of trade talks. Oliveira notes that this stalemate is a result of actions by G20 members and that this brings into question the overall commitment to cooperation within the forum. Consequently, the next G20 summit must restore faith in the

² Robert Milliner, "Unlocking Private Sector Led Growth and Investment," in *G20 Monitor No. 9: G20 2014 - Perspectives from Business, Civil Society, Labour, Think Tanks and Youth* (Sydney: Lowy Institute for International Policy, 2014).

global trading system and in the future of the WTO, not only for the sake of the WTO but for the G20 itself.

Oliveira suggests a number of steps that G20 members should take in Brisbane. These include: making a definitive commitment to implement the Bali Package, defining an agenda for concluding the Doha Round, establishing a common approach to the role that the WTO can play in the global trading system in the future (particularly focused on advancing plurilateral trade agreements), and reinforcing the role of the WTO in monitoring the roll-back of protectionist measures by G20 members.

G20 CONFERENCE: STRENGTHENING ACCOUNTABILITY AND EFFECTIVENESS

Daniela Strube's paper summarises the key points discussed at the conference dealing with strengthening the accountability and effectiveness of the G20, which was hosted by the G20 Studies Centre on 25 June 2014. The aim of the conference was to ascertain how key G20 stakeholders, in particular international organisations, business and labour, as well as civil society and think tanks, could complement member countries in making the G20 more efficient, accountable, and responsive in meeting global challenges.

Discussions at the conference focused on a number of main issues. These included: the fact that a focused and integrated agenda is of utmost importance to the G20; that the level of public commitment by G20 leaders is the most important predictor of the success of a summit; that engaging domestic constituencies in the G20 process is essential to strengthening the G20; that there is a need to strengthen the input of new ideas into the G20 process. Here, there is a role that can be played by think tanks and international organisations, and further efforts are required to strengthen Asian participation in the G20's engagement mechanisms. Some officials noted that they feel the G20's culture of cooperation is improving. In addition, discussions highlighted that neglected areas on the G20 agenda include climate change, ageing and inclusive growth.

The general feedback from participants was that the conference addressed many important issues and the active involvement of the various stakeholders in the G20 process was greatly appreciated by all.

ANTI-CORRUPTION

AJ Brown's paper canvasses why anti-corruption remains a vital element of the G20 leaders' agenda. In doing so, he focuses on what the next G20 Anti-Corruption Plan should contain. He draws on the recommendations that have been made by the various G20 engagement partners — business (B20), civil society (C20), the labour movement (L20), youth (Y20), and think tanks (T20). Brown concentrates on three

priorities identified in the recommendations: transparency of corporate (beneficial) ownership, foreign bribery and other corruption law enforcement, and whistle-blower protection.

Brown highlights that anti-corruption should not be seen as a stand-alone item on the G20 agenda, but as a core component for attaining the overarching G20 objectives of increasing global growth and maintaining financial integrity and resilience. For example, corruption constitutes a direct drain on growth by diverting resources (such as the theft of public monies), driving up costs, increasing uncertainty and barriers to entry (through bribery), and distorting public policy and markets away from rational public-interest principles. Brown does not support, however, mainstreaming or diffusing the anti-corruption agenda into the other work streams of the G20. He argues that this could relegate key governance issues to second-order status. In contrast, he advocates a more integrated governance reform agenda supporting a more streamlined G20 agenda overall. His bottom line is that efforts to suppress corruption and maximise integrity within the G20 are here to stay.

G20 AND STRENGTHENING THE INTERNATIONAL ECONOMIC INSTITUTIONS

MIKE CALLAGHAN¹

INTRODUCTION

To be effective, the institutions must be perceived by all as being legitimate, and this in turn requires that their governance structures respond to changes in the relative weight of economies, in particular the rise of the emerging market economies.

In an increasingly integrated global economy, effective multilateral economic institutions are essential. They are the underlying plumbing of global governance and the key players if globalisation is going to work for all. The mandates for these institutions must remain relevant to a rapidly changing global economy, but at the same time they must avoid mission creep. To be effective, the institutions must be perceived by all as being legitimate, and this in turn requires that their governance structures respond to changes in the relative weight of economies, in particular the rise of the emerging market economies. While they must be representative, this cannot be at the expense of effective and timely decision-making. They must avoid international political gridlock.

If the G20 is to be a global economic steering committee, then one of its main roles should be to help ensure that international institutions adapt to global changes and are effective. In turn, for the G20 to be successful in its aim to increase global growth, it will require effective international institutions.

AN INTEGRATED GLOBAL ECONOMY

The financial crisis demonstrated the close interconnection between financial markets. Financial institutions increasingly operate globally. Cross-border bank claims have risen from \$US6 trillion in 1990 to over \$US30 trillion in 2008.² This is a rise of over 250 per cent as a share of global GDP. The rapid growth in international capital flows has brought many benefits, such as better international allocation of savings and investment. But such flows can be volatile and result in the faster international transmission of shocks. The global crisis demonstrated that greater attention has to be paid to the linkages among economies and the impact of one country's policy on others.

Another expression of the integration of the global economy is the rise of global value chains. The growing fragmentation of production across national borders highlights the importance of open trade and investment regimes, because protective and restrictive barriers impact not only

¹ Director, G20 Studies Centre, Lowy Institute for International Policy.

² Nemat Shafik, "Smart Governance: Solutions for Today's Global Economy," (speech, Oxford, 5 December 2013), IMF, www.imf.org/external/np/speeches/2013/120513.htm.

foreign suppliers, but also domestic producers. With goods now effectively 'made in the world' rather than solely in one country, the approach to trade policy has to change. The mercantilist view that exports are good and imports are bad, and that market access concessions should only be granted in exchange for access to another country's market, is out of date. Domestic firms depend on reliable access to imports of goods and services to improve their productivity, competitiveness, and opportunity to export.

International tax laws also have to adapt to a changed global marketplace. In a world where firms are increasingly operating globally and production processes are widely dispersed, along with the increasing provision of goods and services through the internet, it is increasingly difficult for a jurisdiction to identify where its taxing rights exist, and very easy for corporations to ensure that profits are only declared in low-tax jurisdictions.

AN INTEGRATED GLOBAL ECONOMY REQUIRES EFFECTIVE INTERNATIONAL INSTITUTIONS

No one country operating alone can effectively respond to the challenges posed by an increasingly integrated global economy. Individual nation states will find it increasingly difficult to ignore the policies of other countries and to set laws covering globally operating businesses. Effective international cooperation will become more and more important. The world will need forums such as the G20 to provide political economic leadership and promote greater economic cooperation. The G20 is not an institution, however, and has no standing secretariat. It is essentially a political forum involving a meeting of leaders from systemically important economies. Its main strength is that leaders can provide political momentum to deal with pressing global economic issues and its members can commit to pursue national policies which will benefit all countries. But the G20 needs effective international institutions to take forward its commitments and to deliver its objectives.

An integrated global economy requires effective multilateral economic institutions. The importance of international institutions to the pursuit of economic growth and financial stability was recognised with the establishment of the Bretton Woods Institutions in 1944 — the International Monetary Fund (IMF) and the World Bank. In the area of trade, the General Agreement on Tariffs and Trade (GATT) commenced in 1948, replaced by the World Trade Organization in 1985. To advance international efforts to promote strengthened financial markets, the G20 sponsored the establishment of the Financial Stability Board (FSB) in 2009. Comprehensive international institutions do not exist in the area of tax and energy, although the OECD has taken the lead in the former and the International Energy Agency (IEA) is the most prominent body in the area of energy governance.

But the G20 needs effective international institutions to take forward its commitments and to deliver its objectives.

The world has changed greatly from when most of these institutions were established. The institutions must change accordingly if they are to remain relevant and effective. But there appears to be significant inertia when it comes to reforming global bodies. Transitions and shifts in relative economic power may not be smooth. For some countries to have more power and influence in these institutions, others have to have less. It is therefore not surprising that changes in the governance arrangements in international institutions are protracted and contentious. Overcoming such political roadblocks is a major contribution that the G20 can, and has, provided. In particular, the G20 has sought to advance governance reform in the IMF and the World Bank, seeking to change their quota and shareholding arrangements so that they better reflect the rise of rapidly growing emerging markets. While changes to the World Bank shareholding have been implemented, a package of reforms to IMF governance agreed by the G20 in 2010 is still awaiting passage by the United States Congress before they can be implemented.

It is important, however, that the G20 renews and increases its focus on ensuring that the international institutions are operating effectively and efficiently. Specifically, the actions that G20 members take in Brisbane in terms of showing how they will follow through and deliver on their multi-year commitments can not only bolster the credibility of the G20, but they can help strengthen the standing and effectiveness of the international institutions. (This is in part because the need for reform in G20 economies that led to the growth strategies initiative is based on assessment and analysis by international institutions such as the IMF, the OECD and the World Bank).

STRENGTHENING SURVEILLANCE BY THE IMF AND OECD

A core activity of the IMF and OECD is undertaking surveillance of members' economies. In particular, IMF staff continually monitor members' economies. This includes annual visits to discuss with authorities how the member's economy is performing, and whether there are risks to domestic and global stability. They recommend policy adjustments to lift the member's economic performance. The OECD also surveys and conducts economic surveillance of its member economies. In addition, the IMF monitors global and regional economic trends and identifies spillovers from members' policies to the global economy. In today's globalised world, where the actions of one country can have significant repercussions for others, effective economic surveillance is important. But the IMF now struggles to gain traction with its policy advice, particularly in the major economies.

The G20 could strengthen the effectiveness of the surveillance operation of the IMF and OECD by inviting these institutions, along with the World Bank, to play an active role in providing oversight of the development

...inviting these institutions... to play an active role in providing oversight of the development and implementation of the G20 country growth plans.

and implementation of the G20 country growth plans (aimed at increasing global growth by an extra 2 per cent over five years). G20 finance ministers and central bank governors adopted this objective at their meeting in February 2014 and undertook to submit individual growth strategies consistent with obtaining this objective at the Brisbane Summit.³ This growth ‘target’ comes from an assessment by the international institutions that with additional country specific reforms, the global economy could expand by an extra \$US2.5 trillion by 2018.⁴

One factor that has inhibited the effectiveness of IMF surveillance has been concern by many countries, particularly emerging markets and developing countries, that they are underrepresented in the Fund’s quota and governance arrangements. A perception shared by many in these countries is that there is a bias in IMF surveillance in favour of the large advanced countries that are the main shareholders in the Fund. As noted, the G20 has agreed to reforms to IMF quota and governance arrangements, but these are being blocked by the US Congress. These reforms are important, but the proposed shift in quota shares from advanced markets to emerging markets and developing countries is modest, only 2.8 percentage points.⁵ The blocked package of reforms is, however, intended to be part of bigger changes to come. Part of the reform involves a review of the formula used to determine quota allocations and an acceleration of the next general review of quotas. This is expected to produce larger shifts in quota shares to emerging markets. The other key aspects of the reforms are a move to an all-elected IMF Executive Board, and Europe agreeing to give up two of its chairs on the Board in favour of developing countries.

The delay in advancing the IMF reforms is unfortunate and frustrating, damaging the credibility of the IMF and G20. This frustration has, in part, contributed to the move by Brazil, Russia, China and South Africa to establish a New Development Bank — often simply referred to as the ‘BRICS’ Bank’— that combines features of the World Bank and the IMF. The G20 has to be more responsive in accommodating the concerns of emerging markets. While the G20 should continue to press the United States to pass the governance reforms, the G20 should not become

The delay in advancing the IMF reforms is unfortunate and frustrating, damaging the credibility of the IMF and G20.

³ G20, “Communiqué of Meeting of the G20 Finance Ministers and Central Bank Governors, Sydney, Australia, February 23, 2014,” (Sydney, 23 February 2014), <http://www.g20.utoronto.ca/2014/2014-0223-finance.html>.

⁴ IMF Staff with Inputs from the OECD and World Bank, “Macroeconomic Reform Priorities,” February 2014, https://www.g20.org/sites/default/files/g20_resources/library/G-20%20Macroeconomic%20Reform%20Priorities%20Report%20Feb%202012%202014.pdf.

⁵ IMF, “Fourteenth General Review of Quotas — Realigning Quota Shares: Initial Considerations, Supplement, Statistical Appendix, and The Chairman’s Concluding Remarks,” (Washington DC: International Monetary Fund, 4 March 2010), <http://www.imf.org/external/np/pp/eng/2010/030410a.pdf>.

'stuck' if there are ongoing delays by the United States. It should rather be proactive and ensure that the failure to advance the governance reforms is in no way impacting the operations of the IMF and, in particular, ensure that the Fund's surveillance (along with access to resources) is even-handed and is not biased towards any group of countries. Given the perceptions that IMF surveillance has favoured the large economies, a move by G20 members that demonstrates that they are responsive to IMF advice would be a significant step in strengthening the Fund and the credibility of the G20.

IMPROVING THE FSB'S GOVERNANCE ARRANGEMENTS

Strengthening financial sector regulatory arrangements has been a major focus of the G20 since the crisis in 2008. The G20 transformed the Financial Stability Forum into the Financial Stability Board in 2009, expanded its membership to cover all G20 countries, and endorsed an expansion in the size of its secretariat. Since 2008, the FSB has launched a host of wide-ranging regulatory reforms and has introduced a series of regional consultative forums. G20 finance ministers have indicated that the priority in 2014 is to complete, by the Brisbane Summit, key aspects of the financial regulatory reforms in four areas: building resilient financial institutions (through Basel III), ending too-big-to-fail, addressing shadow banking risks, and making derivative markets safer.⁶ Given the magnitude of regulatory changes launched since the crisis in 2008, it is not surprising that there is a strong appetite among both regulators and the finance sector to consolidate rather than extend reform initiatives.⁷

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While the focus of the G20 in 2014 is to encourage the FSB to finalise the core design phase of important regulatory reforms by the Brisbane Summit, the task of providing oversight to the international financial system will never be 'completed'. Given the ongoing task of improving international financial regulatory standards, along with the implementation of these standards, the G20 should be focusing on strengthening the governance and operations of the FSB. Towards that end, it is appropriate that the FSB is considering options to improve country representation and will provide a report on this issue at the Brisbane Summit. The current concern is that while the larger G20 countries have three representatives at the FSB plenary meetings, others have either two or one representative. This has been a source of concern for countries with more limited representation. The review of representation must establish mutual confidence and trust. It is essential that not only all members, but also non-members, have confidence and trust in the FSB.

⁶ G20, "Communiqué."

⁷ Milliner, "Unlocking Private Sector Led Growth and Investment."

In addition to improving the FSB's representation arrangements, the G20 should also focus on improving the way the FSB, along with the financial standard-setting bodies, approach their work. For example, the Business20 (B20) has proposed that high-level guiding principles should be adopted, including better approaches towards consultation on proposed new standards. The B20 has suggested that these principles could be based around the need for: a clear mandate for a new or enhanced regulation, mandatory cost-benefit analysis of proposed regulation, an assessment of the difficulty of implementing regulation before it is introduced, and consideration of alternatives such as greater discretion for regulators. The B20 has also identified a need for improved arrangements to take into account the needs of emerging markets.⁸ This is a pressing issue. The regulatory response through the FSB primarily reflects the experience and views of Europe and North America. But as the B20 has noted "it is important that international regulators properly consider financial systems that are at different stages of development or have fundamentally different characteristics when designing new global rules."⁹

As part of strengthening the FSB, the G20 needs to improve its oversight of financial regulatory issues, including clarifying its relationship with the FSB. Specifically, while the FSB focuses on the detail of new regulatory measures, establishing timetables for their adoption, and monitoring progress with their implementation, the G20 should be dealing with high-order issues. This could include whether the prioritisation for developing new standards is appropriate as well as likely changes in the structure of the financial system as a result of the regulatory measures. Other aspects that need to be considered include progress in obtaining the balance between financial stability and promoting economic growth, and whether there are unintended consequences from the regulation. The G20 should also be active in ensuring that the views of emerging markets are being adequately taken into account.

