Timothy D. Adams
President and CEO

Mr. Valdis Dombrovskis
Executive Vice-President
European Commission
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INSTITUTE OF INTERNATIONAL FINANCE

February 11, 2020

RE: IIF financial services regulatory priorities for engagement with new European Commission

Dear Executive Vice-President Dombrovskis:

As the European Commission enters a new political cycle, my colleagues and I at the Institute of International Finance ("IIF") wish you every success with your renewed mandate and additional responsibilities in the new College as Executive Vice-President in the European Commission.

The IIF would appreciate the opportunity to continue to engage constructively with you and your team, as we have done in your previous term. We will seek to augment the European debate with a wider perspective that supports open markets and the benefits of cross-border operations without undermining financial stability.

The IIF shares the goals of a resilient, stable European financial sector that can provide efficient financing to the economy, support economic growth and contribute to a green transition. We believe there are a number of relevant policy initiatives that merit the attention of the Commission (as well as other EU authorities). We are eager to support your work where we can, and as appropriate.

1. Achieving a risk-sensitive regulatory capital framework

The consistent international implementation of the Basel III framework is an important objective. However, such consistency should be anchored in a global framework that remains appropriately structured and is calibrated for the risks being addressed. The IIF notes that the final Basel package has ultimately become less risk sensitive, which may lead to a misalignment of requirements with risk profiles in specific jurisdictions.

The IIF has led the working group for the major industry study analyzing the potential impact of the final Basel III standards. In our report, which summarizes the key findings of our study and which has been shared with you and your colleagues in DG FISMA, we recommend that the Basel Committee on Banking Supervision ("BCBS") dynamically reviews elements of the final Basel III package and, where supported by the data, considers fine-tuning those elements in order to ensure that Basel III remains appropriate in light of changing market and sectoral dynamics and the changing risk profiles of banks.

Where possible we believe the BCBS should develop global responses to known issues in order to minimize the risk of regulatory fragmentation, and we encourage all major jurisdictions to support the BCBS in achieving this objective through an implementation of Basel III, both in substance and timing. That being said, the Basel III framework does include several areas of discretion to accommodate local circumstances, and we encourage the Commission to ensure that its decisions on those reflect the characteristics of the European financial sector with a view to avoid undue impact of the Basel III framework, which studies by the European Banking Authority (EBA) and others have estimated to be significantly burdensome in this regional jurisdiction.

2. **Avoiding market fragmentation**

Financial markets are experiencing increasing levels of fragmentation, and as such we support the important work being done in this area by the G-20, the Financial Stability Board ("FSB") and the International Organization of Securities Commissions ("IOSCO") as they seek to address divergences in regulatory frameworks that could impede the development and diffusion of beneficial innovations in financial services, and limit the effectiveness of efforts to promote financial stability.

In terms of European market fragmentation specifically, it is critical to accelerate the completion of the European Banking Union and to overcome the intra-EU home-host fragmentation or 'ring-fencing' of capital and liquidity of cross-border banking groups. This would enhance the European credit institutions' standing in the eyes of international capital markets, truly recognizing their pan-EU nature and thus equally strengthening the external role of the euro. Permitting such efficiencies within the eurozone, if not within the EU, would also remove an impediment to cross-border consolidation achieving economies of scale that would enhance the profitability of banks. A more credible integration of European banks would also increase the weight of the EU in global standards setting bodies as a truly single regulatory community.

In addition to completing the Banking Union, we would urge you to accelerate the much-needed creation of a European Capital Markets Union, to support diversified funding sources to the European economy as well as allow a broader distribution of risk across private sector actors. The EU should pursue globally coherent and consistent regulation underpinned by cross-border regulatory and supervisory co-operation, ensuring the free flow of capital into and out of Europe. In particular, we believe the EU should strengthen public equity markets through reforms to the initial public offering process.

In addition, different national standards, especially in terms of anti-money laundering and countering the financing of terrorism ("AML/CFT"), act as a barrier for cross-border customer on-boarding and help to explain why cross-border financial services cannot play a more significant role.

