

<p style="text-align: center;"><b>G20 International Financial Architecture Working Group</b> <b>2016 Final Report</b></p>
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## **Introduction and overview**

In Antalya in November 2015, G20 Leaders agreed that “a stable and resilient international financial architecture is a key element to foster strong, sustainable and balanced growth, as well as financial stability”. They asked Finance Ministers and Central Bank Governors to work and report back to them by the Hangzhou Summit in September 2016.

Responding to this call, the International Financial Architecture Working Group (IFA WG) has been reactivated. The WG undertook extensive work this year, enhanced by very valuable contributions from the international organizations. Discussions took place at four meetings of the WG, with a focus on achieving concrete deliverables and proposals.

**This final report, endorsed by the members of the Working Group, summarizes the Group’s discussions and progress achieved so far, and presents a set of recommendations for consideration by Ministers and Governors.**

Beyond the G20 Summit in Hangzhou, **members recommend that the Finance Ministers and Central Bank Governors prolong the Group’s mandate into the following year.** Indeed, in a number of areas, it would be useful for the IFA WG to follow up on the work done in 2016. In some areas, there is an issue of implementation. In some others, more than one year appears necessary to complete the work.

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**Resuming the work on international financial architecture is timely.** A lot has been achieved in the wake of the 2008 Global Financial Crisis and the international financial architecture is today significantly stronger and more resilient than it was eight years ago. That being said, the identification of some vulnerabilities in the global economy and of some shortcomings in the international financial architecture calls for further improvements.

**Strengthening the international financial architecture should pull together actions to:**

- Better detect, and detect early enough, vulnerabilities in the international financial system;
- Better prevent crises, and better manage crises when they occur, including through enhancing crises prevention and management tools, at national, bilateral, regional and global level;
- Ensure the adequacy of the international financial architecture to an evolving global economy and international monetary system.

Against this background, five interconnected sets of recommendations have been developed by the IFA WG as key recommendations that would contribute to further strengthening the international financial architecture. They include concrete policy recommendations to (i) improve the early detection and management of vulnerabilities stemming from large and volatile cross-border flows including through enhancing the availability, completeness and timeliness of data, and share experiences on early warning systems and build on country experiences with regards to capital flows to enhance policy responses; (ii) further strengthen the Global Financial Safety Net (GFSN) as a key component of a stable and robust international monetary system, with a strong, quota-based and adequately resourced IMF at its center, equipped with a lending toolkit that is adapted to evolving vulnerabilities, and enhanced cooperation between the IMF and Regional Financing Arrangements (RFAs); (iii) preserve the legitimacy of the IMF as the core of the GFSN, by keeping pace between IMF's quota shares, voice and governance structure and countries' relative position in the world economy; (iv) improve debt sustainability and debt restructuring processes as key elements to strengthen the international financial architecture; (v) examine broader use of the SDR as a way to enhance resilience, and support the development of local currency bond markets where appropriate.

The following report details the recommendations developed by the IFA WG under these five areas.

***Objective I – Improve the analysis and monitoring of capital flows and risks, and learn from country experiences to enhance policy responses***

The Working Group initiated its work by examining, with the help of the international organizations, the patterns of capital flows in recent years, and analyzing their underlying factors.

**Sub objective A – Have a clearer analysis of trends in capital flows and stocks, and of international exposures**

Based on this analytical discussion, the IFA WG came to the conclusion that efforts to continue enhancing the provision of robust and timely data are necessary to provide the appropriate monitoring and anticipation of financial stability risks, and design the proper policy responses to address them.

Members of the Working Group welcomed the significant progress already made through the Data Gaps Initiative (DGI), which was launched in October 2009 by the G20. They underlined nonetheless the need to improve the availability, timeliness and scope of data especially on foreign currency exposures and sectoral external balance sheets. In particular, over the course of the work, gaps and discrepancies were identified relating to non-financial corporate balance sheets (including foreign affiliates, the asset side of the balance sheet and any hedging instruments) and debt profile (foreign currency exposures, debt maturity, offshore transactions, etc.). Most members placed a particular emphasis on improvements in measuring currency mismatches – not least through better data on relevant hedges, and, more generally, developing the capacity to monitor financial flows.