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A NEW FORUM IS NEEDED FOR DEALING WITH INTERNATIONAL TAX ISSUES

Combating tax evasion and avoidance is a G20 priority. A particular focus is dealing with base erosion and profit shifting (BEPS) — the capacity of globally operating firms to shift profits to low or no tax jurisdictions. In July 2013, at the request of the G20, the OECD released a 15-point action plan focused on addressing BEPS. It also announced a timetable: the completion of a number of the actions by September 2014, with the remainder of the plan to be finished by September 2015.

While the OECD's BEPS action plan is an important initiative, and the G20 has a critical role in maintaining political momentum on combating

⁸ Ibid.

⁹ Ibid.

...the case for an inclusive and less piecemeal approach to international tax cooperation grows.

tax avoidance, it is a complex and ongoing issue that essentially involves ensuring that international tax laws keep up with a rapidly changing global environment. This has resulted in the questioning of some basic international tax principles. The issue will not be 'solved' with the completion of the current timetable of OECD reports on BEPS. The BEPS project should be seen as the start of a fundamental change in the governance arrangements for dealing with international tax issues, and the G20 should be at the forefront of embracing and supporting this change.

The IMF recently noted that "the institutional framework for addressing international tax spillovers is weak. As the strength and pervasiveness of tax spillovers becomes increasingly apparent, the case for an inclusive and less piecemeal approach to international tax cooperation grows."¹⁰

The OECD has traditionally been the source of expertise on international tax issues, and the focus of its work has been on bilateral tax treaties and standards for avoiding abusive transfer pricing. The United Nations has played a much smaller role in the area of international tax. The BEPS action plan has been extended beyond OECD members and is presented as an OECD/G20 initiative with the non-OECD G20 members participating in the negotiations as equal members. This has to be an ongoing process. At the end of the existing timetable for the BEPS action plan, set for 15 September 2015, the world cannot revert to an OECD-centric approach to dealing with international tax issues.

While non-OECD G20 members are participating on a basis equal to OECD members in the BEPS project, developing countries have expressed concern that they are not directly involved in the negotiations. This is despite the fact that developing countries are more adversely impacted by base erosion than the advanced economies.¹¹ As the IMF notes:

the spillover base effect is largest for developing countries. Compared to OECD countries, the base spillovers from others' tax rates are two to three times larger, and statistically more significant ... The apparent revenue loss from spillovers ... is also largest for developing countries.¹²

The G20 should begin a discussion around more permanent changes to the arrangements for dealing with international tax issues. This should include not only formalising the participation of non-OECD G20 members beyond the timetable for the current BEPS initiative, but also establishing mechanisms to more actively and directly involve developing countries.

¹⁰ IMF, *Spillovers in International Corporate Taxation*, IMF Policy Paper, (Washington DC: International Monetary Fund, 9 May 2014), www.imf.org/external/np/2014/050914.pdf.

¹¹ Ibid.

¹² Ibid.

STRENGTHENING THE WTO

Trade liberalisation should be at the heart of the G20 growth agenda. As part of embracing the importance of trade to growth, G20 leaders should provide strategic direction regarding the future of the multilateral trading system and the WTO. The WTO's regulations, dispute settlement strategies, and the work of its administration have become crucial to the management of international trade. However, the WTO does not have a successful record in advancing multilateral trade liberalisation. The lengthy nature of the Doha negotiations has seen trade liberalisation being pursued more through bilateral and regional trade agreements. There is a concern that mega-regional trade agreements — such as the Trans-Pacific Partnership (TPP) and the Transatlantic Trade and Investment Agreement (TTIP) — will see trade rules increasingly balkanised and unequal. These regional trade agreements are discriminatory, especially against developing countries who are not members. For decades, developing countries have benefited from progressive trade liberalisation driven by developed economies.

After twelve years of protracted negotiations over the Doha round of multilateral trade liberalisation, the WTO reached its first liberalisation agreement in Bali in December 2013. This agreement was viewed as breathing life back into the WTO and its ability to advance multilateral trade liberalisation. However, India's veto against technical changes to advance the Bali agreement on trade facilitation to be made by the WTO by 31 July 2014 (a deadline set by WTO trade ministers) has thrown doubt over the future of the multilateral trading system and the WTO. Notwithstanding India's position, which hopefully will be reversed, the G20 must press on in advancing trade liberalisation and must reinforce the future of the WTO. This is essential if the G20 truly is the premier forum for international economic cooperation and is operating as a global economic steering committee.

G20 leaders can play a major role in liberalising global trade and strengthening the role of the WTO. At the Brisbane Summit, G20 members should commit to roll back protectionist measures introduced since the crisis. As noted by the Australian G20 presidency, protectionist measures are on the rise, with 407 new measures introduced last year, up from 308 measures the previous year.¹³ The G20 should go further and commit to roll back non-tariff measures, as identified by several international organisations. It should also ask the WTO to monitor and report on progress in the rollback of these protectionist pressures and commit to discussing these reports at the next leaders' meeting. The G20 chair should also seek commitments from G20 members for the early implementation of the Bali trade facilitation agreement. G20 members should not wait for the formal ratification of the agreement, but

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¹³ G20, "Removing obstacles to trade," (2013), https://www.g20.org/g20_priorities/g20_2014_agenda/removing_obstacles_trade.

...the G20 should go further and set a strategic direction for the future of the WTO.

rather include in their growth strategies the steps they will take to enable the rapid implementation of the measures contained in the agreement. In addition, they should commit to providing the necessary assistance to developing countries for implementing the trade facilitation agreement.

Elevating the role of the WTO in monitoring the G20 members' progress in liberalising trade would help promote the standing of the organisation, but the G20 should go further and set a strategic direction for the future of the WTO. As noted, this is particularly important given that India's actions have brought into question the future of the WTO. The time has come to consider multilateral trade liberalisation in a post-Doha world and the G20 should start this discussion. Negotiations in a post-Doha world should avoid repeating the ambitious and wide-ranging Doha agenda — a single undertaking where 'nothing is agreed until everything is agreed'. Negotiations should instead target specific areas and allow for plurilateral agreements in which WTO members can opt into joining the agreement. The discussions over the future of the WTO should be anchored around the governance and implications of global value chains. Such an approach by the G20 would bolster the future of the WTO.

STRENGTHENING GLOBAL ENERGY GOVERNANCE

International energy governance has not kept pace with changes in the global economy, particularly the changing relations between oil producers and consumers. The 'global energy governance system' in 2014 is fragmented, byzantine, inflexible to new energy problems, and does not adequately bring together the needs of major emerging markets and advanced countries. Progressing from the current unsatisfactory situation to establishing an energy governance framework fit for dealing with the challenges of the twenty-first century will only happen if world leaders from major energy producer and consumer countries reach a common understanding on why such an outcome is politically desirable, how their citizens would benefit, and what they can actually do to assist.

Energy governance bodies, such as the International Energy Agency (IEA) and the Organization of the Petroleum Exporting Countries (OPEC), were originally composed of the world's major oil importers and exporters respectively. However, their mandates and membership are becoming increasingly misaligned given changes in the global energy market and a number of looming challenges. These include the considerable increase in energy demand driven by the demographic and economic shifts in non-OECD countries, major oil and gas importers becoming exporters, major exporters consuming more energy than some importers, and many smaller players disrupting energy supply and

demand channels as their market influence grows over time.¹⁴ Other relevant factors and risks include changing patterns of industrialisation, power generation, and distribution, the volatility of energy pricing, as well as technological innovation within the energy sector — typified by the falling cost of renewable power generation technologies and the new means of tapping previously inaccessible shale, coal seam, and tight gas resources.

No agency currently brings together all of the major players, on an equal basis, for the specific purpose of strengthening cooperation on energy. The IEA could be elevated into a role that allows it to address most of the global energy challenges. However, to do so, it must become more inclusive of emerging markets and less anchored to its traditional concentration on oil and gas commodities. In particular, it would have to abandon the criterion that only OECD countries can be members of the IEA. If there is not a political push for IEA reform, major emerging economies may seek to advance alternative models.

An advantage of the G20 is that it brings together the leaders of the major economies and provides the opportunity for political input to deal with pressing global economic issues. The need for enhanced global energy governance is an issue that should be on the agenda for G20 leaders. However, while the G20 currently has a number of energy issues on its work program, it does not have the specific issue of enhancing global energy governance. One outcome from the Brisbane Summit should be the explicit acknowledgement of the need for a global forum that focuses on global energy challenges. This forum should bring together all the major countries that will most heavily rely upon global energy markets in the twenty-first century, on an equal basis.

CONCLUSION

The credibility and legitimacy of the G20 will depend on the extent to which it delivers on its commitments. However, they are multi-year issues that will not be resolved at one summit or in one year. To bolster credibility, the G20 has to demonstrate how it will deliver and be accountable for its undertakings. The key to this is demonstrating how the G20 is strengthening the international institutions which are the 'plumbing' or foundation of international economic governance. Specifically, the G20 should strengthen the surveillance operations of the IMF, OECD, and World Bank by emphasising the role of these institutions in monitoring whether G20 members are delivering on their global growth objective. The G20 should also strengthen the role of the WTO in advancing multilateral trade liberalisation and bring the governance arrangements for dealing with international tax, energy, and financial regulation into the twenty-first century. If the G20 is to be the

The need for enhanced global energy governance is an issue that should be on the agenda for G20 leaders.

¹⁴ International Energy Agency, "World Energy Outlook 2013," 12 November 2013, <http://www.worldenergyoutlook.org/publications/weo-2013/>.

steering committee for the global economy, it must strengthen the role of the international economic institutions.

THE G20, FINANCIAL REGULATION, AND REGULATORY IMPACT ASSESSMENTS

MARTIN JOY¹

INTRODUCTION

Earlier this year, the chairman of the Financial Stability Board (FSB) wrote to the G20 finance ministers and central bank governors on the progress and challenges of implementing the G20's reform agenda on financial regulation.² In his letter, Chairman Carney set out two key recommendations (among others). First, the FSB recommended that the G20 commit to (*ex post facto*) impact assessments to refine standards "when we get them wrong."³ Second, the FSB recommended "enhanced co-operation to avoid domestic measures that fragment the global system."⁴ This would include "assessment of whether there are any spill-overs of national regulatory policy initiatives that could be harmful to the objective of an open, integrated system."⁵

These are laudable recommendations. The G20's regulatory reform agenda is vitally important to a resilient global financial market that efficiently allocates capital and risk with the ultimate objective of fostering economic growth. Where agreed reforms are not appropriately calibrated to achieve this, they should be adjusted. Further, uncoordinated domestic implementation of reforms carries the risk of fragmenting the global market.⁶ This needs to be prevented, again to make sure that economic growth is not compromised.

...the G20 should go further and set a strategic direction for the future of the WTO.

¹ Director, Deloitte Australia. The views in this paper are Martin's own, and not those of Deloitte, ASIC or Monash University.

² Mark Carney, "Letter from the Financial Stability Board to the G20 Finance Ministers and Central Bank Governors," (Basel: Financial Stability Board, 17 February 2014), https://www.financialstabilityboard.org/publications/r_140222.pdf.

³ Ibid.

⁴ Ibid.

⁵ Ibid.

⁶ The main arena in which this fragmentation is occurring currently is the OTC derivative markets. The OTC Derivatives Regulators Group (ODRG) is currently working at resolving issues arising from the interplay between national implementation strategies of the OTC derivative reforms. At their Saint Petersburg Summit, the G20 Leaders called on the ODRG to resolve these issues. See G20, "G20 Leaders' Declaration, St Petersburg," (Saint Petersburg, 6 September 2013), <http://www.g20.utoronto.ca/2013/2013-0906-declaration.html>. A progress report of the ODRG was delivered to the G20 in March 2014. See: G20, "ODRG - Report of the OTC Derivatives Regulators Group on Cross-Border Implementation Issues," (March 2014), https://www.g20.org/sites/default/files/g20_resources/library/Report%20of%20the%20

...each G20 member should commit to using domestic ex ante regulatory impact assessments to consider the costs and benefits associated with any application of its domestic financial regulation to non-domestic entities.

This paper suggests that these recommendations could be enhanced in two ways. Both involve the G20 committing to the use of *ex ante* regulatory impact assessments. First, the G20 should commit to the FSB and the standard-setting bodies (SSBs)⁷ using the *ex ante* regulatory impact assessments recommended by the Organisation for Economic Co-operation and Development (OECD) for domestic regulatory processes during the development of any new international standards.⁸ This could be expected to increase the quality of the FSB's and SSBs' regulatory standards and their public accountability. Such a commitment would build on the FSB's recommendation for impact assessments of reforms *after* they have been implemented. Second, each G20 member should commit to using domestic *ex ante* regulatory impact assessments to consider the costs and benefits associated with any application of its domestic financial regulation to non-domestic entities.⁹ This would aid domestic agencies to understand the extra-territorial impact of their proposals, particularly when extra-territorial costs are additive to costs imposed by the domestic regulation of other nations. This would give G20 members an additional process that seeks to assess and avoid spillovers of national regulation that are harmful to an open, integrated system.

Ex ante regulatory impact assessment covers a variety of techniques. As explained below, the OECD has recommended that it involve *ex ante* cost-benefit analysis that is applied to a range of policy options (including the option of doing nothing).¹⁰ This analysis should be performed as early as possible in the policy-making process and made available for

TC%20Derivatives%20Regulators%20Group%20on%20Cross-Border%20Implementation%20Issues.pdf. Beyond the immediate OTC derivative market issues, IOSCO is also working at resolving issues arising from the interplay of national regulations. It has established a Task Force on Cross Border Regulation that will seek to publish a tool kit of cross border regulation tools. This was announced in July 2013. See International Organization of Securities Commissions, "IOSCO Board focuses on behavioural economics and social media," media release, 1 July 2013, <http://www.iosco.org/news/pdf/IOSCONEWS286.pdf>.

⁷ These bodies include IOSCO, BCBS, the International Association of Insurance Supervisors (IAIS) and the Committee on Payment and Settlement Systems (CPSS). A full list of relevant standard-setting bodies can be found at: <http://www.financialstabilityboard.org/cos/wssb.htm>.

⁸ See, most recently, OECD, *Recommendation of the Council on Regulatory Policy and Governance*, (Paris, 2012), <http://www.oecd.org/gov/regulatory-policy/49990817.pdf>.

⁹ This type of argument has been raised by submissions to Australia's Financial System Inquiry. See: Financial System Inquiry, *Financial System Inquiry Interim Report*, (Sydney: Financial System Inquiry, July 2014), <http://fsi.gov.au/publications/interim-report/>. It has also been forwarded by Alemanno in the context of promoting regulatory harmonisation for the purposes of international trade law. See Alberto Alemanno, "Is There a Role for Cost-Benefit Analysis Beyond the Nation-State? Lessons from International Regulatory Cooperation" in *The Globalization of Cost-Benefit Analysis in Environmental Policy*, ed. Michael Livermore and Richard Revesz (Oxford: Oxford University Press, 2013).

¹⁰ OECD, *Recommendation of the Council on Regulatory Policy and Governance*.

comment. Such analysis should allow the policy option with the greatest expected net societal benefit to be adopted.

Both of this paper's suggestions concerning regulatory assessments represent enhancements of current international and domestic practices. At the international level, the FSB and SSBs have used limited forms of regulatory impact assessments in developing standards. But these have not been *ex ante* assessments of the type recommended by the OECD. At the domestic level, existing national guidance on regulatory impact assessments suggests taking into account some international factors (such as a proposal's impact on international trade). This could be clarified to explicitly require the consideration of extra-territorial costs and benefits.

This paper has four parts. The first part explains the OECD's recommended regulatory impact assessments. The second sets out existing impact assessment practices of the FSB and SSBs. The third part highlights briefly how domestic impact assessments are encouraged to consider international factors. The fourth part explains the two suggestions made above and provides some thoughts about how the G20 and its members could incorporate them into their processes.

WHAT IS REGULATORY IMPACT ASSESSMENT?

In 2012, the OECD Council on Regulatory Policy and Governance recommended that OECD members incorporate regulatory impact assessments into the "early stages of the policy process for the formulation of new regulatory proposals."¹¹ Key points from the OECD Council's fourth recommendation help us understand what good regulatory impact assessments would involve. Directed at OECD members, these include the following. First, members should:

adopt *ex ante* impact assessment practices that ... include benefit cost analyses that consider the welfare impacts of regulation taking into account economic, social and environmental impacts including the distributional effects over time, identifying who is likely to benefit and who is likely to bear costs.