3. **Enhancing the framework for combatting financial crime**

Combating financial crime remains a top priority for both the private and the official sector and one where we have common interests. While challenges remain, the commitment of the global financial industry to effectively fight financial crime remains strong. At the European level, recent incidents have evidenced the need to undertake important reforms aimed at enhancing the effectiveness of the framework. Indeed, the AML/CFT framework in the EU can be enhanced by further coherence and consistency in the implementation of the Union rulebook and by improving the effectiveness of the regime, such as through better financial crime information sharing among banks and between authorities and banks and through congruous customer due diligence ("CDD") and monitoring requirements. To that end we welcome the initiative to introduce a common, enforceable regulatory standard at an EU-wide level that also consistently addresses gaps in the EU AML/CFT architecture.

There is also a need to ensure the underlying global Financial Action Task Force ("FATF") standards and guidance are developed and implemented in a way that increases global effectiveness in the fight against financial crime. Here again, active European Union engagement on these issues at the FATF would be invaluable.

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4. Addressing cyber risk and building up operational resilience

Effectively managing cyber risk also is a shared priority for both financial institutions and authorities given the increase in the number, scope and sophistication of attacks, and potential serious financial stability impacts. Firms are investing substantial resources into protecting themselves against cyber events and collaborating closely with other firms, third party vendors and the public sector to identify, mitigate and recover from cyber incidents. The EU National Cybersecurity Strategy ("NCSS") plays a key role in helping member states and the financial sector tackle and address these risks. As cyber risk continues to develop, it is important to formulate principles-based and risk-based approaches that make it easier for firms, their counterparts and the official sector to work together to quickly address cyber incidents and prevent them from further impacting the overall financial system.

Public-private partnerships around information-sharing, stress-testing and strategic coordination should be encouraged and prioritized. Similar to the AML/CFT data sharing challenge, it will be important to explore new models of information-sharing of cyber incidents among authorities and between firms.

Over the past two years, authorities have also increased their focus on operational resilience issues, in part due to enhanced cyber risk and threats around data corruption. Financial institutions, in turn, are heavily focused on both reducing the probability and impact of disruptions to business services, and on how best to deliver services continuously – or as quickly as possible – to customers when such disruptions occur. The most substantial work thus far has been undertaken by the UK, but the BCBS is also focusing closely on this topic and is expected to release a substantive consultation in the first half of 2020. Given the importance of this work, the IIF encourages the EU to play an active role in the formulation of new supervisory approaches to operational resilience maturity that are in close coordination with global approaches so as to avoid fragmentation on what is a cross-border issue. In this respect, we welcome engagement with the European Commission on its plan for a cross-sectoral financial services act on operational and cyber resilience.

The IIF wishes to engage with you and your Directorates-General and Services around this subject through continued research, assessment of industry leading practices, workshops and more dialogue with relevant stakeholders.

5. Promoting a balanced and sound digital policy framework

Changes in the landscape for financial services are becoming more acute as artificial intelligence (AI)/machine learning, automation, digital platforms, super-computing, and 5G connected devices expand their role in the economy. This presents two major sets of challenges for the financial services industry, with accompanying policy considerations: first, asymmetrical competition from new entrants focused on monetizing customer engagement platforms and data; and second, the freedom to keep pace with innovation and experimentation in the development of these technologies and the use of efficiencies in cloud computing.

The IIF urges the European Commission to work with the financial services industry to support the necessary investment in digital transformation of the sector. More specifically, we encourage the European Commission to remain vigilant and build a regulatory framework that takes a horizontal approach to a data framework that can include comparable activities as well as institutions within its perimeter – i.e., that the same risks and activities are subject to the same rules. The IIF also encourages the European Commission to put in place a data or information sharing framework that is cross-border and cross-sectoral to release the full potential of the use of technology.

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We also urge close consultation with the financial services sector on the potential development of central bank digital currencies ("CBDC"). It is important to understand how different design considerations could fundamentally alter the ability of commercial banks to gather deposits and extend credit.

6. Supporting a green transition

The IIF and its membership support the European Commission's ambitious Sustainable Finance Action Plan and have encouraged European legislators to create a sufficient and workable taxonomy framework. The IIF encourages not only a close look at the investment component, but careful consideration of the role of banks in financing the transition to a low-carbon, resilient economy. It will be important also to ensure the banking sector's continued capacity to finance the real economy, especially small and medium sized enterprises ("SMEs"). Furthermore, we support the Commission's intention to consider the need for further corporate environmental, social and governance ("ESG") disclosures as an essential input to the finance industry's ability to support those companies.