**The Working Group members propose the following recommendations for the consideration of G20 Finance Ministers and Central Bank Governors.**

**Proposal 1:**

**The G20 supports the ongoing work towards a clearer understanding of trends in capital flows and stocks, and of international exposures. In this view:**

(i) The G20 underlines the importance of enhancing data collection to better identify currency and maturity mismatches as well as improving the analytical framework for the understanding of the dynamic and drivers of capital flows.

(ii) The G20 strongly supports the second phase of the Data Gaps Initiative. Identified gaps should be addressed on securities statistics, sectoral accounts, foreign exposures (International Investment Position - IIP), International Banking Statistics, CPIS (Coordinated Portfolio Investment Survey), Government Finance Statistics and Cross-border exposures of non-bank corporations and their affiliates abroad (including their foreign currency assets and hedging instruments), and financial accounts and balance sheets including from-whom-to-whom information more generally. Since any enhancement in data collection will have cost implication, some prioritization may be required.

(iii) The G20 will focus on data collection, processing and reporting regarding the currency composition of the international investment positions. In the same vein, countries should consider providing the optional or encouraged items related to the BIS International Banking Statistics and the IMF Coordinated Portfolio Investment Survey datasets. G20 countries should also be encouraged to ensure good progress on the reporting of statistics on debt by remaining maturity.

**Sub objective B – Enhance surveillance and monitoring of emerging cross border risks**

The global risk assessment framework has been significantly improved since the Global Financial Crisis. It can nevertheless still be further improved. The IFA WG discussed ways to enhance early identification of emerging or rising cross border risks, building on the existing early warning architecture put in place by international organizations and national authorities since the crisis. Members saw merit in shaping more regular discussions on cross-border risks at G20 meetings. Some

members suggested that the G20 should support individual countries' efforts to create and improve their respective early warning system by reviewing country experiences, on a voluntary basis.

It was also noted that IMF's bilateral and multilateral surveillance are key to detect vulnerabilities and design appropriate policy responses. In this regard, members suggested that G20 members commit to undergo annual Article IV Consultations and reiterate their commitment to undergo FSAPs every five years, and to publish the result of staff consultations.

Several members also underlined the importance of reporting currency composition of official foreign exchange reserves data (COFER).

**The Working Group members propose the following recommendations for the consideration of G20 Finance Ministers and Central Bank Governors.**

**Proposal 2:**

**The G20 calls for enhanced surveillance and monitoring of emerging and cross-border risks. In this view:**

- (i) The G20 looks forward to complement the existing IMF-FSB bi-annual Early Warning Exercises and BIS Global Liquidity and Early Warning Indicators by having more regular thorough discussions among G20 Finance Ministers and Central Bank Governors on emerging risks related to capital flows, global liquidity, spillover and spillback effects, building on existing work<sup>1</sup> and on the IMF Surveillance Note.
- (ii) The G20 looks forward to countries and international organizations sharing their experience of national and multilateral early warning systems and frameworks, including their methodology, on a voluntary basis.
- (iii) G20 members commit to undergo Article IV Consultations annually, and reiterate their commitment to undergo FSAPs each five years, and to publish the results of the staff consultations.
- (iv) The G20 calls on all countries to participate in COFER.

**Sub objective C – Draw lessons from country experiences**

In 2011, G20 Leaders adopted the "G20 Coherent Conclusions for the Management of Capital Flows Drawing on Country Experiences". Building on this consensus as well as on previous Fund's policy papers and IMF Board discussions, the IMF adopted in 2012 its "institutional view". Five years later, and with the help of international organizations, the IFA WG started a review of countries' experiences in dealing with capital flows.

Although the diversity of experience was underlined by members of the Working Group, there was a broad consensus within the Group to emphasize that the "G20 Coherent Conclusions" are still relevant. Members agreed not to modify the "G20 Coherent Conclusions" and to focus the work on discussing concrete experiences, and identifying issues that have emerged in recent years and merit further analysis.