Second, the assessments should identify "specific policy" needs and the objective of the regulation. Third, the assessment should consider alternative ways of meeting the policy objectives. Importantly,

[e]x ante assessment should in most cases identify approaches likely to deliver the greatest net benefit to society, including complementary

...benefit cost analyses that consider the welfare impacts of regulation taking into account economic, social and environmental impacts.

¹¹ Ibid. See recommendation 4 in particular. Regarding the make-up of the OECD membership, note that most G20 nation states are involved with the OECD. Argentina, Brazil, China, India, Indonesia, Russia, Saudi Arabia and South Africa are the G20 nations that are not currently members of the OECD. However, in 2007, Russia was invited to open discussions for OECD membership and the OECD has offered 'enhanced engagement' to Brazil, China, India, Indonesia and South Africa.

approaches such as through a combination of regulation, education and voluntary standards.

Fourth, the assessment of proposals with significant impacts should include quantification of costs, benefits, and risks wherever possible. Where quantification is difficult or impossible, the assessment should provide qualitative descriptions of the impacts. Finally, the analysis should “as far as possible be made publicly available along with regulatory proposals.” It should be included as part of the consultation process.¹²

...the role that regulatory impact assessments can play in considering the interplay between domestic regulatory proposals and existing non-domestic regulation.

Recommendation twelve from the OECD builds on the above points by highlighting the importance of international standards in domestic regulatory impact assessments. It states that OECD members should “give consideration to all relevant international standards and frameworks for co-operation in the same field and, where appropriate, their likely effects on parties outside the jurisdiction.”¹³ Importantly, the OECD recommends that members “take into account relevant international regulatory settings when formulating regulatory proposals to foster global coherence” and “avoid the duplication of efforts in regulatory activity in cases where recognition of existing regulations and standards would achieve the same public interest objective at lower costs.”¹⁴ This last point highlights the role that regulatory impact assessments can play in considering the interplay between domestic regulatory proposals and existing non-domestic regulation.

EX ANTE REGULATORY ASSESSMENT PRACTICES AT THE INTERNATIONAL LEVEL

Strengthening financial regulation in the aftermath of the crisis has been one of the G20’s primary focuses. In November 2008, the G20 leaders agreed to “implement reforms that will strengthen financial markets and regulatory regimes so as to avoid future crises.”¹⁵ Since then, the G20 through the FSB and the SSBs has pursued an agenda of reforming the regulation of the world’s financial markets. This agenda has resulted in a significant compendium of regulatory standards for G20, FSB, and SSB members to implement within domestic frameworks.¹⁶ The FSB and

¹² Ibid.

¹³ Ibid. See recommendation 12 in particular.

¹⁴ Ibid.

¹⁵ G20, “Declaration Summit on Financial Markets and the World Economy,” (Washington DC, 15 November 2008), <http://www.treasury.gov/resource-center/international/g7-g20/Documents/Washington%20Nov%20Leaders%20Declaration.pdf>. See paragraph 8 in particular.

¹⁶ This compendium is available at: <http://www.financialstabilityboard.org/cos/>. The commitment by FSB members to implement agreed international standards is found in Article 6(1)(c) of the *Charter of the Financial Stability Board*. See: Financial Stability Board, *Charter of the Financial Stability Board*, (Basel: Financial Stability Board, June 2012), http://www.financialstabilityboard.org/publications/r_120809.pdf.

SSBs have used a range of measures in the development of these standards to help understand the possible impact of their implementation. These measures are explained below. None, however, fully aligns with the OECD's recommendations for domestic regulatory impact assessments.

Before setting out these measures, it is important to recognise that the development of all FSB and SSB standards has benefited from the views of official sector experts who contribute to the FSB and SSBs. Indeed, the primary method that has been used to develop regulatory standards has been to draw on the experience and judgement of these individuals. The assessment measures below, and this paper's recommendations for further measures, are intended to enhance the impact of this experience and judgement by providing additional evidence for consideration.

CONSULTATION

The most commonly used assessment measure has been the public exposure of proposed standards through consultation processes. This allows stakeholders to comment on the possible impact of the standards and provides for some public accountability of the SSBs and FSB.

Where this is the sole form of pre-adoption assessment however, it means that the proposed standards are not subjected to any form of systematic quantitative or qualitative assessment of their anticipated costs and benefits as recommended by the OECD. This is particularly disconcerting where the standards either purport to apply without the need for domestic implementation or where domestic authorities have little discretion in their implementation. For example, in July 2013, the International Organization of Securities Commissions (IOSCO) released the *Principles for Financial Benchmarks* (Benchmark Principles).¹⁷ Developed in response to the LIBOR scandal, the Benchmark Principles are intended to address conflicts of interest, transparency, and openness in the administration of all financial market benchmarks.¹⁸ They have been endorsed by the G20 and the FSB.¹⁹ The Benchmark Principles were developed using a two-part consultation process. Despite

...public exposure of proposed standards through consultation processes.

¹⁷ International Organization of Securities Commissions, *Principles for Financial Benchmarks — Final Report*, (Madrid: International Organization of Securities Commissions, July 2013), <http://www.iosco.org/library/pubdocs/pdf/IOSCOPD415.pdf>.

¹⁸ *Ibid.*

¹⁹ The endorsement by the G20 occurred at the Saint Petersburg G20 Leaders' Summit. See: G20, "G20 Leaders' Declaration, St Petersburg," (Saint Petersburg, 6 September 2013), <http://www.g20.utoronto.ca/2013/2013-0906-declaration.html>. See paragraph 72 in particular. The endorsement of the FSB is noted in: Financial Stability Board, *Progress Report on the Oversight and Governance Framework for Financial Benchmark Reform — Report to G20 Finance Ministers and Central Bank Governors*, (Basel: Financial Stability Board, 29 August 2013), http://www.financialstabilityboard.org/publications/r_130829f.pdf.

...the G20 has endorsed the application of regulation that has not been developed with the benefit of any quantitative or qualitative assessment beyond the judgement of SSB members.

commentators identifying the need for cost-benefit analysis, no such analysis was conducted prior to their adoption.²⁰

Released as 'recommended practice', IOSCO has stated that administrators of all benchmarks should publish the extent of their compliance with the Benchmark Principles by July 2014.²¹ Accordingly, benchmark administrators are expected to comply with the standards even though they have not been implemented through domestic law. This bypassing of domestic processes, which would likely include regulatory impact assessments, means that the G20 has endorsed the application of regulation that has not been developed with the benefit of any quantitative or qualitative assessment beyond the judgement of SSB members. This example highlights the need for rigorous *ex ante* regulatory impact assessments at the FSB and SSB levels.

QUANTITATIVE IMPACT STUDIES

In some cases, the consultation process has included or been followed by a quantitative impact study (QIS). These studies have typically sought to assess the likely financial impact of proposed standards on the regulated entities.

An example of this is the QIS that was conducted on the margin requirements for uncleared OTC derivatives, released by the Basel Committee on Banking Supervision (BCBS) and IOSCO in mid-2013.²² The requirements were developed using a two-stage consultation process. The second consultation asked for comments on the results of a QIS. This QIS sought to estimate how much additional margin affected institutions would need to hold under the proposed requirements.²³

When conducted without further analysis, the QIS process falls short of the OECD's best practice for regulatory impact assessments and cost-benefit analysis.²⁴ It simply attempts to quantify the expected compliance

²⁰ International Organization of Securities Commissions, *Principles for Financial Benchmarks*.

²¹ See: International Organization of Securities Commissions, "Public Communiqué — Implementation of the Principles for Financial Benchmarks," (30 October 2013), <http://www.iosco.org/library/pubdocs/pdf/IOSCOPD429.pdf>.

²² Basel Committee on Banking Supervision and International Organisation of Securities Commissions, *Margin Requirements for Non-centrally Cleared Derivatives*, (Basel: Bank for International Settlements, September 2013), <http://www.bis.org/publ/bcbs261.pdf>.

²³ Basel Committee on Banking Supervision and International Organization of Securities Commissions, *Second Consultative Document — Margin Requirements for Non-centrally Cleared Derivatives*, (Basel: Bank for International Settlements, February 2012), <http://www.bis.org/publ/bcbs242.pdf>.

²⁴ The margin requirements for non-cleared OTC derivative transactions were included in the macroeconomic study on OTC derivative reforms noted below. An example of standards that have benefited from a QIS only (at least so far) is: Financial Stability Board, *Strengthening Oversight and Regulation of Shadow Banking Policy Framework for Addressing Shadow Banking Risks in Securities Lending and Repos*, (Basel: Financial Stability Board, August 2013), http://www.financialstabilityboard.org/publications/r_130829b.pdf.

costs of the proposed standards. It does not attempt to determine whether the likely net economic benefit of the proposed standards is optimal. This method may be defensible however, where the expected benefit of all possible policy options is identical and the only variable is the costs.

NET ECONOMIC IMPACTS

The examples of impact assessments that are closest to that recommended by the OECD have been those conducted by the FSB and SSBs on the expected net economic impact of the Basel III banking and OTC derivative reforms. In August 2010, the FSB and the BCBS released a report on the long-run economic effect of the then-proposed Basel III banking capital and liquidity reforms.²⁵ The report attempted to quantify the economic output costs and benefits of the proposals. It did not, however, accompany the original Basel III proposals when they were released for comment in December 2009. Rather, it was released only months before the final Basel III standards were adopted by the BCBS and endorsed by the G20. This raises questions about how effective the study was in informing the policy design process. Further, the study does not seem to have benefited from a process of public criticism. Rather, it was released as a completed work.

Similar criticisms can be made of the macroeconomic impact assessment that was released in August 2013 relating to the OTC derivatives reforms.²⁶ Again, this was released after the (missed) end-2012 deadline imposed by the G20 for the implementation of the OTC derivatives reforms and at a point when many domestic and international work streams were finalising, or had finalised, the shape of the reform implementation.²⁷ These points indicate that while this type of exercise

²⁵ Basel Committee on Banking Supervision, *An Assessment of the Long-term Economic Impact of Stronger Capital and Liquidity Requirements*, (Basel: Bank for International Settlements, August 2010), <http://www.bis.org/publ/bcbs173.pdf>. In December 2010, a Macroeconomic Assessment Group established by the FSB and the BCBS released a report on the transitional costs (but not benefits) of the reforms. See: Macroeconomic Assessment Group, *Final Report Assessing the Macroeconomic Impact of the Transition to Stronger Capital and Liquidity Requirements*, (Basel: Bank for International Settlements, December 2010), <http://www.bis.org/publ/othp12.pdf>. A quantitative impact study was also released on the Basel III proposals. See: Basel Committee on Banking Supervision, *Results of the Comprehensive Quantitative Impact Study*, (Basel: Bank for International Settlements, December 2010), <http://www.bis.org/publ/bcbs186.pdf>. Again, this simply estimated the compliance impact of the proposals on implementing banks.

²⁶ See: Macroeconomic Assessment Group on Derivatives, *Macroeconomic Impact Assessment of OTC Derivatives Regulatory Reforms*, (Basel: Bank for International Settlements, August 2013), <http://www.bis.org/publ/othp20.pdf>.

²⁷ For example, in its largely contemporaneous progress report on the OTC derivative market reforms, the FSB noted that "...over half of FSB member jurisdictions have legislative frameworks in place to enable all reform commitments to be implemented." See: Financial Stability Board, *OTC Derivatives Market Reforms Sixth Progress Report on Implementation*, (Basel: Financial Stability Board, 2 September 2013), http://www.financialstabilityboard.org/publications/r_130902b.pdf. Further, the major outstanding international standard at the time, the impact assessment was released as

should be encouraged at the FSB and SSB level in the future, it is not a perfect template for rigorous regulatory impact assessment processes. Instead, reference is better made to the OECD recommendations.

DOMESTIC ASSESSMENTS AND EXTRA-TERRITORIAL IMPACTS

...international standards do not take effect without national implementation.

With limited exceptions, international standards do not take effect without national implementation. At the national level, standards will typically flow through the filter of some form of regulatory impact assessment before being applied via domestic regulation to the regulated population. Currently, national processes for assessing the impact of domestic regulation typically incorporate international issues by including the following questions: what is the impact of a regulatory proposal on international trade,²⁸ and do existing international standards apply in the area of proposed regulatory action.²⁹

The guides do not appear to explicitly ask assessors to consider the costs and benefits of proposed domestic regulation in light of potentially duplicative, conflicting, or inconsistent requirements applying to entities. This is due to the interplay between the proposed domestic and existing non-domestic regulation. In stating this, however, it is noted that the United States Securities and Exchange Commission, at least, has conducted this type of consideration in recent years.³⁰

the margin requirements for uncleared OTC derivative transactions, discussed above. These were publicly released in the month following the release of the assessment.

²⁸ See, for example: Council of Australian Governments, *Best Practice Regulation – A Guide for Ministerial Council and National Standard Setting Bodies*, (Canberra, October 2007). It states that “regulatory measures or standards should be compatible with relevant international or internationally accepted standards or practices in order to minimise the impediments to trade.” A similar point has been made more recently: “[i]f any of the options involve establishing or amending standards in areas where international standards already apply, you should document whether (and why) the standards being proposed differ from the international standard.” See: Commonwealth of Australia, *The Australian Government Guide to Regulation*, (Canberra, March 2014), <https://www.cuttingredtape.gov.au/handbook/australian-government-guide-regulation>. See also European Commission, *Impact Assessment Guidelines*, (Brussels, 15 January 2009). It is indicated that impact assessments should consider international trade impacts. Canadian regulation states that “[r]egulators also need to consider the international impacts of their regulations” and highlights that policies can restrict international competition. See: Treasury Board of Canada Secretariat, *Canadian Cost-Benefit Analysis Guide Regulatory Proposals*, (Ottawa, 2007).

²⁹ The European Commission indicates that impact assessments “should examine whether the policy options concern an area in which international standards exist.” See: European Commission, “Impact Assessment Guidelines.”

³⁰ See the United States Securities and Exchange Commission’s (SEC) discussion of the cross-border application of their rules on security-based swap dealers. See: Securities and Exchange Commission, “Application of ‘Security-Based Swap Dealer’ and ‘Major Security-Based Swap Participant’ Definitions to Cross-Border Security-Based Swap Activities,” (Washington DC, 8 September 2014). See in particular the discussion commencing on pages 164 and 282. The SEC recognises that the application of their Title VII parts of the Dodd-Frank Act to non-US entities could lead to market fragmentation and that, in turn, the availability of substituted compliance could

While asking about the extra-territorial impacts of domestic regulation would not preclude domestic regulation applying to entities that are subject to non-domestic regulation already, it would require national authorities to consider this type of effect with a view to reducing the costs of any interplay between the domestic and non-domestic regulation.

HOW COULD REGULATORY IMPACT ASSESSMENTS BETTER IMPROVE G20 OUTCOMES?

The points above highlight an opportunity for G20 members to potentially improve the outcomes of their regulatory reforms by incorporating *ex ante* regulatory impact assessments that are consistent with the OECD recommendations. As indicated, there are two ways that such assessments could be incorporated into the reform process to improve regulatory outcomes.

AT THE FSB AND SSB LEVEL

First, the G20 could require all FSB and SSB standards and guidance presented for its endorsement to have been subject to a regulatory impact assessment process that is consistent with the OECD recommendations.³¹ These recommendations would need to be adapted for international policy processes but, at a minimum, the G20 should require the FSB and SSBs to perform a regulatory impact assessment that would involve: defining the policy problem that any proposed standards seek to solve; identifying a range of policy options to solve this problem (including the option of doing nothing); attempting to quantitatively assess the potential costs and benefits of those options; qualitatively setting out any costs and benefits that cannot feasibly be quantified; and publishing these workings contemporaneously with any consultation on the proposed standards and inviting comment on them. Any standards presented to the G20 would ideally be the policy option that is expected to deliver the greatest net societal benefit. If followed, this process could be expected to improve the quality of FSB and SSB standards.