More generally, the IIF is supportive of the ambition of the new Commission's flagship European Green Deal. The IIF stands ready to support our members' efforts to scale up financing the transition through investments in green technologies, sustainable solutions and new businesses, and concurs with the Commission that the Green Deal can be a strategy for significant EU growth. We encourage the Commission to reach out to all relevant stakeholders on all aspects of the Green Deal to ensure the widest possible inclusion and understanding, including the international dimension.

The IIF is honored to be an official stakeholder of the Network for Greening the Financial System ("NGFS"), which includes a number of European central banks and supervisory authorities as well as the Commission. Our goal is to offer industry expertise and experience to arrive at practical technical solutions that allow the industry to scale up investments in the most promising solutions. Given the global nature of climate change, the ensuing regulatory regime should be applicable globally and we note the leadership role the European Commission has taken, including with respect to the creation of an International Platform on Sustainable Finance ("IPSF"). The IIF appreciates the urgency and the worldwide scale of the challenge and urges the European Commission to play a key role – not only via the NGFS and the IPSF but also through global standard setters such as the FSB – in sharing knowledge and findings to avoid regulatory and supervisory fragmentation on sustainability-related matters and help generate efficiencies given limited resources among regulators and the industry.

We encourage the European Commission to continue pursuing these important policies which we believe are instrumental in allowing the financial sector to contribute and support the goals of a robust, resilient and green EU economy. The IIF and its members look forward to engaging with you and your fellow Commissioners in the von der Leyen Commission. We stand ready – in Washington, DC and in our Brussels-based European Representative Office – to assist you across these important regulatory priority areas.

Very truly yours,

Timothy D. Adams
President and CEO
IIF

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ANNEX of IIF feedback on financial services regulatory priorities for the new European Commission

A. Position the European financial industry to compete in a global context

Banks around the world are undergoing radical transformation, driven by fundamental changes in technology and innovation. The European banking sector is not insulated from these trends. To become a healthy and more profitable sector over the long term requires banks to quickly transition to more digital strategies, business models and operations channels.

Boards are rightfully focused on the risks and opportunities of a digital world and ensuring that new technologies, including machine learning and artificial intelligence, are effectively deployed across their businesses and bank operations. The European authorities and policymakers should see European banks in this context and help them in transforming the sector towards a new reality that can compete effectively with leading banks in other jurisdictions.

Given the global nature of financial services, and the connections between financial firms and economies all around the world, it is important that policies and regulations are coordinated globally. Europe plays a critical role in developing the standards at the FSB, the BCBS and other leading international authorities, and it is important that these standards are implemented faithfully and consistently in Europe, as across all jurisdictions.

There is no need to emphasize the benefits of an international and diversified financial sector for Europe, as it strengthens the overall resilience of the financial system and improves the funding capacity of the European economy during the different phases of economic cycles.

B. Completing the European Banking Union and the European Deposit Insurance Scheme

The European Banking Union is an ambitious project. By integrating the European banking market, the link between domestic economic developments and financial stability in each member jurisdiction would be eliminated. The first pillar, the Single Supervisory Mechanism ("SSM"), has already made big strides in streamlining supervisory practices and increasing comparability and transparency across the sector. The second pillar, the Single Resolution Mechanism ("SRM"), created a common resolution authority that is responsible for common rules and managing the Single Resolution Fund ("SRF"). It is important that the SRF be properly capitalized so it can provide sufficient liquidity when necessary.

While the first two pillars are in place and largely operational, it is now time to identify and agree on the overall architecture of the Banking Union – that needs to be completed. By truly completing the Banking Union, including introducing a common insurance scheme, host jurisdictions within the euro area might feel less inclined to make use of prudential safeguards in their own jurisdictions.