A related discussion was the review of country experiences with regard to macroprudential measures (MPMs), and in particular those that may have an impact on capital flows. The OECD provided also the Working Group with regular updates of the ongoing work on the review of the OECD Code of Liberalisation of Capital Movements. Some members suggested that the G20 should support the review of the OECD Code and encouraged those members which have not yet done so to consider participating in the review.

**The Working Group members propose the following recommendations for the consideration of G20 Finance Ministers and Central Bank Governors.**

<sup>1</sup>IMF-FSB EWE, the Vulnerability Exercise (VE), the IMF Global Financial Stability Report, World Economic Outlook, Fiscal Monitor, SCAV report from the FSB, assessment of the global liquidity by the BIS, Article IV consultations etc.

**Proposal 3:**

**The G20 underlines that the G20 2011 Coherent conclusions for the management of capital flows drawing on country experiences and the IMF's institutional view on capital flows are still relevant to the current situation. In this view,**

- (i) The G20 supports further work on country experiences in handling capital flows to draw lessons and identify areas that merit further analysis.
- (ii) The G20 supports the ongoing IMF work on capital flows and on bringing together work on capital flows management and macroprudential policies to inform financial and macroeconomic risk management, taking into account country circumstances.
- (iii) The G20 supports enhanced dialogue between the IMF, FSB, BIS and OECD, within their respective areas of expertise related to capital flows and financial stability risks.

***Objective II –Ensure the adequacy of the Global Financial Safety Net*****Sub objective A –Strengthen the GFSN**

The Global Financial Safety Net (GFSN) is composed of the IMF (at the global level), Regional Financing Arrangements (RFAs - regional level), currency swap arrangements (bilateral level), and foreign exchange reserves (individual country level). The IFA WG agreed that the GFSN has been strengthened significantly since the global financial crisis. Responding to the call of G20 Finance Ministers and Central Bank Governors to further strengthen the GFSN, members agreed that ensuring an adequately resourced IMF, reviewing IMF instruments, and reinforcing synergies between the different layers of the GFSN, including by enhancing cooperation between IMF and the RFAs, are key areas of work. Some members pointed out the usefulness of multilateral currency swaps in improving the uneven coverage of the GFSN. However there was an absence of consensus on the possible multilateralization of currency swaps, given central banks' domestically focused mandates. The effectiveness and costs of foreign reserves as an element of the GFSN were also discussed.

**The Working Group members propose the following recommendations for the consideration of G20 Finance Ministers and Central Bank Governors.**

**Proposal 4:**

**The G20 reaffirms its support to the ongoing work to further strengthen the GFSN, with the IMF at its center, including through more effective cooperation between the IMF and regional financing arrangements.**

**Sub objective B - Support an adequately funded IMF**

The Fund's resources currently consist of permanent resources (quotas) and borrowed resources (New Arrangements to Borrow – NAB, and the 2012 bilateral borrowing agreements). The 2012 bilateral borrowing agreements are scheduled to expire automatically and progressively from October 2016 onwards, quickly reducing the Fund's lending capacity by about one third. The NAB is scheduled for renewal in November 2017.

Against this background, members of the Working Group discussed the adequacy of the Fund's current overall lending capacity and its composition. Most members were of the view that the current lending capacity should not be reduced, given risks in the international financial and monetary system. A few others considered that the IMF with the current level of quotas supplemented by the NAB would be adequately resourced to meet the needs of the membership over the medium term.

**The Working Group members propose the following recommendations for the consideration of G20 Finance Ministers and Central Bank Governors.**

**Proposal 5:**

**The G20 reaffirms its commitment to a strong, quota-based and adequately resourced IMF. The G20 supports an IMF fully equipped to fulfill its responsibilities in this very uncertain financial and economic time.**

**Sub objective C - Adapt IMF instruments to the challenges faced by members**

Members of the Working Group underlined the central role that the IMF plays in the GFSN, and discussed areas for further improvement in the IMF toolkit:

- (i) Many members pointed out that the IMF lending toolkit, in particular precautionary lending facilities, are not used as widely as originally intended, and that broader usage would be helpful so as to prevent and respond to crises. Some members pointed out that the perceived stigma issue had to be tackled, without triggering moral hazard. Some others noted that the current design of the precautionary instruments, particularly the FCL, could encourage the sustained implementation of sound macroeconomic frameworks. Others pointed to the question of prolonged usage of these instruments and the need to improve exit strategies. In response, the IMF staff indicated that it would review different options of improvement, including the case for prequalification,
- (ii) The sustained drop and volatility in commodity prices at a time of tightening financial conditions for a number of countries, and heightened risks in some commodity exporting and/or low-income countries led several members to highlight the need to reinforce and possibly supplement instruments to accompany the economic changes imposed by this new context in such countries,
- (iii) Many members agreed that the IMF should support members by extending non-financial tools such as a policy signaling instrument covering emerging markets and advanced economies. Some countries called on the IMF to prepare concrete proposals in these areas,
- (iv) Some countries suggested to extend for two more years the interest rate waiver on PRGT facilities.

**The Working Group members propose the following recommendations for the consideration of G20 Finance Ministers and Central Bank Governors.**

**Proposal 6:**

**The G20 reaffirms its support to the ongoing work to improve the IMF toolkit as part of the strengthening of the international financial architecture. In particular, the G20 calls on the IMF to further work by the end of 2016 on:**

- (a) precautionary instruments, including ways to improve coverage, and reinforce their attractiveness to potential borrowers such as by reducing perceived political stigma, while reviewing IMF scoring and ensuring that the proper incentives for sound policies and for timely exit are in place
- (b) support to commodity exporting countries facing severe and persistent commodity price shocks, to assist them in their adjustment
- (c) the review of current practices in regard to blending resources between the General Resources Account and the Poverty Reduction and Growth Trust (PRGT)
- (d) a policy signaling instrument covering emerging markets and advanced economies
- (e) assistance for countries facing non-financial shocks such as the refugee crisis

The G20 welcomes the new contributions and bilateral loan resources pledged to the PRGT, and calls on additional contributors to participate.

### **Sub objective D -Enhance cooperation between the IMF and RFAs**

Cooperation between the IMF and RFAs is particularly important, as the G20 has regularly emphasized. In particular, G20 leaders agreed on the “Principles for Cooperation between the IMF and Regional Financing Arrangements” at the Cannes Summit in 2011. Members reaffirmed that these principles remained relevant. Discussions on ways to strengthen cooperation between the IMF and RFAs continued in 2016 and a joint test-run is planned between the IMF and the CMIM to improve the operational capacity of the CMIM, which has not been fully tested yet.

Many countries stressed the importance of enhancing cooperation between the IMF and RFAs while respecting different characteristics and mandates of each RFA and flexible implementation. Several members proposed to focus on areas where actual progress could be made, such as information sharing through an annual G20 conference. Many countries underlined the need to strengthen the operational capacity of RFAs as many of them have yet to be tested. In this regard, the group welcomed the plan for a CMIM-IMF joint test run this year and some members called on other RFAs whose cooperation capacity with the IMF remains untested to join these efforts.

**The Working Group members propose the following recommendations for the consideration of G20 Finance Ministers and Central Bank Governors.**

#### **Proposal 7:**

**The G20 calls for more effective cooperation between the IMF and RFAs. In this view,**

- (i) The G20 calls on RFAs and IOs to further develop channels to share information and experiences.
- (ii) The G20 welcomes the upcoming CMIM-IMF joint test run, and call on RFAs whose cooperation capacity with the IMF has not been tested yet to consider organizing a test run with the IMF.
- (iii) The G20 looks forward to the IMF drawing lessons jointly with the countries involved in the CMIM-IMF joint test run and other test runs, and share them in the context of broader experiences of cooperation, taking into account their different characteristics and mandates.