...improve the outcomes of their regulatory reforms by incorporating ex ante regulatory impact assessments that are consistent with the OECD recommendations.

reduce costs. The discussion, however, is conducted at a very high level and while it quantifies some compliance costs, the analysis does not seek to conclude whether the benefits to society from the application of the Title VII to foreign entities would outweigh those compliance costs or, more importantly, the costs of market fragmentation. Indeed, at footnote 448, the SEC concludes that it is not possible to quantify the economic benefit of the reduce probability of a financial crisis. Instead, the SEC analysis is predicated upon an assumed unquantified benefit that the application of Title VII to foreign entities would bring.

³¹ This requirement should extend to any assessment methodologies developed to aid the implementation assessment of the standards where the methodologies add to or alter the obligations imposed by the original standard.

Asserting this does not intend to gloss over the difficulties of assessing the quantitative costs and benefits of proposed financial regulation.³² Such assessments face hurdles in accurately predicting the benefit of proposed standards (typically couched in terms of avoided financial system crises or improved market functioning) and their costs (including compliance costs and any impact on the intermediation of money and risk).

The assessments would also need to address the issue of how the standards would ultimately be implemented domestically. Where standards are detailed and will likely be implemented as written, then assessment would be more straightforward. Some standards, however, are high level and leave members substantial implementation discretion. Such standards would be more difficult to assess quantitatively, at least without significant assumptions. However, following the steps above for all proposed standards could be expected to improve the FSB and SSBs' processes in a number of ways. This includes requiring clear expression of the policy problem, requiring consideration of a range of policy solutions, rather than those that seem most obvious, building a stronger evidence base that is based on quantification where possible to aid expert judgement, and exposing the result of this process to public scrutiny to both refine it and enhance the accountability of the G20, FSB, and SSBs.

Being able to follow this process effectively would require the G20 to give the FSB and the SSBs discretion in how to solve policy problems.

Being able to follow this process effectively would require the G20 to give the FSB and the SSBs discretion in how to solve policy problems. The G20 would need to ensure that when it sets out its expectations for work it focuses on the concerns it may have with an area rather than the manner in which those concerns should be addressed. Pre-empting policy outcomes in communiqués would undermine the process by making it politically difficult to consider a range of policy options and selecting one on its merits.

DOMESTIC CONSIDERATION OF EXTRA-TERRITORIAL COSTS

Second, each G20 member should commit to using domestic *ex ante* regulatory impact assessments to consider the costs and benefits arising from the interplay between its domestic financial regulation and any

³² For a discussion on the feasibility and utility of applying quantitative cost-benefit analysis to financial regulation, compare a series of papers by John Coates and Eric Posner and Glen Weyl. See: John C. Coates IV, "Cost-Benefit Analysis of Financial Regulation: Case Studies and Implications," *ECGI Working Paper Series in Law* 234, (January 2014), <http://ssrn.com/abstract=2375396>; Eric A. Posner and E. Glen Weyl, "Benefit-Cost Paradigms in Financial Regulation," *Coase-Sandor Institute for Law & Economics Research Paper* 660 (March 2014), <http://ssrn.com/abstract=2346466>; Eric Posner & E. Glen Weyl, "Cost-Benefit Analysis of Financial Regulations: A Response to Criticisms," *Coase-Sandor Working Paper Series in Law and Economics* 678, (May 2014), http://chicagounbound.uchicago.edu/law_and_economics/678. Coates highlights the difficulties with performing cost-benefit analysis (particularly when done quantitatively) on financial regulation. Posner and Weyl present the case that such regulation would be amenable to this analysis.

applicable non-domestic regulation. This would be consistent with the OECD's recommendation twelve, outlined above. For example, agencies should ask whether any domestic or foreign entities would be subject to similar rules in foreign jurisdictions to the ones under consideration domestically. If so, then agencies should consider how the costs associated with this may be reduced or justified by any associated benefits. This would help domestic agencies understand the cross-border impact of their proposals. Applied consistently, this approach could assist in reducing any adverse extra-territorial effects of domestic regulation and thereby help avoid the fragmentation of global markets. The G20 should mandate the FSB's Standing Committee on Standards Implementation to follow up with national authorities on whether their domestic regulatory impact assessment processes provide for and result in this type of consideration when implementing FSB and SSB standards.

CONCLUSION

While the quality of the FSB and SSB standards prepared and implemented under the G20's direction has been generally high, there remain opportunities for improvement with respect to any further standards. Adopting systematic regulatory impact assessments as set out in this paper would provide better evidence for and more transparency around the policy-making process. Having the best evidence available is critical if the G20 is to be confident that international standards are well-adapted to meet the challenges it identifies. Further, regulatory impact assessments could play an important role in ensuring that the implementation of the agreed standards does not lead to any undue fragmentation of global markets.

Having the best evidence available is critical...

THE TRADE AGENDA AT THE BRISBANE SUMMIT: A CRUCIAL MOMENT

IVAN OLIVEIRA¹

Otherwise, the G20 may itself face a new and not-so-comfortable period of distrust and disengagement.

In a gloomy scenario for the world economy and its governance structures, circumscribed by an increasingly complex geopolitical framework, G20 leaders meeting in Brisbane in November will have a much harder task than they thought they would some months ago. In essence, the group will have to address some of the 'new' challenges the world now faces, most of them involving the G20's own members, in a pragmatic and firm manner and without losing a long-term perspective on the cooperation process that lies at the heart of the group. Otherwise, the G20 may itself face a new and not-so-comfortable period of distrust and disengagement.

All engines must therefore be kept at full power in the preparation for the Brisbane Summit, which should consolidate the trade and growth agendas. These two topics should be the focus for cooperation among G20 members over the next months. If they want to consolidate a new framework for economic growth with greater growth rates and a better quality of life for their citizens, the trade agenda should play a central role as a means to achieve this objective.

Global trade governance faces a tough juncture, which may have a direct effect on the way trade is negotiated in the multilateral arena. The recent stalemate in implementing the Bali Package at the World Trade Organization (WTO) and the lowering of expectations about the possibility of a feasible new roadmap to conclude the Doha Round reinforce that view —notwithstanding the well-appreciated work of the WTO Director-General (DG) Roberto Azevedo. If the G20 truly is a global economic steering committee, it cannot exit the Brisbane Summit without an action plan to boost WTO negotiations and discuss the future of world trade regulation under the WTO's auspices. It is worth noting the continued support by the G20, as expressed in its declarations, to having a stronger and rules-based multilateral trading system as the centre for global trade governance. Therefore, restoring faith in the global trading system and in the future of the WTO must be a pivotal result of the next G20 summit, for the sake of the WTO and the G20 itself.

In order to do so, a definitive commitment on the implementation of the Bali Package by each of the G20 members should be publicised in

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Brisbane (if not before). There needs to be final agreement and a guarantee of support from the sceptics within the group, to settle the disputes once and for all. The issue is too important for the world trade system not to receive special attention from G20 leaders, followed by the necessary actions. The Brisbane Summit should be the deadline for this. In addition, G20 leaders should clearly define, in dialogue and coordination with WTO DG Roberto Azevedo, the way ahead for the Doha Round — be it an end to the negotiations or a new and transparent agenda to conclude it in the near future.

If the Doha Round cannot be completed at all, G20 members ought to have a common approach to the role that the WTO will play in the global trading system in the future. This role should be focused on being the arena for negotiation of plurilateral agreements. The WTO's well-consolidated dispute settlement mechanism and the inclusion of 'most favoured nation' (MFN) clauses can be used in order to multilateralise the results of those agreements, in other words, to help non-participants in such plurilateral agreements to benefit as well.

It is also in the plurilateral agreements scheme that the agendas of the private and public sectors (intertwined in the global-regional values chains approach) can be seen. The way trade can be facilitated and liberalised in order to integrate countries into different stages of some of those value chains, including the services sector, should be stressed as an integral part of the WTO in the future by G20 members in Brisbane.

Furthermore, the WTO's role in reinforcing the commitment to roll back protectionist measures, particularly non-tariff ones, introduced since the global financial crisis by G20 countries, must also be emphasised. The group should demand the WTO secretariat to continuously monitor trade policies regarding this goal. The secretariat should produce twice-a-year reports that are brought to the public before the G20 summits and/or trade ministers' meetings during the year. By doing so, both the G20 and the WTO would be working together in order to consolidate freer and more stable trade flows. This would significantly contribute to the greater goal of increasing economic growth worldwide by 2 per cent in the next five years.

In order to strengthen G20 members' commitment to restoring faith in a stronger multilateral trading system, the group should act to bring greater transparency to regional trade agreements by reporting on the relevant commitments agreed last year during the Russian presidency.² Additionally, new steps for monitoring and reviewing regional trade agreements in the WTO should be supported by G20 members based

...G20 members ought to have a common approach to the role that the WTO will play in the global trading system in the future.

² G20, "G20 Leaders' Declaration, St Petersburg," (Saint Petersburg, 6 September 2013), <http://www.g20.utoronto.ca/2013/2013-0906-declaration.html>.

If trade openness is indeed vitally important for cooperation among G20 economies, the Brisbane Summit must be seen as a crucial moment.

on the model of the Trade Policy Review Mechanism in place since the 1990s.³

Market openness to trade is a significant driver for stronger, sustained, and balanced economic growth worldwide. The WTO is the core organisation for helping to keep markets open and thus creating jobs and opportunities and fostering productivity among its members. If trade openness is indeed vitally important for cooperation among G20 economies, the Brisbane Summit must be seen as a crucial moment when the fate of two different institutions meet and the success of one may determine the success of the other. The more the G20 can do to resolve some of the challenging issues regarding multilateral negotiations and to help rethink the WTO as the guardian of a stable and prosperous world trade order, the stronger the group will be. Therefore, bringing trade to centre stage at the Brisbane Summit in November will strengthen the group's credibility as a premier forum for economic cooperation, especially in the adverse circumstances the world faces today

³ WTO, "Annex 3 - Trade Policy Review Mechanism," in *Uruguay Round Agreements* (Marrakesh: WTO, 1994), http://www.wto.org/english/docs_e/legal_e/29-tpm.pdf.

G20 CONFERENCE SUMMARY: STRENGTHENING ACCOUNTABILITY AND EFFECTIVENESS

DANIELA STRUBE¹

This paper summarises the key ideas discussed at the G20 conference, Strengthening Accountability and Effectiveness, held on 25 June 2014 in Melbourne. The conference was organised by the G20 Studies Centre at the Lowy Institute for International Policy.

Strengthening accountability is vital for reinforcing the G20's position as the premier forum for international economic cooperation. The objective of the conference was to canvass specific proposals on how to enhance the G20's accountability and effectiveness. A particular focus was to ascertain how key G20 stakeholders, in particular international organisations and business and labour groups, as well as civil society and think tanks, could complement member countries in making the G20 more efficient, more accountable, and more responsive to the global challenges of the twenty-first century.

Strengthening accountability is vital for reinforcing the G20's position as the premier forum for international economic cooperation.

A FOCUSED AND INTEGRATED AGENDA

There was much discussion by all stakeholders on the importance of the G20 having a focused and integrated agenda. On this point, two issues were highlighted for further improvements. First, while recognising the ongoing efforts by the Australian G20 presidency, many work streams are still being pursued and there is still a need to further prioritise the agenda for the leaders' meeting in November. On the positive side, the fact that the Australian presidency has not expanded the G20 agenda in 2014 was welcomed and Prime Minister Abbott's commitment to a three-page communiqué for the leaders' summit was seen as a positive development. In addition, it was suggested that the commitment by G20 finance ministers to increase global growth by an extra 2 per cent over five years may serve as a galvanising mechanism for all G20 stakeholders to focus on the central task of delivering growth.

Second, further improvements in integrating policy development and implementation across G20 working groups were considered necessary. G20 stakeholders, including the international organisations, described their difficulties in effectively coordinating their inputs into the different working groups. This is particularly important, as a key feature of the G20 growth strategies that countries are developing in preparation for

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...it is important that introducing a greater focus and integration in the G20 agenda is not mistaken for universalism, or a 'one-size-fits-all' approach...

the Brisbane Summit is their comprehensiveness. As such, the policy areas in the growth strategies should span several working groups. While the Australian presidency is working towards introducing a more integrated agenda, many stakeholders identified the importance of further progress in integrating the activities of the various working groups.

A more focused and integrated agenda will help clarify the policy objectives of G20 members and, in turn, the ability to assess whether they are implementing their commitments. This goes to the heart of strengthening the effectiveness of the G20. However, it is important that introducing a greater focus and integration in the G20 agenda is not mistaken for universalism, or a 'one-size-fits-all' approach to analysing and solving policy problems. Countries' priorities differ, as do their domestic economic and political situations. As one conference participant pointedly summarised, the G20 should provide a policy framework, not a policy prescription.

LEADERSHIP AND TRANSPARENCY

Political leadership was identified as a key prerequisite for the effectiveness of the G20. This was highlighted in John Lipsky's keynote address at the conference when he observed that one of the main reasons for the G20's lack of effectiveness, particularly in terms of economic policy cooperation, was the very limited public commitment to the process at the political level. As Lipsky pointed out, key G20 leaders have typically not conveyed to their own citizens that global policy cooperation is critical to improving their own economies' performance. The level of commitment by G20 leaders is the most important predictor for the success of a G20 summit.

There was a broad consensus among conference participants on the importance of engaging domestic constituencies in the G20 process, recognising that such support was necessary for the implementation of commitments made at G20 meetings. The G20 'engagement partners', — business, labour, civil society, think tanks and youth — highlighted the role they played in involving segments of the public in the G20 process. It was also noted that in order to engage the public, it is necessary to translate G20 policy measures and processes so that citizens can see their relevance to their own circumstances. The G20 has to move away from the perception that it is closed conversation between elites. This is particularly important since, as noted by a number of participants, trust in politics has been eroded since the crisis, and a complex and abstract construct such as the G20 may seem particularly suspicious.

COLLABORATION

Collaboration across national and institutional boundaries goes to the heart of the G20 and is an imperative in the twenty-first century.

Nevertheless, some conference participants warned that a perception remains that some countries may still be able to shape the world (economy) on their own. On the contrary, coordinated action is considered vital in areas such as trade and infrastructure for attaining the extra 2 per cent growth objective.

It was noted however, that collaboration is complex and has to be comprehensive in order to be successful. If disagreements persist regarding the assessment of policy problems, it is impossible to align policy solutions and outcomes. Some officials taking part in the conference saw progress in the G20's culture of cooperation. It was suggested that a sense of cooperative behaviour has largely crowded out a more defensive stance and created a new narrative that is based on a shared view about the G20's accountability agenda. This is seen by some officials as a key factor that has contributed to strengthening the G20 over the last few months.

Progress was also identified regarding the collaboration between the G20 and international organisations. This reflects a more collaborative approach based on mutual trust and respect. In moving forward, it was however maintained that the partnership could be even more effective if the G20 asked for policy recommendations more explicitly, as this can increase the relevance of international organisations' input. Optimism was also expressed regarding the prospects for effectively managing institutional competition among international organisations in engaging with the G20. It was suggested that international organisations may, in fact, be most effective when working across institutional boundaries. Since policy issues are often multidimensional, there is strong potential for benefiting from complementarities in the particular expertise of international organisations in order to best address different aspects of a policy area.

While recognising the potential benefits of further expanding international and institutional collaboration, the importance of prioritising efforts and ensuring that activities are as efficient as possible was emphasised. In particular, it was considered important to determine *ex ante* where collective action is required and worth the effort. Political resources, especially at very senior levels, are scarce and should therefore be directed at issues where they are most effective.

NURTURING IDEAS

Suggestions for strengthening the input of new ideas into the G20 policy process received particular support at the conference. Think tanks (Think20 or T20 in the official G20 engagement architecture) were identified as obvious candidates for contributing to a process of nurturing ideas, providing independent analysis and policy recommendations. This was seen as particularly important for ideas at an early stage of

Collaboration across national and institutional boundaries goes to the heart of the G20 and is an imperative in the twenty-first century.

Suggestions for strengthening the input of new ideas into the G20 policy process received particular support... .

development and when they needed to be shaped and debated before being picked up by the political process.