The completion of the Banking Union and proper capitalization of the SRF are central to the stability of the European financial sector, and by extension the further consolidation of the banking sector. It is particularly encouraging that both the new President of the European Commission and the German Finance Minister have recently relaunched the debate to create a full Banking Union, including - but not limited to - a common European Deposit Insurance Scheme ("EDIS"). While important challenges remain for the completion of the Banking Union, we encourage the EU authorities to continue employing their best efforts to find a compromise that would allow the completion of such a fundamental policy goal.

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C. *Achieving a risk-sensitive regulatory capital framework*

The new European Commission will also oversee the implementation of the revised Basel III banking standards in Europe, on which the Commission is currently consulting. This is an extremely important topic for IIF members and the European banking sector in general. You will be aware of the European Banking Authority's ("EBA") impact analysis, which shows the significant impact of the Basel III standards on banks in Europe. The EBA's central impact assessment is a 24% increase in EU banks' minimum capital requirements.[1]

We believe that the estimated impact is more significant than was initially anticipated by regulators when designing the global standards, and that some aspects of the framework may have unintended consequences on the EU banking sector's ability to offer critical services, such as lending to the real economy and helping end users to hedge financial risks. Against the backdrop that the EU economy relies more heavily on a bank-based financing structure than on a market based one it will be important in implementing the final Basel III package to ensure that where there are disproportionate impacts on the EU banking sector (for example in lending to unrated corporates or equity exposures), that the Commission supports the addressing of these matters and impacts at the Basel Committee. The IIF and our members will continue to monitor and evaluate developments at the BCBS level and in key jurisdictions, including the EU and the US.

D. *Avoiding market fragmentation*

Financial markets are experiencing increasing levels of fragmentation, which can undermine the progress that has been made in re-building resilience of the global financial system since the financial crisis and can also result in negative consequences for economic growth and job creation. Furthermore, fragmentation resulting from excessive regulatory and supervisory divergence can trap capital, liquidity, and risk in local markets, create significant financial and operational inefficiencies resulting in additional unnecessary costs to end-users, and reduce the capacity of financial firms to serve both domestic and international customers. It is therefore critical that market fragmentation be addressed to avoid these consequences and the correlated impact on the global financial system and the world economy.[2] At the IIF we have identified examples of market fragmentation across four specific categories: Local Supervisory Measures and Ring-Fencing; Diverging Standards; Extraterritoriality; and, Obstacles to Cross-Border Cooperation and Information Sharing.

It is, therefore, very welcome that the G-20, FSB and IOSCO have launched new initiatives that seek to address divergences in regulatory frameworks that could impede the development and diffusion of beneficial innovations in financial services, and limit the effectiveness of efforts to promote financial stability. The IIF has organized forums around this topic, participated in FSB workshops, and produced staff papers and letters to contribute recommendations to the discussions on how to address market fragmentation.

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[1] To be precise, a 23.6% weighted average increase in current minimum required capital. See EBA estimates released on December 4, 2019. https://eba.europa.eu/eba-updates-estimates-impact-implementation-basel-iii-and-provides-assessment-its-effect-eu-economy.

[2] IIF 2019. "Addressing Market Fragmentation: The Need for Enhanced Global Regulatory Cooperation" January 2019

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As mentioned in the accompanying letter, it is critical to accelerate the completion of the Banking Union and to overcome the intra-EU home-host fragmentation or 'ring-fencing' of capital and liquidity of cross-border banking groups.

Resolution should be approached from a common position within the EU to help reduce market fragmentation in the areas of capital, Total Loss-Absorbing Capacity ("TLAC") and liquidity. When individual member states pre-position capital between them it further limits the ability of firms and home regulators to respond with group-wide resources during times of stress. The EU is so far the only jurisdiction that has chosen a "hard 90%" for calibrating internal TLAC, and 100% for banks from within the EU. This not only creates fragmentation within the EU but also makes it harder for banks in the EU to compete with other jurisdictions – including Hong Kong, Japan, the UK, and possibly the US – that have proposed calibrating TLAC at the lower end of the 75%-90% range. This calibration could potentially have significant consequences.

Perhaps by undertaking some measures such as completing EDIS, sufficiently capitalizing the SRF and harmonizing insolvency laws, home and host supervisors would gain sufficient comfort to reconsider the hard 90% approach to internal TLAC. This would also help motivate additional consolidation as banks could operate across borders in a more centralized and consistent approach.