### ***Objective III – Advance IMF reform***

In the wake of the global financial crisis, there was a growing request for stronger legitimacy, along with greater capacity of the IMF. In response, the IMF resources were significantly increased and governance structure was reformed to better reflect changes in the global economy. The 2010 IMF Quota and Governance reforms were an important step towards a more legitimate, credible and effective IMF. Members of the Working Group welcomed the entry-into-effect of the 2010 reforms on January 26, 2016. Many members called for the completion of the 2010 governance reform regarding IMF Board representation. They had preliminary discussions on the ways to complete the 15th General Review of Quotas, including a new quota formula, by the 2017 Annual Meetings. They agreed that any agreement on IMF reform will need to be fully anchored in the relevant IMF bodies, where all IMF members are represented. Some members called for an immediate start of the discussions on some key reform parameters, in order to meet the commitment. Members also shared the view that any realignment under the 15th GRQ is expected to result in increases in the quota shares of dynamic economies in line with their relative positions in the world economy, and hence likely in the share of emerging market and developing countries as a whole. While members agreed that shifts in quota shares from over-represented to under-represented countries are necessary, they have yet to come to an agreement on the quota formula that would be used to assess over- and under-representation, and on the specific methods that would be used to allocate the quotas, such as a general quota increase, or ad-hoc increases among the membership. Members agreed that the voice and representation of the poorest IMF members should be protected. A few suggested considering a possible voluntary redistribution of quotas among members. Some members stressed the importance of recognizing members’ significant voluntary financial contributions in the

15<sup>th</sup> General Review of Quotas. Some members proposed to set realistic goals, focusing on countries whose quota shares remain most out of line, as the 14th GRQ only recently entered into force.

**The Working Group members propose the following recommendations for the consideration of G20 Finance Ministers and Central Bank Governors.**

**Proposal 8:**

**The G20 looks forward to the completion of the 15th General Review of Quotas, including a new quota formula, by the 2017 Annual Meetings. Any realignment under the 15th review in quota shares is expected to result in increased shares for dynamic economies in line with their relative positions in the world economy, and hence likely in the share of emerging market and developing countries as a whole, while protecting the voting share of the poorest.**

**G20 members commit to work expeditiously to build consensus on the quota review and quota formula to meet this timetable.**

***Objective IV – Improve debt sustainability and debt restructuring processes***

**Sub objective A -Promote sound and sustainable financing practices**

The Addis Ababa Action Agenda, which was adopted under the auspices of the United Nations in July 2015, was mentioned by many members of the Working Group as a cornerstone in this area.

As a result, the following elements, which are set out in the Addis Ababa Action Agenda, thus covering all G20 members, could form the basis for further discussion within the G20, including through inclusive discussions with low-income countries:

- **Responsible borrowing and lending practices.** Maintaining sustainable debt levels is the responsibility of the borrowing countries; however, lenders have a responsibility to lend in a way that does not undermine a country's debt sustainability. Creditors should promote transparency and consistency in the implementation of the IMF's *Debt Limit Policy* and of the World Bank's *Non Concessional Borrowing Policy*. To help promote such practices the G20 will encourage debtor country authorities to communicate timely and accurate data regarding debt limits agreed under IMF and World Bank programs to creditors including information on lending headroom remaining under countries' respective debt ceiling in order to avoid a "first come first served" effect in the event of a fixed yearly ceiling.
- **Promotion of transparency regarding macroeconomic indicators and debt sustainability assessments.** Creditors and debtors should build a common understanding of macroeconomic and financial situation of the borrower country, based on the most recent estimates of the IFIs, including the latest *Debt Sustainability Analysis (DSA)*.
- **When providing new financing, committing to the long-term debt sustainability of countries that are engaged in a sustained borrowing trend,** especially those having already benefitted from debt relief under the HIPC and MDRI initiatives.
- **Enhancing technical assistance to debtor countries, especially LICs, directly or through the international financial institutions, to enhance their debt management capacities.**

The upcoming review of the IMF-World Bank Debt Sustainability Framework (DSF) for Low-Income Countries was also discussed by the Working Group. Many members pointed out several key issues to be taken into account in the review, such as a better recording and evaluation of contingent liabilities, more in depth analysis of domestic public debt, integration of market risk analysis, and greater granularity in the DSA results, while striking a balance between comprehensiveness and clarity.



Finally, the current context of rapidly increasing level of debt in a number of Low-income Countries, against the backdrop of a sharp drop in commodity prices and a tightening in financial conditions, as described notably in the April 2016 WEO, was referred to. Some members mentioned the need to take this situation into account, including in terms of surveillance and policy response, and to consider wider implications for debt sustainability.