It was also pointed out during the conference that the ‘socialisation’ of ideas can be fostered by international organisations. While this may not lead to immediate outcomes, it may provide important, shared, and lasting benefits that will ultimately be reflected in policy outcomes. On a similar point, it was also highlighted that international organisations can benefit from the G20 in this process — by building political support for their ideas, findings, and policy priorities. In terms of a specific proposal, it was suggested that the G20 should use think tanks as a ‘second opinion’ for policy and background papers it receives from international organisations.

NEGLECTED AREAS

Despite participants agreeing on the importance of a focused agenda, a few topics were repeatedly mentioned as areas that should receive a larger profile in the G20. These included: climate change and environmental constraints to growth, ageing and its implications for public finances, and inclusive growth. The latter was identified by many participants as a significant shortcoming in the current G20 agenda. It was also noted that any commitment to inclusive growth needed to be more than just rhetorical.

It was also advocated that the additional 2 per cent growth objective needed to be consistent with the post-2015 development framework, because these two policy initiatives are potentially the largest and most comprehensive schemes that will have an impact on the future of the global economy (including its social dimensions). It was also noted that the majority of poor people live in G20 countries.² More generally, a number of conference participants argued that the G20 has to commit more credibly to ‘working for the people’. They considered that a people-centric approach needed to be better reflected in both the G20 agenda and process.

ASIAN PARTICIPATION

Conference participants noted the relatively low level of Asian participation in G20 engagement groups such as the Business20 (B20) and the Labour20 (L20). This contrasts with the economic and political significance of Asia. The wider Asia-Pacific region is indeed the largest country group in the G20. Questions were asked whether the relative underrepresentation of Asia in G20 engagement is due to G20-specific agenda and procedural reasons or whether more general structural

² Oxfam, *Left Behind by the G20? How Inequality and Environmental Degradation Threaten to Exclude Poor People from the Benefits of Economic Growth*, Oxfam Briefing Paper 157, (19 January 2012).

factors are at play. Both the B20 and L20 participants in the conference committed to continue their efforts to strengthen Asian participation in their own forums.

The T20 is also very committed to ensuring that Asia is well represented in its activities. Increasing Asian engagement remains equally relevant in the wider think tank and academic world — the fact that only one Asian economist has ever received a Nobel Prize is a case in point.³

CONCLUSION

A continuing, thorough, and open debate about the G20's accountability and effectiveness is of utmost importance. This observation was frequently reiterated by conference participants.

While conference participants noted some progress in the recent efforts to strengthen the G20's accountability and effectiveness, there was a clear sense that more improvements are required. One conference participant used a doctor-patient analogy to describe this assessment: if the G20 is the doctor and the global economy is the patient, the doctor has certainly succeeded in keeping the patient alive and improving, but the patient is not yet free of ailments and the doctor has to keep thinking about how to support the patient's recovery.

Participants also agreed with the premise that there is currently no alternative to the G20. It was repeatedly stated that if the G20 did not exist, it (or a mechanism very similar to it) would have to be invented. This pivotal role of the G20 should give everyone involved a strong incentive to work towards its success.

This pivotal role of the G20 should give everyone involved a strong incentive to work towards its success.

³ Yoon Je Cho, "Global Economic Governance Reform and the Role of Asia: Opportunities Offered by the G20," *Journal of East Asian Economic Integration* 16 (March 2012).

ANTI-CORRUPTION, INTEGRITY OR JUST PLAIN GOOD GOVERNANCE AND SMART REGULATION? WHY ANTI-CORRUPTION REMAINS A VITAL ELEMENT OF THE G20 LEADERS' AGENDA

AJ BROWN¹

Corruption costs the world economy and everyone it touches. A decade ago, a World Bank estimate put the global cost of corruption at \$1 trillion per annum.² More recently, the OECD suggested that if corruption were an industry, it would be the world's third largest, now worth more than \$3 trillion and 5 per cent of global GDP.³ Indeed, 'corruption kills', as Elena Panfilova, head of Transparency International Russia, told a key international conference on anti-corruption and the G20 in Brisbane in June in the lead up to the November 2014 G20 leaders' summit.⁴

...if corruption were an industry, it would be the world's third largest.

But are these simple facts enough to justify the inclusion of corruption as a focus for debate by G20 leaders — especially when the focus is on trying to get the G20 back on track with a manageable agenda aimed at its core missions of cooperation for economic growth and resilience? While a continuation of the G20's anti-corruption efforts in 2015-2016 is now more or less guaranteed, questions remain about what a next Anti-Corruption Action Plan should contain, how it should be focused, and most importantly, *why* such a plan is sufficiently central to G20 leaders' core business to warrant a place on the agenda.

This paper suggests answers by reviewing key recommendations on integrity and anti-corruption for the 2014 G20 summit arising from the G20 engagement groups — civil society (C20), business (B20), labour (L20), young people (Y20), and think tanks (T20). From these, we can see a more focused agenda emerging. But it also provokes the further question of whether this will or should lead to just an anti-corruption plan

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² World Bank, "Six Questions on the Cost of Corruption with World Bank Institute Global Governance Director Daniel Kaufmann," (Washington DC: World Bank, April 2004), <http://go.worldbank.org/KQH743GKF1>.

³ OECD, "Implementing the OECD Principles for Integrity in Public Procurement," (Paris: OECD, 21 November 2013).

⁴ The comments were made at the conference "Corruption, Integrity Systems and the G20," held by Griffith University and Transparency International, 17 and 18 June 2014 in Brisbane.

or a more integrated governance reform agenda to support a more streamlined G20 agenda overall. Irrespective of the final strategy, the ongoing relevance of strategic corruption and integrity objectives, and monitoring, is beyond doubt in the G20 context.

ANTI-CORRUPTION IN THE G20: A SUCCESSFUL DISTRACTION?

The period of Australia's presidency of the G20 has been widely seen as something of a watershed, dominated by both need and opportunity to reconfirm the relevance of the G20 as a unique forum for economic and financial cooperation — as opposed to just another large symbolic meeting of world leaders. The relative success of the G20's response to the first wave of the global financial crisis, combined with its elevation to a leaders' rather than only finance ministers' process, brought it a reputation as the pre-eminent forum for international cooperation in general — not simply for financial coordination.⁵ As Stephen Grenville described on the eve of Australia joining the G20 leadership 'troika', this reputation exacerbated the inevitable problem of 'mission creep' with a host of new initiatives — he nominated poverty, food security, and climate change — providing an increasing 'distraction' from the core, unfinished business flowing from the peak agreements of 2008 and 2009.⁶

Whether such issues should be seen as peripheral to economic and financial coordination is of course debatable. But few would claim that they have *no* place in helping define the type of global economic growth that G20 coordination is intended to underpin. The main issue is that whatever the goals, much remains to be delivered on the original Framework for Strong, Sustainable and Balanced Growth (FSSBG) agreed at the 2009 Pittsburgh Summit. This includes agenda items that "in broad terms remain both relevant and unfinished," as opposed to further "worthy issues" which have been seen to "dilute the focus of the summits ... [but haven't] lead to clear conclusions or actionable results."⁷ Reinforcing this call for a return to the Framework as "the core and backbone" of the G20 agenda,⁸ Mike Callaghan provided his own list of the types of issues that had 'sidetracked' the G20 since 2009 — distracting it from "important developments in the global economy:

Whether such issues should be seen as peripheral to economic and financial coordination is of course debatable.

⁵ Stephen Grenville, "An Agenda for the 2014 G20 in Brisbane," *The Interpreter* (blog), <http://www.lowyinterpreter.org/post/2012/08/06/An-agenda-for-the-2014-G20-in-Brisbane.aspx>.

⁶ Ibid.

⁷ John Lipsky, "The Brisbane Summit: A Critical Moment for the G20 Leaders' Process," in *G20 2014: The G20 Brisbane Summit, Inequality, Energy and Anti-Corruption*, G20 Monitor No. 12, (Sydney: Lowy Institute for International Policy, 2014).

⁸ Mike Callaghan, *Strengthening the Core of the G20: Clearer Objectives, Better Communication, Greater Transparency and Accountability*, Lowy Institute Analysis, (Sydney: Lowy Institute for International Policy, 2013).

financial inclusion, financial literacy, fossil fuel subsidies, anti-corruption, and protection of the marine environment.”⁹

The fundamental question raised by efforts to restore and refocus the G20 in 2014 is whether the G20’s anti-corruption efforts belong on this list, irrespective of the place of the other items. Hugh Jorgensen has provided a detailed account of the work carried out by G20 governments under the successive G20 anti-corruption action plans since 2010.¹⁰ In contrast to descriptions of the G20’s ‘new’ interests as lacking clear conclusions or actionable results, Jorgensen’s analysis points to its anti-corruption work as being, in many instances, relatively concrete and successful by G20 standards. Nevertheless, the question remains as to whether, or where, this really fits as an element of the G20 agenda:

If G20 leaders have a clear sense of ownership over their stated objectives for and outcomes on anti-corruption, as well as a plan for how the G20 can provide a unique ‘value-add’ to anti-corruption efforts that other multilateral institutions cannot, then the case for renewing the G20’s anti-corruption commitments is strong. On the other hand, if leaders believe the ACWG’s (Anti-Corruption Working Group) work does not meet these requirements, or that its work on anti-corruption is not sufficiently complementary to the G20’s core focus on reinvigorating economic growth, then renewing the group’s mandate without proper critical appraisal would compound perceptions about the G20’s ‘bloated’ agenda.¹¹

Even if successful, is a G20 anti-corruption agenda simply, at best, a ‘value-add’ to other international efforts? Or merely ‘complementary’, rather than integral to G20 core business?

Even if successful, is a G20 anti-corruption agenda simply, at best, a ‘value-add’ to other international efforts? Or merely ‘complementary’, rather than integral to G20 core business? The question is furthered by a decision of the G20 sherpas at their first meeting under the Australian presidency in December 2013. They asked the G20 Anti-Corruption Working Group (ACWG) to recommend the content for a continuing G20 Anti-Corruption Action Plan (ACAP) beyond the current 2013-2014 Plan adopted in Los Cabos in 2012.¹² This request is consistent with the decision of leaders at the 2013 St Petersburg Summit to upgrade the status of the ACWG, first created at the June 2010 Toronto Summit, to an ongoing G20 working group. It is also consistent with Australia’s support for anti-corruption as one of the ten work streams of G20 activity. Indeed, a number of key international anti-corruption measures were

⁹ Mike Callaghan, *Relaunching the G20*, Lowy Institute Analysis, (Sydney: Lowy Institute for International Policy, 2013).

¹⁰ Hugh Jorgensen, “Hard Graft: The G20 and Anti-Corruption,” in *Tax, Infrastructure, Anti-Corruption, Energy and the G20*, G20 Monitor No. 6 (Sydney: Lowy Institute for International Policy, 2013).

¹¹ Ibid.

¹² For the current 2013-2014 ACAP, see: G20, “G20 Anti-Corruption Action Plan 2013-2014,” (Los Cabos, 2012), https://www.g20.org/sites/default/files/g20_resources/library/g20-anti-corruption-action-plan-2013-14.pdf.

included in the original 2009 Framework agenda, suggesting this work stream has always been important to the core G20 agenda.¹³

The problems, as noted by Jorgensen, are twofold. First, the actual rationale for the relevance of anti-corruption only emerged *subsequent* to its expansion as an agenda item in 2010, adding to the impression of yet another item borne more of leaders' inability, politically, to resist it than of policy centrality to the G20's financial coordination objectives. Under this *ex post facto* rationale, corruption is relevant because it constitutes a direct drain on growth, as noted at the outset — diverting resources (for example through theft of public monies), driving up costs, uncertainties, inefficiencies and barriers to entry (for example through bribery), and distorting public policy and markets away from 'rational' public interest principles.¹⁴

Second, rather than constituting a G20 program in its own right, the work stream has tended to mirror a wider 'smorgasbord' of international anti-corruption priorities, such as mechanisms under the UN Convention Against Corruption, the OECD Anti-Bribery Convention, and the anti-money laundering rules of the Financial Action Task Force (FATF). While on the one hand the G20 ACWG can thus claim success in helping prosecute a range of these priorities in new and different ways, there remains an impression that the work stream is "mostly incremental, frequently piece-meal, and sometimes haphazard."¹⁵

...the work stream has tended to mirror a wider 'smorgasbord' of international anti-corruption priorities.

RECOMMENDATIONS: T20, C20, B20, L20, Y20

What light do the policy discussions of 2014 throw on these twin problems? And what are the submissions and recommendations of the engagement groups (T20, C20, B20, L20 and Y20)? First, so far in 2014 there has been little argument from G20 stakeholders that to be effective and get results the anti-corruption work stream would benefit from a more focused agenda with a reduced number of strategic priorities.

¹³ These measures were: (1) working with the World Bank's Stolen Assets Recovery (StAR) program to secure the return of stolen assets to developing countries, (2) asking the Financial Action Task Force (FATF) to help detect and deter the proceeds of corruption by prioritising work to strengthen standards on customer due diligence, beneficial ownership and transparency, (3) working to increase the transparency of international aid flows by 2010, and (4) adopting and enforcing laws against transnational bribery, such as the OECD Anti-Bribery Convention and the UNCAC. See also Jorgensen, "Hard graft."

¹⁴ This primary rationale was articulated in the first two-year G20 Anti-Corruption Action Plan, adopted by leaders at the November 2010 Seoul Summit: "Corruption is a severe impediment to economic growth." See: G20, "G20 Anti-Corruption Action Plan 2010 - G20 Agenda for Action on Combatting Corruption, Promoting Market Integrity, and Supporting a Clean Business Environment," (Seoul, 2010), https://www.g20.org/sites/default/files/g20_resources/library/Annex%203%20Anti-Corruption_Action_Plan_2010.pdf.

¹⁵ Jorgensen, "Hard graft."

Table 1 sets out the submissions and recommendations of the T20, C20 and B20 — drawing on each group’s submissions to the ACWG on the proposed content of the post-2014 action plan and integrity and corruption related items in their G20 communiqués or policy recommendations as a whole. Further mention is also made below of the L20 and Y20 communiqués. Not only is the number of recommended action areas generally reduced for the G20’s third two-year action plan (in contrast to the growing number and increasing vagueness of objectives in the first and second two-year plans), but as Table 1 shows, there is significant congruence between them. Moreover, key items remain aligned with those identified as worthy of action in the 2009 Framework. This is consistent with the objective of following through on difficult, unfinished business.

Less clear, however, is whether this agenda-focusing assists with a clearer understanding of why such priorities are uniquely suited or central to G20 core business.

Less clear, however, is whether this agenda-focusing assists with a clearer understanding of why such priorities are uniquely suited or central to G20 core business. In order to discern this, it is useful to analyse three of the proposed 2014-2015 priorities (in decreasing order of congruence across the submissions): transparency of corporate ownership, foreign bribery and other corruption law enforcement, and whistle-blower protection.

TRANSPARENCY OF CORPORATE (BENEFICIAL) OWNERSHIP

Overcoming the ease with which ‘shell’ companies may be created, bought, and sold around the world, as anonymous vehicles for engaging in or transferring the proceeds of corruption, has been an issue on the G20 agenda since the 2009 Framework. Research has repeatedly demonstrated the significance of the problem. Identifying this as the first of Australia’s priorities for the ACWG in 2014, Australia’s Attorney-General, Senator George Brandis, referred a Sydney meeting of the group to the results of a 2011 study by the World Bank-UNODC Stolen Assets Recovery Initiative. It showed that 150 of 213 serious corruption trials investigated worldwide involved the use of at least one corporate vehicle to hide information about the beneficial owners — with the estimated proceeds of corruption sought to be concealed amounting to \$US 56.4 billion.¹⁶

¹⁶ George Brandis, “Address at the Opening of the G20 Anti-Corruption Roundtable,” (speech, Sydney, 28 February 2014), [http://www.attorneygeneral.gov.au/Speeches/Pages/2014/First Quarter 2014/28February2014-AddressattheopeningoftheG20AntiCorruptionRoundtable.aspx](http://www.attorneygeneral.gov.au/Speeches/Pages/2014/First%20Quarter%202014-28February2014-AddressattheopeningoftheG20AntiCorruptionRoundtable.aspx). Citing: Emile van der Does de Willebois et al., “The Puppet Masters: How the Corrupt Use Legal Structures to Hide Stolen Assets and What to Do About It,” (Washington DC: World Bank, 24 October 2011), <https://star.worldbank.org/star/sites/star/files/puppetmastersv1.pdf>. See also: Michael Findley, Daniel Nielson and Jason Sharman, *Global Shell Games: Experiments in Transnational Relations, Crime, and Terrorism*, (Cambridge: Cambridge University Press, 2014).