This would enhance the European credit institutions' standing in the eyes of international capital markets, thus equally strengthening the external role of the euro. Permitting such efficiencies within the eurozone, if not within the EU would also remove an impediment to cross-border consolidation achieving economies of scale that enhance the profitability of banks. A more credible integration of European banks in the eurozone would also increase the weight of the EU in global standards setting bodies as a truly single regulatory community.

This set of policy proposals represents a challenging task for authorities in Europe. However, the need for consolidation is increasingly urgent, which will only intensify further as new non-banking actors enter the market, primarily through new technologies. The agenda of the new EU Presidency and the clear drive to complete the European Banking Union gives hope and optimism that such challenges can be addressed.

Completion of the Banking Union would also contribute to the creation of a Capital Markets Union, which will support diversified funding sources to the European economy as well as allow a broader distribution of risk across private sector actors. Enabling safe and transparent securitization of the low-risk mortgage segments of the balance sheets of European banks will help increase capacity for fresh lending and stimulate the secondary markets for such securities as a valuable contribution to help foster the Capital Markets Union.

E. Enhancing the framework for combatting financial crime

The real and present threat of criminal incursion into legitimate financial intermediation needs to be dealt with on a consistent, international basis. Though this global fight against financial crime is of paramount importance, the current AML/CFT framework is not as effective as it should or could be. The amount of money laundered globally each year is estimated at 2% to 5% of global GDP, or between EUR 715 billion and 1.87 trillion.[3] Less than 1% of illicit financial flows are intercepted in the EU alone.[4]

[3] United Nations Office on Drugs and Crime ("UNDOC"): https://www.unodc.org/unodc/en/money-laundering/globalization.html.

[4] Europol, *Financial Intelligence Group Report, From Suspicion to Action – Converting financial intelligence into greater operational impact*, September 2017.

This cross-border criminal finance supports some of the worst problems confronting society today; including money laundering, terrorism, sexual exploitation, modern slavery, wildlife poaching and drug smuggling. The sheer size of the issue poses a risk to global financial stability.

While we fully recognize that the private sector has a vital role to play in enhancing financial institutions' internal capacity to detect financial crime and adhere to the highest standards, the July 2019 Commission's Communication on these issues[5] points to significant gaps in effectiveness of the EU AML/CFT regime that would benefit from change.

As we stressed in a letter in October 2019[6], there is an urgent need to ensure that all relevant authorities effectively and consistently address the risks arising from money-laundering and terrorist financing and cooperate to share information that will help safeguard international finance against illicit use. A more coordinated common and enforceable framework in the EU for implementation and oversight of measures used in combating threats to the integrity of the financial system is imperative. The recent European Supervisory Authorities' joint guidelines[7] on information exchange between the competent national authorities is a step in the right direction.

Specifically, we believe the EU AML/CFT policy architecture would benefit from reform in the following key areas: 1. Greater consistency in AML/CFT requirements across EU Member States through common EU standards and worldwide through the FATF; 2. The adoption of improvements to the EU legal framework addressing domestic and cross-border information sharing, and the promotion of domestic and cross-border public-private partnerships, Suspicious Activity Reporting ("SAR") reform and beneficial ownership information reporting reform; and 3. Enhancements to the use and adoption of technology in fighting illicit finance.

The recommendations outlined above are consistent with those formulated by the IIF in its recent report "The Global Framework for Combating Financial Crime"[8] which has put forward specific ideas in order to increase effectiveness in the global AML/CFT framework. In the report the following systemic improvements for financial crime risk management were outlined:

a. Advancing public-private partnerships;
b. Improving cross-border and domestic information sharing;
c. Improving the use and quality of data;
d. Reforming suspicious activity reports (SARs);
e. Mitigating the inconsistent or incoherent implementation of financial crime compliance standards and guidance, and providing regulatory clarity; and,
f. Increasing and improving the use of technology to combat illicit finance.

We believe all these recommendations have important specific EU dimensions and we look forward to working with the Commission in improving AML/CFT frameworks to ensure maximum effectiveness.

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[5] European Commission, *Communication: Towards a better implementation of the EU's anti-money laundering and countering the financing of terrorism framework*, July 2019.