**The Working Group members propose the following recommendations for the consideration of G20 Finance Ministers and Central Bank Governors.**

**Proposal 9:**

**The G20 underlines the importance of promoting sound and sustainable financing practices. In this view,**

(i) The G20 underlines the risks posed by a possible buildup of sovereign debt in some countries, notably low-income countries, against the backdrop of a sharp drop in commodity prices and tightening in financial conditions, and calls for monitoring these risks.

(ii) The G20 supports the ongoing review of the Debt Sustainability Framework for low-income countries and call in particular for a better evaluation and recording of contingent liabilities, more in depth analysis of domestic public debt, integration of market risk analysis, and greater granularity in the DSA results.

(iii) Building on the Addis Ababa Action Agenda, the G20 will further discuss ways to promote sound and sustainable financing practices including through inclusive discussions with low-income countries.

(iv) Building on their current effort, the G20 calls on the WB and the IMF to explore further options for an enhanced and coordinated effort on technical assistance tailored to debtor countries and challenges, and ask them to report back to G20 Finance Ministers and Central Bank Governors in 2017.

**Sub objective B -Improve debt restructuring processes**

Orderly, timely and predictable debt restructuring processes are key elements for a robust international financial architecture. In the past, a non-cooperative minority of creditors has been able to disrupt sovereign debt restructurings. The IMF and the G20 have consistently promoted a more cooperative approach to avoid such phenomena. In Antalya, G20 Leaders called for the implementation of the enhanced *pari passu* provisions and aggregated collective action clauses in new sovereign bond issuance. Analysis by the IMF suggests that substantial progress has been made in the inclusion of these enhanced clauses. However, a substantial risk remains since a large portion of the existing stock of international sovereign bonds does not include these clauses.

To address this, members of the Working Group called for the feasibility of market-based solutions to be assessed. Many participants underlined the need to address existing barriers (such as stigma effect of a rollover of debt, potential implications on countries cost of funding, insufficient administrative capacity, etc.) if incorporation into the existing stock of debt is to progress. In this regard, many members called for an additional work by the IMF on understanding and addressing these barriers, working together with market participants.

Fostering greater coordination between official creditors and debtors was also mentioned by many members as an important element. In this regard, members underlined the necessity to have timely engagement, as soon as possible, between creditors and debtors, to tackle vulnerabilities and avoid the consequences of a long-delayed restructuring. Many members mentioned the importance of the Paris Club in debt restructuring processes, and supported the prospects of its expansion to emerging creditors, on a voluntary basis. More generally, fostering dialogue between sovereign creditors and sovereign debtors, not only in time of debt distress, was mentioned by several members as essential

for forging a shared view on debt issues. This would bolster trust and facilitate the early identification of crises and their resolution. The IMF and the Paris Forum could allow for such a dialogue.

Finally, non-cooperative behavior by holdout creditors was mentioned by some members, who identified litigation as an important source of uncertainty in financing and debt restructuring processes, especially for the poorest countries that lack the technical capacity to face such a legal challenge. One avenue for improving the situation is to support further engagement by the IOs in terms of technical assistance in the field of improving debt management capacity. Members of the Working Group also took note of the measures taken by some jurisdictions to prevent specific creditors from resorting to disruptive litigation.

**The Working Group members propose the following recommendations for the consideration of G20 Finance Ministers and Central Bank Governors.**

**Proposal 10:**

**The G20 supports the continued incorporation of the enhanced collective action and pari passu clauses into sovereign bonds. It underlines the importance of dialogue between creditors and borrowers, and their timely engagement in the case of build-up of risks associated with repayment of sovereign debt obligations. The G20 affirms that the Paris Club, as the principal international forum for restructuring official bilateral debt, should keep pace with the changing landscape of official financing. The G20 welcomes the admission of the Republic of Korea to the Paris Club and supports the ongoing work of the Paris Club towards the broader inclusion of emerging creditors. The G20 supports the Paris Club's discussion of a range of sovereign debt issues. In addition, the G20 calls for further work to improve debt restructuring processes. In this view,**

(i) The G20 asks the IMF to explore and report on the cost and feasibility of the incorporation of the enhanced clauses in the existing stock of debt.