In the current 2013-2014 G20 ACAP, G20 members have already welcomed “the adoption of the revised FATF standards, which include areas of particular importance to the fight against corruption, such as those relating to beneficial ownership information, customer due diligence and company formation” and looked forward “to their implementation and to the completion in 2013 of the update of the FATF assessment procedure with specific focus on effectiveness.”¹⁷

With the G8 having adopted new principles in June 2013 aimed at cracking down on the “misuse of companies and legal arrangements,” the development of equivalent principles for collective implementation by G20 countries was elevated to the top of the ACWG’s agenda at the meeting of G20 finance ministers and central bank governors in Sydney in February 2014. The resulting G20 principles will be considered by finance ministers in September 2014 and in turn by leaders in November 2014, before being publicly announced. Thereafter, the focus will be on cooperation for implementation including a mixture of enhanced transparency requirements for the beneficial ownership of companies and similar entities, such as through public registers, and a greater focus on introducing and enforcing licensing arrangements which require corporate service providers to collect the necessary ownership information prior to creating or selling corporate vehicles.

However, the consensus around the importance of G20 action over shell companies is only partly because of the increased recognition of their impact on growth. From both the research and the engagement group submissions, the types of ‘corruption’ that will be more easily addressed through measures addressing shell companies are not limited to theft and bribery. They extend to other problems in the financial system including tax evasion and other illicit financial flows — indeed to any corporate practices of such irresponsibly high risk that anonymous companies become attractive as a means of insulating the real owners from any accountability for misdeeds or failures.

Consequently, much of the official discourse and most of the submissions focus on this issue as being relevant more broadly to stemming corruption, regulatory breaches, and corporate social irresponsibility, rather than simply to those offences that fall within the purview of corruption as defined by the UNCAC or OECD Anti-Bribery Convention. For example, the C20’s communiqué points to this issue as relevant not only to corruption, but to “tax avoidance, tax evasion, money laundering and terrorist financing.” In the same way, its recommendations on governance point to the importance of G20 action to address base erosion and profit shifting (BEPS) in public taxation and effective and equitable arrangements for the automatic exchange of tax

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¹⁷ G20, “G20 Anti-Corruption Action Plan 2013-2014.”

...the consensus around the importance of G20 action over shell companies is only partly because of the increased recognition of their impact on growth.

information as fundamental issues for the G20's core agenda of restoring growth and building economic resilience.¹⁸

This consensus is also shared by the Y20 and L20 engagement groups. In the case of the Y20, its final call for increased transparency in corporate ownership is not explicitly linked to corruption at all — in terms of 'hard' corruption offences — but rather to the wider imperative of "tackling anti-competitive behaviours," all in the name of strengthening "states' capacity to face the financial and fiscal challenges ahead."¹⁹ In other words, the issue as much concerns the effective regulation and resilience of the international financial system as it does the problems of growth-erosion prioritised by the G20's primary anti-corruption rationale.

Similarly, the L20's main communiqué presents the issue as primarily one of needing to ensure the "accountability and transparency of financial intermediaries, asset managers and bankers." This, alongside the need to "address regulatory and market barriers to long term investment ... [and] mainstream responsible business conduct by investors," is seen as having at least as much to do with stepping up the momentum on effective taxation and financial regulation in the interests of economic resilience as it has with corruption, narrowly defined.²⁰

In these respects, while the ACWG has thus been tasked with a challenge of great significance for combating corruption as traditionally understood, the consensus behind this priority as a G20 objective can be seen as stemming from its relevance to combating threats to financial integrity and stability more broadly.

FOREIGN BRIBERY AND OTHER CORRUPTION LAW ENFORCEMENT

A similar lesson emerges from the submissions of the T20, C20, and B20 relating to foreign bribery and direct corruption offences where there is again a fair degree of congruence — but with some telling and unexpected distinctions. Whereas all three sets of submissions suggest the G20 has an ongoing role to play in leading implementation of international agreements such as UNCAC and the OECD Anti-Bribery Convention, it is actually the B20 who elevate this issue to one of more general significance for the G20 than simply being about bribery. While endorsing the importance of combating the direct impacts of 'hard' corruption on the global economy, the B20 does not present the required actions as a stand-alone anti-corruption agenda item, but rather as part

¹⁸ See also: C20, "Australian C20 Summit Communiqué" (Melbourne, 23 June 2014), <http://www.c20.org.au/wp-content/uploads/2014/06/C20-Final-Communique.pdf>.

¹⁹ Y20, "Y20 Australia 2014 Delegates' Declaration," (Sydney, 15 July 2014), <https://y20australia.com/news-and-media/y20-australia-2014-delegates%E2%80%99-declaration>.

²⁰ L20, "L20 Recommendations to the G20," (11 June 2014), <http://www.ituc-csi.org/l20-recommendations-to-the-g20>.

of a more positive growth-enhancing agenda of ensuring “integrity and credibility in commerce.” Moreover, while some of the B20’s focus is on the economic benefits of harmonising anti-corruption laws, it is also clear that this is just one aspect. The G20 has the potential to assist the cause of globally consistent and effective business regulation more generally — in which corruption, anti-money laundering, and counter-terrorism financing rules are seen as an important part of overall “prudential and conduct regulation” rather than as unique, extra species.²¹

Indeed, the B20’s elevation of commercial integrity and credibility to one of just four overall themes for the G20 in 2014 — alongside structural flexibility, free movement of business across borders, and consistent and effective regulation — suggests that a corruption focus lies squarely at the heart of the G20 agenda. In some respects, this is surprising given the decision of the Australian-led B20 to break with recent tradition and not constitute its own anti-corruption task force as part of the advisory process. It instead established just four task forces on trade, human capital, infrastructure and investment, and financing growth, in an apparent gesture towards restoring a more focused and manageable G20 agenda. As a result, anti-corruption became the focus of a working group drawing on the issues identified by all four task forces — its apparently downgraded status emphasised by the fact it was the only such working group in the B20 process. That integrity issues emerged so prominently in its recommendations, despite this ‘focusing’, appears to come as direct confirmation that corruption issues — understood in their broader context as regulatory and conduct issues — are indeed intrinsic to the economic and financial focus of the G20.

A more specific surprise can be seen in the divergence of the engagement groups on the G20 Anti-Corruption Action Plan commitment relating to anti-corruption authorities. Whereas the original 2009 Framework did not descend into the detail of advocating institutional arrangements for prosecuting corruption, both the first and second two-year anti-corruption action plans called for specific, albeit vague action on this issue.²² In reality, little work of substance was done and the issue

...corruption, anti-money laundering, and counter-terrorism financing rules are seen as an important part of overall “prudential and conduct regulation” rather than as unique, extra species.

²¹ B20, “Driving Growth and Jobs: B20 Policy Recommendations to the G20,” (Sydney, 6 August 2014), <http://www.b20australia.info/Latest%20Documents/Driving%20growth%20and%20jobs%20-%20B20%20policy%20recommendations%20to%20G20.pdf>. See recommendation 15 in particular.

²² Among the nine points of the first plan (Seoul 2010) was a commitment to “the establishment of anti-corruption agencies with law enforcement power, replete with the necessary independence to fulfill their duties free from undue influence.” See: G20, “G20 Anti-Corruption Action Plan 2010.” In the current plan (Los Cabos 2012), G20 leaders reiterated their “strong belief that anti-corruption authorities should be allowed to operate free from undue influence and provided with proper independence” and undertook to “examine the state and effectiveness of anti-corruption authorities in the light of previous work in this area.” See: G20, “G20 Anti-Corruption Action Plan 2013-2014.”

...it emphasises that a key to the worthiness of any action item is not only broad relevance, but also whether it has specific, strategic significance.

seemed well covered by Articles 6 and 26 of the UNCAC dealing with anti-corruption bodies and specialised authorities.

In recognition of the practical benefits of a more focused agenda, anti-corruption authorities do not feature in the C20 or T20 submissions on priorities for the post-2014 action plan. They do feature, however, in the B20's recommendation that G20 countries should not only "endorse applicable legal frameworks ... [but] implement or strengthen a national independent corruption authority in each jurisdiction to monitor and enforce."²³ The survival of this item is perhaps explained by the importance to international business of having a recognisable, credible point for the high-level reporting of corruption activity, prioritised by other recommendations. In any event, it emphasises that a key to the worthiness of any action item is not only broad relevance, but also whether it has specific, strategic significance.

In contrast, the C20 communiqué's treatment of foreign bribery signals a different issue with strategic significance of its own: a call for G20 members to commit not only to "greater consistency and enforcement in foreign bribery offences ... [but] enhanced cooperation, including for equity, when G20 members enter into settlements of foreign bribery prosecutions." The rationale for this call lies in evidence that few of the substantial funds recouped by governments (notably the United States and United Kingdom) as a result of foreign bribery offences by large companies currently flow to the developing countries in which the criminal acts occur. The suggested addition of this item points to another criterion which can, and does, appear to provide a logical rationale for items on the anti-corruption agenda: items that are particularly suited to harnessing the diversity of the G20 economies in support of concrete action that may otherwise remain either abstract or divisive. The same is true of beneficial ownership, discussed above, on which developing and developed economies alike can unite in support of enforced standards — especially given evidence that, similarly, it is the financial systems of developed countries that tend to be those most often used to launder the proceeds of corruption from developing ones.

WHISTLE-BLOWER PROTECTION

The third, unfinished priority in the ACAP reinforces the case for a clearer rationale regarding which items are sufficiently central and strategic to G20 core business to remain on a more focused agenda. It also assists in suggesting such a rationale. Like the specific focus on anti-corruption authorities, "the preparation and implementation of corruption whistle-blower protection legislation" was first included in the G20's initial 2010 ACAP and repeated in the 2012 commitment that "G20 countries that do not already have whistleblower protections will enact and implement whistleblower protection rules." This draws on

²³ B20, "Driving Growth and Jobs."

principles developed in the working group by the OECD and adopted by G20 leaders at the 2011 Cannes Summit.²⁴

Unlike beneficial ownership or foreign bribery, maintaining this action item is recommended in 2014 by the C20 and T20, but not by the B20 — other than perhaps as one element of the “leading practice anti-corruption compliance programs: which G20 governments should cooperate to ‘incentivise’.” As with other items, this relative lack of focus on this issue is clearly not because the task is complete. Recent analysis of the state of whistle-blowing rules across the G20 suggests that this action item has had considerable success, leading to the adoption of new legislative frameworks in a range of countries. But it also finds that, like many complex and contentious reforms, much remains to be done — especially around rules facilitating whistle-blowing in the private, business, and financial sectors.²⁵ Australia itself is one country where the result is patchy. It passed a relatively sophisticated federal public sector whistle-blower protection law in 2013, but still lacks equivalent rules for non-government employees.²⁶

On the one hand, whistle-blower protection may seem like another niche issue whose place in the G20 agenda is hard to comprehend. This is especially so when the G20’s own OECD Principles no longer restrict the commitment to “corruption whistleblowers,” but recommend a broad definition of the wrongdoing to which public interest disclosure laws should apply.²⁷ But in fact rather than being evidence of a blown-out agenda, the uncertainties around whistle-blower legislation confirm the need for clearer understanding of why such objectives are strategic in the G20 context.

For confirmation of the real relevance of this issue, one needs to look no further than the advice of the Financial Stability Board (FSB). The FSB’s formation as a coordination body to assist in the monitoring, assessment, and management of global economic and financial risk is

...the uncertainties around whistle-blower legislation confirm the need for clearer understanding of why such objectives are strategic in the G20 context.

²⁴ G20, “G20 Anti-Corruption Action Plan 2013-2014.”

²⁵ See: Simon Wolfe et al., “Whistleblower Protection Rules in G20 Countries: The Next Action Plan — Public Consultation Draft,” (June 2014), <http://www.griffith.edu.au/conference/corruption-integrity-systems-g20/conference-papers-and-reports>; Suelette Dreyfus, “The G20 still has a way to go with whistleblower protections,” *The Conversation*, 20 June 2014, <http://theconversation.com/g20-still-has-a-way-to-go-with-whistleblower-protections-28159>.

²⁶ See: Senate Economics References Committee of the Australian Parliament, “Performance of the Australian Securities and Investments Commission,” (Canberra, June 2014), http://www.aph.gov.au/Parliamentary_Business/Committees/Senate/Economics/ASIC/Final_Report/~/_media/Committees/Senate/committee/economics_ctte/ASIC/Final_Report/report.pdf. See chapter 14 in particular.

²⁷ See OECD, “G20 Anti-Corruption Action Plan — Protection of Whistleblowers: Study on Whistleblower Protection Frameworks, Compendium of Best Practices and Guiding Principles for Legislation,” (Paris: Organisation for Economic Co-operation and Development, 2011), <http://www.oecd.org/g20/topics/anti-corruption/48972967.pdf>.

Within the G20's appropriate, core focus on overseeing the ongoing strengthening of financial regulation, whistle-blowing becomes an efficient and logical strategy...

regarded as one of the major successes of the G20.²⁸ Among the various post-GFC strategies for timely identification and management of unanticipated risks — arguably the single most importance cornerstone of resilience for the modern financial system — the FSB's "Guidance on Supervisory Interaction with Financial Institutions on Risk Culture" identifies the key indicators of accountability. These include: first, "mechanisms ... for the sharing of information on emerging, as well as low probability, high impact risks, both horizontally across business lines and vertically up the institution;" second, "mechanisms ... for employees to elevate and report concerns when they feel discomfort about products or practices, even where they are not making a specific allegation of wrongdoing;" and third, "appropriate whistleblowing procedures ... to be utilised by employees without any reprisal, to support effective compliance with the risk management framework."²⁹ This focus on whistle-blowing as key to risk management is not new — it simply requires a deeper understanding of whistle-blowing's significance than a law enforcement, organisational justice, or human resource management focus.³⁰ Seen in this light, whistle-blowing rules and systems become one strategic tool among the various actions for improving prudential oversight, corporate governance, and the rule of law recognised by sector leaders as basic to developing financial markets and building "depth and resilience."³¹ Within the G20's appropriate, core focus on overseeing the ongoing strengthening of financial regulation, whistle-blowing becomes an efficient and logical strategy:

The first G20 leaders' meeting was a response to a devastating financial crisis and the public wanted some assurance that steps were being taken to ensure that a similar crisis would be avoided. And it is appropriate that the G20 continues to focus on financial regulation, because the financial sector has been, and is likely to continue to be, a source of economic crises.³²

²⁸ See for example: Stephen Grenville, "An Agenda for the 2014 G20 in Brisbane," *The Interpreter* (blog), <http://www.lowyinterpreter.org/post/2012/08/06/An-agenda-for-the-2014-G20-in-Brisbane.aspx>.

²⁹ Financial Stability Board, "Guidance on Supervisory Interaction with Financial Institutions on Risk Culture — A Framework for Assessing Risk Culture," (Basel, 7 April 2014), <http://www.financialstabilityboard.org/publications/140407.htm>. I am grateful to Rupert Thorne, Deputy Secretary of the FSB, for pointing me to this guidance at the *G20 Conference: Strengthening Accountability and Effectiveness* in Melbourne on 25 June 2014.

³⁰ Eva Tsahuridu, "Whistleblowing Management is Risk Management," in *Whistleblowing and Democratic Values*, eds. David Lewis and Wim Vandekerckhove (London: International Whistleblowing Research Network, 2011).

³¹ See for example: Graham Hodges, "The Financial Sector's Role in Asia-Pacific Growth," in *Financial Regulation and the G20*, G20 Monitor No. 4 (Sydney: Lowy Institute for International Policy, 2013).

³² Mike Callaghan, "Overview," in *Financial Regulation and the G20*.

INTEGRITY, ANTI-CORRUPTION, OR GOOD GOVERNANCE AND SMART REGULATION? WHERE TO FROM HERE?