[6] IIF, **Communication from the Commission to the European Parliament and the Council towards better implementation of the** European Union's anti-money laundering and countering the financing of terrorism framework, October 2019.

[7] Joint Committee of the ESAs, Joint guidelines on cooperation and information exchange for the purpose of Directive (EU) 2015/849 between competent authorities supervising credit and financial institutions, December 2019.

[8] IIF, Publication with Deloitte & Touche entitled The Global Framework for Fighting Financial Crime: Enhancing Effectiveness Improving Outcomes, November 2019.

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F. Addressing cyber risk and building up operational resilience

Cyber risk continues to be of critical importance for both financial institutions and authorities given the increase in the number, scope and sophistication of attacks, and potential financial stability impacts. As such, financial firms are investing substantial resources into protecting themselves against cyber events and collaborating closely with other firms, third party vendors and the public sector to identify, mitigate and recover from cyber incidents. There is also an increasing amount of regulation aimed at strengthening cyber-resilience across the financial services industry. Although regulation can be an important tool in bolstering cyber resilience, it can also inadvertently increase cyber risk if regulatory approaches are conflicting, or resource draining, and more so if there is a lack of a unified approach to addressing cyber risk management for the overall financial services sector.

As such, the IIF supports global and cross-border approaches to cyber risk by the FSB, BCBS, IOSCO, IAIS and other standard setting bodies. The FSB's cyber lexicon provides a common language that is helpful for industry and policy makers, and the industry-led Financial Services Sector Profile offers a useful method for helping internationally active firms map all their cyber requirements across a variety of global standards and regulations. The IIF supports public-private partnerships, where industry and authorities can cooperate around information sharing, stress testing and strategic coordination. Cross-border efforts, such as the TIBER-EU Framework and FS-ISAC, are especially valuable as the threats are often global, impacting institutions in many jurisdictions.

Authorities across the world, with the UK at the front of the pack, have increased their focus on operational resilience issues, in part due to enhanced cyber risk and threats around data corruption. Financial institutions, in turn, are heavily focused on not only reducing the probability and impact of disruptions to business services, but on how best to deliver services continuously to customers when such disruptions occur. In October 2019, the IIF and GFMA released together a set of "Discussion Draft Principles Supporting the Strengthening of Operational Resilience Maturity in Financial Services." These principles support the financial industry's efforts to continuously improve and strengthen the level of operational resilience for the firms, the customers, markets, the sector, and the broader economies they support nationally and across the globe.[9]

The IIF encourages the EU to work closely with the BCBS in formulating an approach that remains risk- and principles-based enabling firms to have the latitude to use their judgement and discretion to identify critical business functions, impact tolerances, and scenarios or types of disruptions that are the most relevant and proportionate to their business and risk profile, as well as the evolution of risk(s).

G. Promoting a balanced and sound digital policy framework

The IIF is heavily focused on the key data policy issues, specifically across five major components that will form the basis of our ongoing research and engagement with the European Commission:

- Digital identity, as the key entry-point into the system;
- Data privacy, including cross-border interoperability;
- Data exchange: data sharing frameworks such as Open Banking;
- Data usage: machine learning, model biases, ethical use; and,
- Data storage, including the use of cloud computing; localization restrictions.

[9] IIF-GFMA 2019. "IIF and GFMA Release Joint Discussion Draft Principles Supporting the Strengthening of Operational Resilience Maturity in Financial Services" October 7, 2019

Two particular areas of focus within this agenda are (i) the development of a 'Data Code of Conduct', which would set expectations for how data and artificial intelligence are used, both for the incumbent financial industry firms and new entrants; and (ii) the importance of symmetrical obligations amongst all firms, from all sectors, in data sharing frameworks. These are important initiatives for ensuring consumers and business have their data adequately protected, while also being provided with a marketplace of competitive services on a sustained basis, both in the EU and beyond. We share the concerns highlighted in the recent FSB '*BigTech in finance: Market developments and potential financial stability implications'* report, which noted the advantages enjoyed by BigTech firms, but also emerging risks.[10]

Continuing the IIF's other new initiatives, we are building on our previous Machine Learning surveys and thematic papers on explainability, ethical use, and recommendations for supervisors, with a new survey on model risk governance for machine learning models. This explores how models are tested and validated, the safeguards built into software, the types of data and methods used, and considerations for bias, ethics, and explainability. It will help in assembling a suite of good example practices (emphasizing that there is not a singular "best" practice) that can form the basis of a more agile and dynamic approach to supervision, as we have proposed to the EBA and national agencies.