(ii) The G20 will examine and discuss additional measures taken by some jurisdictions to smooth the sovereign debt restructuring processes.

**Sub objective C - Explore state contingent debt instruments to enhance sustainability and stability**

The Working Group has analyzed new, innovative forms of sovereign borrowing. In particular, state-contingent financial instruments have been gaining attention recently. Debt repayments may depend on a broad range of factors, such as the evolution of GDP, inflation, commodity prices or the occurrence of major natural disasters. GDP-linked bonds were the particular focus of the discussion of the Working Group, with very useful inputs from the Bank of England. The IMF is also working on this issue, from a broader perspective.

Members of the Working Group were generally in favor of investigating further the pros and cons of state-contingent debt instruments, including exploring the operational viability of GDP-linked bonds.

**The Working Group members propose the following recommendations for the consideration of G20 Finance Ministers and Central Bank Governors.**

**Proposal 11:**

**The G20 supports further work to explore state contingent debt instruments as a way to balance sustainability and stability. In this view:**

- (i) The G20 calls for further analysis of the technicalities, opportunities, and challenges of new state-contingent debt instruments, including GDP-linked bonds.
- (ii) The G20 asks the IMF, working with interested members, to report back on these issues to G20 Finance Ministers and Central Bank Governors in 2017.
- (iii) The G20 supports recent efforts, notably in developing countries, to implement contingent debt instruments or features, in particular with regards to natural disasters.

***Objective V – Examine broader use of the SDR and support the development of local currency bond markets***

**Sub objective A: Examine broader use of the SDR**

The SDR, a supplementary international reserve and an alternative unit of account, was created by the IMF in 1969 as a way to support the international monetary system. However, its use has been limited to a very small share of international reserves and as a unit of account by a limited number of entities. The SDR is neither a currency, nor a claim on the IMF. Rather it is a potential claim on the freely usable currencies of IMF members that are part of the SDR basket. Allocations of SDRs provide IMF member countries with reserve assets. Since 1969, total cumulative allocations of SDRs amount to SDR 204.1 billion. The SDR is also used as a unit of account, mainly by some international financial institutions, and some private stakeholders. In April 2016, the People's Bank of China started reporting its foreign currency reserves in SDR and is facilitating the issuance of SDR-denominated bonds in the summer. Effective October 1, 2016, the basket (currently consisting of US dollar, euro, Japanese yen and pound sterling) will be expanded to include the Chinese renminbi, reflecting economic and financial evolution at the global level.

Responding to the call by G20 Finance Ministers and Central Bank Governors, the Working Group started to examine a possible broader use of the SDR. Many members of the Working Group considered that an enhanced role for the SDR could be a way to enhance the stability and resilience of the IMS.

Some members considered the promotion of the use of the SDR in the public sector (including the possible use of the SDR as a unit of account) as one possible step towards its broader use. Some participants considered that the SDR could play an important role as a reserve asset in the future. Regarding the use of the SDR as a unit of account, many members underlined the fact that the main international financial institutions could enhance the role of the SDR (both official and market) by, for example, publishing their accounts and statistics in SDRs, in parallel with existing reporting currencies. To date, according to IMF data, only 11 international financial institutions<sup>2</sup> use the SDR as a unit of account, and it is not used as an international reporting currency by countries. A few members supported the idea that central banks issuing the currencies included in the SDR basket have a particular role regarding global liquidity, and that they should regularly report to the G20 by providing a joint assessment of global liquidity, while others did not support such reporting system.

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11 international financial institutions use the SDR as a unit of account: IMF, Bank of International Settlements, African Development Bank, Arab Monetary Fund, Asian Development Bank, Common Fund for Commodities, East African Development Bank, Economic Community of West African States, International Center for Settlement of Investment Disputes, International Fund for Agricultural Development and Islamic Development Bank.

**The Working Group members propose the following recommendations for the consideration of G20 Finance Ministers and Central Bank Governors.**

**Proposal 12:**

**The G20 supports the examination of broader use of SDR. In this view:**

(i) The G20 supports the publication of some international financial institutions' and countries' accounts and statistics in SDR, and will study the benefits and possible ways of broader reporting in SDR.