Together, these issues help to understand the persistence of anti-corruption as an element of the G20 agenda. They suggest that the G20 does more than just 'add value' to other anti-corruption efforts and that integrity and anti-corruption objectives are more than simply complementary to securing economic growth and resilience — rather, when understood broadly and in context, they are intrinsic to these goals. Clearly, such objectives are also not a distraction from G20 core business, unless the resilience of the financial and economic system is itself a distraction.

The engagement group submissions on the next G20 ACAP also reinforce that even if the relevance of past plans has been under-theorised, common features help explain the salience of key issues on the agenda. Continued attention on hard, core problems at the heart of good conduct regulation is consistent with the overarching mission of the forum. As Lipsky observes: “the G20 agenda appropriately contains only important and consequential issues, and none of them are susceptible to rapid resolution.”³³

Further, as shown above, the issues on the G20 agenda tend to be issues where real and new progress can be made, if not solutions found, due to the way in which they harness the diversity of the G20 membership. Whereas the diversity of interests among G20 members is frequently cited as a reason why the forum struggles to provide effective global economic leadership, this diversity is also capable of working as an asset in response to the type of concrete challenges profiled here.³⁴ The items captured to date under the rubric of anti-corruption provide several examples of sufficiently shared interests to realise the advantages of responses that (if capable of working across most of this diverse group) should be capable of spreading worldwide.

What is also clear, however, is that a limited focus on anti-corruption (if the role of the ACWG is simply to mirror and support UNCAC-implementation among the G20) is insufficient to explain the centrality of the agenda. Similarly, the continuing focus on the direct, adverse impacts of corruption on growth, while valid, tends to significantly undersell its real relevance to the wider G20 mission. Key issues like corporate transparency, consistent and effective conduct regulation, and whistle-blower protection as a risk management tool all demonstrate that the agenda is, in reality, about smart financial regulation and resilience.

There are signs that this realisation is beginning to penetrate. For example, the current ACAP was again framed around the core message

...integrity and anti-corruption objectives are more than simply complementary to securing economic growth and resilience — rather, when understood broadly and in context, they are intrinsic to these goals..

³³ Lipsky, “The Brisbane Summit.”

³⁴ Callaghan, *Strengthening the Core of the G20*.

that corruption is “a severe impediment to economic growth,” and the 2013 Saint Petersburg Declaration noted that it can also “threaten financial stability and the economy as a whole.”³⁵ The B20’s submission to the ACWG in May 2014 described corruption as “a source not only of economic waste, but of social and political instability” – even if the B20’s final policy recommendations used the words ‘resilience’ and/or ‘stability’ only eight times (two of them in simple direct quotes of the Australian Government’s 2014 G20 priorities), compared with 48 uses of the word ‘growth’ in the same text.

Where will a broader understanding of the role of integrity and anti-corruption measures take the G20? For Charles Sampford, it suggests that the G20 should become the pre-eminent body for mapping, analysing, assessing, and improving the integrity systems of all major economic sectors as well as for mapping, assessing, and analysing “the corruption systems that operate within and across these borders.”³⁶ Arguably, however, this could indeed represent a sidetrack, turning the G20 into a new leadership forum for implementing UNCAC and other agreements more than it supports the role of economic and financial regulation and other elements of good governance in securing growth and resilience.

Nor, however, is the agenda likely to be served by trying to ‘mainstream’ or ‘diffuse’ the G20’s corruption-focused responsibilities into other work streams, as suggested by Hugh Jorgensen.³⁷ As an experiment in that direction, the experience of the Australian-led B20 is salutary, confirming that even if the agenda is focused on key economic and financial priorities, there will remain key governance issues which cannot be relegated to a second-order status if the ‘first-order’ priorities are to be achieved. This would remain the case if the ‘first-order’ priorities were further reduced from four to three, or even two. Where anti-corruption measures are seen by stakeholders as having most promise through the G20, it is because they are just as much focused on making regulation for positive outcomes and forestalling and suppressing irresponsible and damaging economic behaviour as on detecting and stopping ‘hard’ corruption.

While some realignment of G20 working groups may eventually happen, some interim steps are suggested by the C20 and T20 submissions. Unlike the B20, the C20 retained the role of an anti-corruption working group as one of its four taskforces, but labelled it a ‘governance’ group, including issues of tax transparency and open government along with corruption. While supporting the call for “a new focused and measurable

...there will remain key governance issues which cannot be relegated to a second-order status if the ‘first-order’ priorities are to be achieved.

³⁵ G20, “G20 Leaders’ Declaration, St Petersburg,” (Saint Petersburg, 6 September 2013), <http://www.g20.utoronto.ca/2013/2013-0906-declaration.html>.

³⁶ Charles Sampford, “Beyond the Current G20 Anti-Corruption Agenda: Building Integrity, not just Fighting Corruption,” in *G20 2014: The G20 Brisbane Summit, Inequality, Energy and Anti-Corruption*, G20 Monitor No. 12

³⁷ Jorgensen, “Hard graft.”

G20 Anti-Corruption Action Plan,” the C20 communiqué also placed this within the G20’s commitment to “good governance as underpinning capacity for sustainable growth and ensuring economic resilience ... Good governance includes transparency and accountability to citizens.”³⁸

Similarly, the T20 submission refined the scope of the plan to recognise three overarching objectives, as shown in Table 1. These are: (I) cooperation for greater transparency in business, government and financial affairs, in recognition that measures that make corruption more difficult or impossible are closely related to other measures to strengthen financial regulation by reducing and preventing illicit and undesirable financial flows (including tax transparency and wider disclosure policies); (II) cooperation for stronger, more effective, and more efficient financial regulation (including self-regulation), in recognition that corrupt behaviour and corruption offences are actually not stand-alone, but part of the broader regulatory landscape intended to benefit from cooperation for financial system stability and resilience; and (III) cooperation for reducing and removing corruption risks from collective growth strategies, in recognition that G20 countries can add better value by embedding pro-integrity measures in their main fields of economic cooperation than by repeating and reinforcing general anti-corruption commitments made in other forums.

While the ACWG shares these objectives with other work streams, the issues likely to become the most productive core of the next anti-corruption plan are ones representing cooperative strategies, rather than stand-alone actions, that are intended to address corruption in all its forms. With a successor plan now more or less guaranteed, the issues canvassed here suggest a more focused agenda is beginning to emerge, but one that may need to be recognised as more than a mere anti-corruption plan. Instead, it may be a more integrated governance reform agenda, supporting a more streamlined G20 agenda overall. In any event, the emerging logic of these priorities places the ongoing relevance of strategic corruption and integrity objectives and monitoring beyond doubt. In the G20 context, efforts to suppress corruption and maximise integrity appear, rightly, to be here to stay.

...G20 countries can add better value by embedding pro-integrity measures in their main fields of economic cooperation than by repeating and reinforcing general anti-corruption commitments...

³⁸ C20, “Australian C20 Summit Communiqué.”

TABLE 1: KEY G20 ANTI-CORRUPTION RECOMMENDATIONS — A DIGEST

| Think20 | Civil20 | Business20 |
|-----------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|-------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| T20 submission to ACWG (May 2014) ¹ | C20 submissions to G20 ACWG and C20 Communiqué (June 2014) ² | B20 Anti-Corruption Working Group Report to the B20 Office and Taskforce Chairs (July 2014) and Driving Growth and Jobs: B20 Policy Recommendations to the G20 (August 2014) ³ |
| I) Cooperation for greater transparency in business, government and financial affairs | | |
| 1. Enhanced transparency of corporate ownership and interests (shell companies/ beneficial ownership) | C20 submission: AntiMoneyLaundering ; see also TI position paper on: Beneficial ownership . *30. ... establishment of public registries... to disclose accurate beneficial ownership information in open data format of companies, trusts and other legal structures to tackle tax avoidance, tax evasion, corruption, money laundering and terrorist financing. ... Due diligence and 'know your customer' policies for financial and corporate service advisers should be implemented and enforced. | Harmonised rules on beneficial ownership (Priority 5: B20 Submission to the G20 ACWG) *To promote integrity and credibility in commerce , all G20 governments should: 20. Endorse the G8 core principles on transparency of ownership and control of companies and legal arrangements. |
| 2. Cooperation for greater public revenue reporting ('publish what you pay' and industry transparency initiatives) in fields of high development significance and corruption risk | C20 submissions: Private-Sector-Transparency, Integrity, Accountability (Revenue transparency); Public-Sector-Transparency, Integrity, Accountability (Revenue and budget transparency); see also TI position paper on Natural resources . *31. ... enhanced transparency measures in all sectors to address tax evasion and avoidance through the establishment of annual public country by country reporting by companies of number of employees, subsidiaries, profit and loss, taxes on profits, assets and public subsidies received. Oil, gas and mining companies should be required to publish payments made to governments on a country-by-country and project-by-project basis. | (4. G20 governments to commit to begin immediate implementation the trade facilitation agreement, with priority given to: a. transparency of fees, charges, procedures, time frames and regulations; and b. implementation of one-stop and automated customs procedures.) (*Not among policy recommendations.) |
| II) Cooperation for stronger, more effective and more efficient financial regulation (including self-regulation) | | |
| 3. Consistent and efficient protection for corporate and financial system whistleblowers | C20 submission: Detecting-Corruption-Whistleblowing ; see also TI position paper on Whistleblower legislation . *29. ... Comprehensive, loophole-free whistle-blower protection rules must be adopted in both the private and public sectors. | (See best / leading practice anti-corruption compliance programs below) |

¹ Prepared by the author with assistance from Jason Shaman and Charles Sampford from Griffith University: T20, "G20 Anti-Corruption Working Group Proposal for 2015-16 priorities," (Brisbane, 26 May 2014), http://www.griffith.edu.au/_data/assets/pdf_file/0005/615182/G20-ACWG-T20-submission-for-2015-16-Action-Plan-26May2014.pdf.

² See: C20, "Australian C20 Summit Communiqué."

³ See: B20, "B20 Anti-Corruption Working Group Report to the B20 Office and Taskforce Chairs," (July 2014), <http://www.b20australia.info/Latest Documents/B20 Anti-Corruption Working Group Report.pdf>; B20, "Driving Growth and Jobs."

| Think20 | Civil20 | Business20 |
|-----------------------------------------------------------------------------------------------------------------------|---------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|---------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| 4. State support for best practice business integrity systems through preferential treatment ('white-listing') | C20 submission: Private-Sector-Transparency, Integrity, Accountability (Corruption in private sector supply chains). (*Not specifically mentioned in Communiqué) | (See also infrastructure below) (Priority 1: Incentivise companies that voluntarily report violations.) 1. G20 Governments agree to harmonise laws related to anti-corruption that incentivise companies to build best practice compliance programs and self-report compliance breaches; and ... form a working group consisting of business and enforcement agencies to map jurisdictional differences, propose regulatory change that recognises anti-corruption programs and self-reporting, and monitor progress. <i>*To promote integrity and credibility in commerce, all G20 governments should:</i> 18. Agree to harmonise laws related to anti-corruption that incentivise companies to build leading practice compliance programs and self-report compliance breaches. 19. Enforce applicable legal frameworks such as the OECD Anti-bribery Convention and UN Convention against Corruption and implement or strengthen a national independent corruption authority in each jurisdiction to monitor and enforce. |
| 5. Consistent foreign bribery regulation and strengthened enforcement cooperation | C20 submission: Foreign-Bribery . <i>*29. We encourage all G20 members to ratify and fully implement the UN Convention Against Corruption and the OECD Convention on Combatting Bribery of Foreign Public Officials in International Business Transactions. G20 members must commit to greater consistency and enforcement in foreign bribery offences, and enhanced cooperation, including for equity, when G20 members enter into settlements of foreign bribery prosecutions.</i> | |
| 6. Joint implementation of realistic principles for denial of entry to corrupt and allegedly corrupt persons | C20 submission: Denial-of-Entry ; see also TI position paper on Denial of entry . (*Not specifically mentioned in Communiqué) | |
| 7. Cooperation for more efficient stolen asset recovery | C20 submission: Asset-recovery-final ; see also TI position paper on Asset recovery . (*Not specifically mentioned in Communiqué) | 5. G20 governments ensure that all new trade agreements include specific anti-corruption clauses, requiring signatories to uphold the UN Convention against Corruption and OECD Anti-Bribery Convention, and install High Level Reporting Mechanisms (3.a). 8. International Model Investment Treaties (IMITs) should require signatories to enforce their anti-corruption and transparency obligations, undertake capacity building for public officials, and install high level reporting mechanisms to govern the treaty. <i>*To promote free movement across borders, G20 governments should:</i> 11. Ensure preferential trade agreements (PTAs) realise better business outcomes by consulting with business, improving transparency and consistency and addressing emerging trade issues. |

| Think20 | Civil20 | Business20 |
|--------------------------------------------------------------------------------------------------------------------------------------------------------------------|-------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| III) Cooperation for reducing and removing corruption risks from collective growth strategies | | |
| <p>8. Enhanced cooperation for transparency and integrity in infrastructure and other procurement</p> | <p>C20 submission: Public-Sector-Transparency, Integrity, Accountability (Transparency in procurement). *18. ... <i>The G20 should demand PPP arrangements are transparent to enable independent monitoring. ...</i> *19. ... <i>G20 should develop common investment standards for best practice with regard to community consultation, project planning, governance, management, monitoring and evaluation, and safeguards...</i></p> | <p>(Priority 2: Review processes and guidelines to promote best practices in public procurement) 6. G20 governments apply best practice procurement processes in all large and/or publicly significant infrastructure projects: ... (Priority 3: Provide incentives in public tenders for companies with a demonstrable commitment to anti-corruption policies) 7. G20 governments incentivise companies bidding for large and/or publicly significant infrastructure projects that have in place best practice anti-corruption compliance programs... *To promote consistent and effective regulation, all G20 governments should: 17. <i>Implement transparent infrastructure procurement and approval processes that comply with global leading practice, including a commitment to specific time frames for approvals.</i> (See also Recommendation 18 above)</p> |
| <p>9. G20 principles for consistent, real-time asset and interest disclosure systems for public decision-makers</p> | <p>C20 submission: Public-Sector-Transparency, Integrity, Accountability (Asset disclosure). (*Not specifically mentioned in Communiqué)</p> | |
| <p>10. Streamlined, agreed integrity system assessment frameworks for more efficient monitoring and verification of country, sector and IGO performance</p> | | |

ANNEX 1

CONFERENCE PROGRAM – G20 CONFERENCE: STRENGTHENING ACCOUNTABILITY AND EFFECTIVENESS

Wednesday, 25 June 2014, Westin Hotel, Melbourne, Australia

- 8:45am –9:00am **Welcome**
- Speaker: Michael Fullilove,
Executive Director, Lowy Institute for
International Policy*
- 9:00am – 9:45am **Keynote address**
- John Lipsky, Senior Fellow, The Paul
H. Nitze School of Advanced
International Studies, Johns Hopkins
University, and former First Deputy
Managing Director, IMF*
- 9:45am – 11:15am **Session I: Is the G20 delivering?
The sherpas' view**
- Panel: Mike Callaghan, Director G20
Studies Centre, Lowy Institute for
International Policy (Moderator)*
- Heather Smith, G20 sherpa,
Australia*
- Barry Sterland, G20 Finance Deputy,
Australia*
- Il Houg Lee, G20 sherpa, Republic
of Korea*
- Simon Kennedy, G20 sherpa,
Canada*
- Peter Bekx, Director of International
Economic and Financial Affairs,
European Commission (DG ECFIN)*

11:15am – 11:30pm **Coffee break**

11:30pm – 1:00pm **Session II: The G20 and International Organisations – How to improve the partnership?**

Panel: Philip Lowe, Deputy Governor, Reserve Bank of Australia (Moderator)

Gabriela Ramos, Chief of Staff and G20 Sherpa, OECD

Siddharth Tiwari, Director, IMF (Strategy, Policy, and Review Dept)

Rupert Thorne, Deputy to the Secretary-General, FSB

Jeff Chelsky, Lead Economist, World Bank

Tim Yeend, Chief of Staff, WTO

Thierry Soret, Policy Advisor, UNDP

1:00pm – 2:30pm **Lunch**

2:30pm – 4:00pm

Session III: How can the G20 be more responsive to the global economic challenges of the 21st century? Perspectives from business and labour

Panel: John Denton, CEO, Corrs Chambers Westgarth (Moderator)

Richard Goyder, CEO Wesfarmers, and Chair, B20

Masahiro Kawai, Dean, Asian Development Bank Institute

Jennifer Westacott, Chief Executive, Business Council of Australia

Tim Lyons, Assistant Secretary, ACTU/L20

4:00pm – 4:30pm

Coffee break

4:30pm – 6:00pm

Session IV: What role should civil society and think tanks have in making the G20 more accountable and effective?