We also continue our focus on data localization, cloud and quantum computing. The IIF is working to quantify some of the adverse impacts of data localization measures in local economies, and also to better measure the types of concentrations that may arise in banks' dependencies on particular Cloud Service Providers. We also note that the institutions that are most advanced in cloud are generally also the firms that are most prepared for the Quantum era, an important consideration both for the opportunities for next generation modelling, and concerns regarding preparedness for post-Quantum encryption.

The IIF continues to monitor developments with digital currencies, in particular the invigorated activities of the official sector to develop central banks digital currencies (CBDCs), post-Libra. While some critical design considerations remain that could have significant ramifications for bank funding and broader system stability, we will expand the analysis contained in the December 2018 'asymmetric disintermediation' research paper on the potential impacts on 'stable' deposit funding from both technology platforms for consumer finance and particular CBDC models, including that proposed in Sweden.[11]

H. Supporting a green transition

The IIF is keen to contribute to international discussions on sustainable finance and work collaboratively with the regulatory and supervisory community. The IIF Sustainable Finance Working Group ("SFWG"), comprising over 175 firms from the IIF's commercial and investment bank, asset manager, and insurance members, has actively engaged with a range of official sector entities including the G20 and B20, the World Bank and the IFC and other multilaterals, national authorities and the global regulatory and supervisory community. The IIF SFWG was honored this year to be named an official stakeholder of the central banks and supervisors' Network for Greening the Financial System ("NGFS")[12], and continues to work closely with the member authorities to build the understanding and tools in common understanding.

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[10] https://www.fsb.org/2019/12/bigtech-in-finance-market-developments-and-potential-financial-stability-implications/

[11] https://www.iif.com/Publications/ID/3198/Asymmetric-Disintermediation

[12] Description and publications of IIF SFWG can be found here https://www.iif.com/Advocacy/Policy-Issues/Sustainable-Finance-Working-Group-SFWG

Given the global nature of climate change and sustainable finance activities, we believe that regulatory and policy initiatives are more effective if they are harmonized and aligned internationally. As regulatory and policy initiatives around sustainable finance multiply, including on taxonomy, supervisory expectations and scenario analysis approaches, international collaboration and coordination is vital to avoid undesirable market fragmentation. We believe that such collaboration will help promote consistent mainstreaming of sustainable finance, and ultimately a safer and more stable financial industry that is equipped for the future needs of society and the global economy.

Addressing data gaps, as well as analyzing, measuring and disclosing climate change risks, are indispensable first steps in tackling climate issues appropriately. The IIF has strongly supported the Task Force on Climate-related Financial Disclosures (TCFD) recommendations by encouraging adherence to this disclosure framework. While progress has been made, there is significant room for improvement, both in take-up of the recommendations and in making the content more consistent and comparable. The IIF has conducted a study to provide insight on leading practices among financial firms in implementing TCFD recommendations, offering a snapshot of "what good disclosure looks like" to help firms improve their own disclosures, or to encourage and offer practical examples for those firms disclosing for the first time.[13] Work on a disclosure template and associated guidance is underway.

We would also like to draw your attention to the current proliferation of climate risk analysis frameworks, which could lead to unwanted fragmentation and slow progress. Given that climate issues call for increasing urgency, the IIF strongly urges further international collaboration between the industry and the regulatory community in developing relevant analytical frameworks and approaches. Given that both regulators and financial firms want to better understand risk profiles to ensure effective management of transition and physical risks - as well as potential adequacy of financial resources—we look forward to contributing to the EU's International Platform for Sustainable Finance, with industry experts and experience from across the globe.

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[13] https://www.iif.com/Publications/ID/3528/Climate-related-Financial-Disclosures-Examples-of-Leading-Practices-in-TCFD-Reporting-by-Financial-Firms

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