(ii) The G20 calls on the IMF to assess the recent developments regarding SDR, and in particular the potential issuance of SDR denominated bonds, and report to G20 Finance Ministers and Central Bank Governors in 2017.

**Sub objective B -Support the development of local currency bond markets**

At the Cannes Summit in 2011, the G20 launched an initiative to support development of local currency bond markets, through an action plan that listed three key areas for progress: (i) scaling up technical assistance; (ii) improving the data base and (iii) monitoring the progress made on an annual basis.

It was acknowledged that the G20 had followed up on this issue for a few years. A report was commissioned from the World Bank, working with the IMF, to take stock of the previous initiative, to review costs and benefits, and to outline further steps to encourage the development of local currency bond markets and local currency borrowing.

**The Working Group members propose the following recommendations for the consideration of G20 Finance Ministers and Central Bank Governors:**

**Proposal 13:**

**The G20 underlines that well developed local currency bond markets (LCBM) play an important role in improving the resilience of the domestic economy and financial system. The G20 welcomes the progress achieved since the launch of the G20 Action Plan to Support the Development of Local Currency Bonds Markets in 2011. It calls on the World Bank and IMF, working with Regional Development Banks, OECD and other IOs as appropriate, to continue developing actions and policy recommendations in support of the development of local currency bonds markets, taking into account country circumstances.**

## Annex

### **1. List of reports received**

***The members of the working group would like to thank the international organizations for their strong help and support over the course of this year.***

*Conference “From Nanjing to Paris”, March 31st 2016, Paris: input to the G20 discussion; Summary; April 2016*

*The G-20 Data Gaps Initiative and its current state of play; FSB and IMF note; January 2016*

*The G-20 Data Gaps Initiative: overview of the work process in 2016; FSB and IMF note; February 2016*

*International capital flows and EMEs’ financial imbalances: analysis and data gaps; BIS; June 2016*

*IMF work program on capital flows issues; February 2016*

*Co-operation on approaches to macro-prudential and capital flow management measures: update by the IMF and the OECD; February 2016*

*IMF-FSB-BIS work on macro prudential policies; update note for the IFA Working Group; April 2016*

*IMF-FSB-BIS Elements of Effective Macprudential Policies: lessons from international experience; annotated outline; June 2016*

*The review of the OECD Code of Liberalization of Capital Movements in the international context; OECD report; February 2016*

*The OECD Code of Liberalization of Capital Movements: recent developments; OECD report; April 2016*

*Recent experiences in managing capital flows; IMF note; April 2016*

*Handling capital flows – Emerging issues; IMF note; June 2016*

*Capital flows and global liquidity; IMF note; February 2016*

*Global and country risk assessment at the IMF; IMF note; June 2016*

*The IMF-FSB Early Warning Exercise; IMF-FSB briefing note; June 2016*

*The FSB’s Vulnerabilities Assessment Work; FSB briefing note; June 2016*

*Identifying and tracking financial risks: BIS contributions; June 2016*

*The current quota formula; IMF briefing; April 2016*

*Inclusion of enhanced contractual provisions in international sovereign bond contracts; IMF briefing; April 2016*

*GDP-linked bonds: G20 IFA Working Group Non-paper, by the Bank of England, with a contribution from the Bank of Canada on Sovereign CoCos; April 2016*

*IMF-WBG Technical assistance activities on public debt management in Low-income countries; IMF-WBG report; April 2016*

*Background Note on Sovereign Debt; note by the UK; April 2016*

*Background Note on Sustainable financing; note by the UK; April 2016*

*Review of the Debt Sustainability Framework for Low Income Countries; IMF-WBG discussion note; April 2016*

*Development of Local currency bond markets, overview of recent developments and key themes; WBG-IMF report, with relevant contributions from the OECD; June 2016*

## **2. List of documents produced**

- *Terms of Reference of the International Financial Architecture Working Group; December 2015*
- *Co-chairs' summary of the second meeting of the International Financial Architecture Working Group, February 2016 ; - Final Report of the International Financial Architecture Working Group, and proposals for consideration by G20 Finance Ministers and Central Bank Governors; June 2016.*