Panel: John Kirton, Co-director, G20 Research Group, University of Toronto (Moderator)

Joanne Yates, Australian G20 sherpa

Huguette Labelle, Chair, Transparency International

Rohinton Mendorha, President, CIGI

Steve Price-Thomas, Deputy Advocacy and Campaigns Director: Southern Influencing, Oxfam International

6:00pm **Closing**

6:00pm – 8:00pm **Reception**

ANNEX 2

T20 SUBMISSION: G20 ANTI-CORRUPTION WORKING GROUP PROPOSAL FOR 2015-16 PRIORITIES

PROPOSED PRIORITIES

I) Cooperation for greater transparency in business, government and financial affairs:

1. Enhanced **transparency of corporate ownership** and interests (shell companies/beneficial ownership)
2. Cooperation for **greater public revenue reporting** ('publish what you pay' and industry transparency initiatives) in fields of high development significance and corruption risk

II) Cooperation for stronger, more effective and more efficient financial regulation (including self-regulation):

3. Consistent and efficient **protection for corporate and financial system whistle-blowers**
4. State support for **best practice business integrity systems** through preferential treatment ('white-listing')
5. Consistent **foreign bribery regulation** and strengthened enforcement cooperation
6. Joint implementation of realistic principles for **denial of entry** to corrupt and allegedly corrupt persons
7. Cooperation for more efficient **stolen asset recovery**

III) Cooperation for reducing and removing corruption risks from collective growth strategies:

8. Enhanced cooperation for **transparency and integrity in infrastructure and other procurement**
9. G20 principles for consistent, real-time **asset and interest disclosure systems** for public decision-makers
10. Streamlined, agreed **integrity system assessment frameworks** for more efficient monitoring and verification of country, sector and intergovernmental organisations' (IGO) performance (accountability).

PROPOSING COUNTRY/ORGANISATION

Think20

WHAT IS THE PROBLEM? WHY SHOULD THIS BE A PRIORITY FOR THE G20?

Suppression and control of corruption remains vital to ensuring sustainable and equitable growth in G20 economies, individually and collectively. Broadly defined and understood, corruption represents (1) a direct drain on the development resources and growth potential of many G20 countries, especially less industrialised countries, (2) a barrier to efficient planning, investment and growth through the distortion of markets and business 'playing-fields', and (3) a risk to international financial stability and resilience, given the increasingly interconnected nature of the global economy and proven potential for once-isolated failures of regulation and integrity to negatively impact the global economy as a whole. Greater integrity, on the other hand, enhances faith, certainty and confidence in business, government and financial systems and can help sustain higher rates of growth.

As a result, leaders should remain committed to ensuring that cooperation for economic growth and resilience across the G20 includes effective measures for promoting integrity and helping to prevent and suppress corruption. However, leaders face four more general problems: ensuring these efforts do not unnecessarily duplicate other measures and strategies (e.g. United Nations Convention against Corruption - UNCAC), keeping these efforts aligned closely with the financial, development and regulatory strategies which lie at the heart of G20 cooperation, for greatest effect, ensuring they are sufficiently focused and sustainable to achieve a real impact, over realistic time frames, in the often difficult areas in which leaders have pledged action, and the need for more effective monitoring and verification of the degree of progress towards agreed changes, including diagnostics which point to new priority actions as gaps and obstacles are identified.

Few of the above ten priorities are entirely new. Rather they represent important, strategic areas where effective action can make a difference, especially if it involves strong cooperation between both industrialised and less industrialised countries and more concrete collaborative actions than currently supported entirely by other forums. They also have strong support from other engagement groups such as the C20.

However, many have also been expressed or implied priorities since the initial 9-point action plan identified in Seoul.¹ To the extent they remain ongoing issues because solutions are not simple, progress is often politically contentious, and changes require overcoming significant institutional or other inertia, then these factors demonstrate why they remain worthy of high-level commitment by leaders.

It is also clear that to guarantee continued, concrete action, priorities in 2015-2016 should be more limited in number, aimed at more specific

¹ G20, "G20 Anti-Corruption Action Plan 2010."

deliverable actions and outcomes and selected or refined in line with how these can best support or be supported by related areas of G20 cooperation. The T20 suggests that greater specificity and more realistic progress can be achieved both by limiting the commitments and refining their scope to focus on action which supports three over-arching objectives: *I) Cooperation for greater transparency in business, government and financial affairs*, in recognition that measures that will make business and official corruption more difficult or impossible are closely related to other measures to strengthen international financial regulation by reducing and preventing illicit and undesirable financial flows including tax transparency and wider disclosure policies; *II) Cooperation for stronger, more effective and more efficient financial regulation (including self-regulation)*, in recognition that corrupt behaviour and corruption offences are actually not stand-alone, but part of the broader regulatory landscape intended to benefit from cooperation for financial system stability and resilience; and *III) Cooperation for reducing and removing corruption risks from collective growth strategies*, in recognition that G20 countries can add better value by embedding pro-integrity measures in their main fields of economic cooperation than by repeating and reinforcing general anti-corruption commitments made in other forums.

The Anti-Corruption Working Group shares these objectives with other work streams advising G20 leaders and ministers, especially in relation to financial regulation, tax, development, and investment and infrastructure. To achieve the next stages of real progress, pro-integrity and anti-corruption actions should be prioritised which can directly assist or be assisted by cooperative strategies in these other areas, rather than as stand-alone strategies or actions intended to address corruption in all its aspects and forms.

Finally, there needs to be increased quality of accountability surrounding the rate and nature of progress in implementing commitments. Reliance on self-assessment and reporting, without independent verification and evaluation, is insufficient – especially if G20 countries are to be assisted with analyses and diagnostics to assist in a more effective identification of problems, potential solutions and areas for capacity building. The development of more robust evaluation frameworks should thus be elevated as a work priority in its own right.

WHAT SHOULD THE G20 DO? WHAT IS THE DELIVERABLE?

I) Cooperation for greater transparency in business, government and financial affairs:

1. *Enhanced transparency of corporate ownership and interests (shell companies/beneficial ownership)*

In 2014 (Brisbane), G20 leaders will consider and hopefully endorse new high-level principles for cooperation to prevent misuse and ensure transparency of legal entities and arrangements, as a means of engaging in, transferring and hiding the proceeds of corruption as well as other anti-growth practices, such as profit shifting and tax evasion. The focus will be on mechanisms to ensure disclosure of information about the real and true owners of all corporate entities, and may include agreement to establish new public registers of beneficial ownership information. Given the low level of enforcement of existing Financial Action Task Force (FATF) standards in this area, however, **deliverables** are likely to be best focused on cooperation aimed at: practical actions, including technical assistance, to support speedy and consistent implementation of the new principles (including establishment of registers), establishing and implementing rules to ensure that only companies complying with their enhanced ownership disclosure requirements may benefit from infrastructure and other public procurement processes (see also priorities 4 and 8), requiring the licensing of all Trust and Corporate Service Providers (TCSPs), together with requirements that they collect adequate beneficial ownership (identification) information and make this available to national and international law enforcement, collective review of the frequency and thoroughness with which G20 regulatory agencies are checking on levels of compliance by TCSPs, financial institutions and other licensed entities with their identity-collection obligations; and prosecuting breaches when found.

2. *Cooperation for greater public revenue reporting ('publish what you pay' and industry transparency initiatives) in fields and industries of high development significance and corruption risk*

The G20 has a key role to play in helping suppress global corruption through support for 'publish what you pay' practices and rules, where companies publish what they pay to foreign governments on a country-by-country and project-by-project basis and governments publish what they receive. While the focus of support for this approach has lain in the high-risk resources and extractives area, though the Extractive Industries Transparency Initiative (EITI), the same principles apply more broadly.

However, despite high-level commitments (such as at Saint Petersburg), formal engagement of G20 countries with the EITI is low and insufficient practical work is being done to address the full implications of how such approaches can best be developed and rolled out, including their application to corporate subsidiaries and partners. **Deliverables** are likely to be best focused on: increased participation by G20 countries in the EITI, more effective mapping and assessment of the 'corruption systems' affecting highest-risk industries and sectors (building on existing World Bank work on sectors vulnerable to corruption risk) in order for these to be addressed by best-practice means for tackling

corruption networks and systems, and concrete progress towards clearer international principles and investigation of how they can be efficiently implemented through the international financial system as well as at the country level.

II) Cooperation for stronger, more effective and more efficient financial regulation (including self-regulation):

3. Consistent and efficient protection for corporate and financial system whistle-blowers

Information is the key to regulatory strategies that promote best business practice, ensure public integrity, and respond promptly to serious problems and risks (whether corruption or other failures). Information from employees and other internal sources continues to be the single most important avenue for businesses, regulators and where necessary, the public, to identify and respond to problems and practices which may undermine growth and threaten stability if left unchecked. G20 leaders should maintain their commitment to comprehensive whistle-blower protection rules, consistent with OECD principles, covering all public interest and regulatory information across the public and private sectors. However, given the patchy rate of progress to date, **deliverables** are likely to be best focused on cooperation aimed at: identifying the most important gaps and barriers in achieving such rules, consistent best-practice rules for source protection in the corporate and financial sectors, and promoting best-practice business-level (internal and regulatory) whistle-blower protection systems (not only retroactive, post-reprisal 'protection' as is often currently the case).

4. State support for best-practice business integrity systems through preferential treatment ('white-listing')

Business integrity is as crucial to the reduction of corruption and other integrity risks to global growth and stability, as public integrity. However, most international arrangements, including Anti-Corruption Action Plans to date, provide insufficient support to corruption prevention and the promotion of integrity (as against law enforcement and reactions to corruption). Best-practice regulation already provides relief (e.g. by way of defences or reduced penalties) to companies that can show they are taking real steps to prevent and suppress corruption, but these principles should be extended through a 'white-listing' approach in which preferential access to finance, markets or contracts is given to companies who develop and implement verified anti-corruption programs (or business integrity systems). Building on the present commitment to "explore ... mechanisms for sharing anticorruption expertise among business and governments,"² **deliverables** should be focused on: in partnership with business, civil society and experts, development of a clear G20 framework for assessing and evaluating

² G20, "G20 Anti-Corruption Action Plan 2013-2014."

business-level integrity systems, and establishment of an expert group to investigate and report on a priority range of mechanisms through which public decision-making in G20 countries can incentivise companies to adopt and enhance these systems.

5. *Consistent foreign bribery regulation and strengthened enforcement cooperation*

Combating foreign bribery remains a vital plank in international anti-corruption efforts, with the G20 providing an important forum which extends this effort beyond the OECD. However, rules remain uneven, enforcement remains even more uneven, the equity of settlements is in question and information is limited. As well as maintaining a high-level commitment to cooperation, **deliverables** should be focused on: cooperation to identify and remove inconsistencies in foreign bribery rules, reforms to promote transparency and equity in the distribution of settlements, and more detailed information sharing (including benchmarking) on levels of enforcement, penalties and outcomes.

6. *Joint implementation of realistic principles for denial of entry to corrupt and allegedly corrupt persons*

Preventing corrupt persons from enjoying the proceeds of their corruption in other jurisdictions remains a crucial way of reducing the feasibility of grand corruption and thus its major deleterious effects on public interest investment and growth. In 2013 (Saint Petersburg), G20 leaders announced they had established a Denial of Entry Network contact list in all G20 jurisdictions to share information on corrupt officials. Following this step, **deliverables** are likely to be best focused on cooperation aimed at: making public the contact points for denial-of-entry information and coordination, consistent, best-practice legal standards for identifying targeted corrupt persons, and cooperative evaluation of implementation, especially to identify and deal with risks of abuse of process and resolve tensions between this enforcement strategy and human rights protection.

7. *Cooperation for more efficient stolen asset recovery*

The G20 continues to provide important support towards practical reform due to its uniquely diverse global membership. Building on the benchmarking of G20 countries' approaches to asset recovery conducted in 2013, G20 leaders should maintain a commitment to facilitating the identification and return of stolen assets and corruption proceeds, with the aim of increasing the risk of detection and return of assets through the international financial system to a level that no rational corrupt official will engage in international transfers or seek to use other G20 countries as a destination for their proceeds. **Deliverables** should include: expert analysis of different options and barriers in securing intergovernmental cooperation to recover assets with recommendations for simplifying and strengthening the more effective

options, and a monitoring report on the level of achievement of recipient countries in the return of assets.

III) Cooperation for reducing and removing corruption risks from collective growth strategies:

8. *Enhanced cooperation for transparency and integrity in infrastructure and other procurement*

The G20's strong focus on growth, including cooperation for the provision of infrastructure, necessitates an ongoing commitment to ensuring that public procurement processes are not at risk of subversion and loss of public value through corruption. While G20 leaders have committed in the past to "developing and sharing good practices in the field of public procurement anti-corruption policies, measures, and legislation,"³ more concrete **deliverables** are needed including: cooperation to help identify those G20 countries in greatest need of assistance with the reform and development of procurement policies and standards, and investigation of mechanisms for using other areas of G20 financial and regulatory cooperation as triggers for assisting countries to adopt these standards (e.g. as prerequisites to continued cooperation in other areas).

9. *G20 principles for consistent, real-time asset and interest disclosure systems for public decision-makers*

Commitment to transparency in the true interests of public decision-makers remains as important to achieving a corruption-free international financial system as does transparency in the true ownership of companies (priority 1). In order to promote implementation of the 2012 Los Cabos Principles on Asset Disclosure, the work of the G20 should move beyond simply "considering ... current systems and exchanging relevant experiences" as contained in the 2013-2014 action plan⁴ and seek to lead with concrete initiatives that will improve methods and standards of disclosure. **Deliverables** should focus on: a public report on G20 countries' compliance with the Los Cabos Principles, together with the lessons of the information exchange conducted in 2013-2014, new technical standards and steps needed by G20 countries to implement systems for more consistent, real-time disclosure of assets and interests in more accessible and intelligible forms across countries, consistent with the type of increased transparency being expected of business (priority 1), and technical assistance to inform new and improved standards of disclosure and transparency in the management of real, perceived and potential conflicts of interest in public life, especially using new technology, including online disclosure, official diary availability and independently verifiable recordings of meetings between officials and others with interests in government decisions.

³ Ibid.

⁴ Ibid.

10. *Streamlined, agreed integrity system assessment frameworks for more efficient monitoring and verification of country, sector and IGO performance (accountability)*

At each meeting since 2010, G20 leaders have committed to a range of measures that are far-reaching, interrelated, often complex and politically difficult to achieve and in which progress is only likely to be measurable over an extended time frame. Even with a return to a more focused anti-corruption action plan, there is a need for a more structured, ongoing program of monitoring and evaluation to ensure the implementation of commitments, support their integration as related elements of 'integrity system' reform and allow G20 policy-makers to efficiently identify and address barriers to progress. The development of a more effective accountability framework should be elevated in priority. **Deliverables** should focus on: clearer requirements for the identification of action plan objectives whose implementation can be objectively measured, enlisting experts to develop an accountability and reporting framework tailored to the action plan which effectively integrates with, but improves on, other frameworks including UNCAC reviews, and the adoption and adaptation of an 'integrity system assessment' approach to the mapping of strengths and weaknesses in the institutional, legal and other arrangements of G20 countries, IGOs and international institutions and broader sectors (including global finance) as a more holistic means of tracking performance against commitments as well as identifying future priority areas for action.

WHO WILL LEAD THIS WORK? WHAT IS THE TIME FRAME?

The T20 recommends that all commitments be accompanied by clear delineation as to who will lead the required work and that more realistic time frames be developed for all deliverables to avoid them simply being recycled from plan to plan as has occurred on some issues.

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