



FRANCE

BIARRITZ
2019

CHANTILLY
17 - 18 JULY 2019

#G7FINANCE

**WORKING
FOR A FAIRER
CAPITALISM**

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CHANTILLY

G7 FINANCE

AGENDA

The G7 Finance track's work will culminate in the meeting of G7 Finance Ministers and Central Bank Governors in **Chantilly on 17th and 18th July 2019**. **The last G7 ministerial meeting to be held before the Biarritz Summit (24th to 26th August 2019)**, it will be fully aligned with the G7 Presidency's cross-cutting priorities and its key objective of working for a fairer capitalism.

The G7 Finance goals for Chantilly:

"Working for a fairer capitalism"

Working for a fairer capitalism requires strong actions. Three areas are of particular priority: (i) addressing risks in the global economy and the financial system in order to support strong, sustainable, balanced and inclusive growth; (ii) accelerating work to address new challenges, including building a fairer international tax system, facing up to the competition challenges raised by the digital economy and stepping up the transition towards a sustainable, low-carbon economy; and (iii) ensuring that the benefits of growth are more widely shared by reducing inequalities in countries and between developed and developing countries.



ADDRESSING RISKS IN THE GLOBAL ECONOMY AND THE FINANCIAL SYSTEM

Address risks in the global economy: act together to prevent and respond to any risks that might affect global economic growth, including by increasing efforts to ensure a level playing field in globalization.

Strengthen cybersecurity in the financial sector: improve international cooperation between G7 members and draw lessons from the first G7 cross-border cyber crisis simulation exercise conducted between 4 and 6 June 2019.

Provide a regulatory framework for stable coins such as Libra: draw initial lessons from the interim report produced by the working group set up by the G7 to look further into the risks associated with these assets, in particular with respect to money laundering, terrorist financing, financial stability and monetary policy transmission.



ADDRESSING EMERGING TAX, DIGITAL AND ENVIRONMENTAL CHALLENGES

Build a fairer international tax system: strengthen the fight against tax evasion, tax avoidance and aggressive tax planning schemes with a G7 agreement on a global minimum corporate tax and defining the architecture for a global solution to which will adapt international taxation rules to the growing digital economy.

Respond to the competition challenges raised by the digital economy: agree on a common understanding among G7 countries of the competition challenges raised by the digital economy and possible adaptations of the regulatory framework in order to maintain healthy competition, including in the new economy.

Face up to the challenge of making the transition to a sustainable, low-carbon economy happen, in line with the Paris Climate Agreement: increase public and private funds invested in the transition by rallying G7 countries ahead of the UN Climate Action Summit on 23 September and, more broadly, all private and public players (international financial institutions, development banks, Green Climate Fund, regulators and supervisors).



FIGHTING INEQUALITIES IN AND BETWEEN COUNTRIES

Take forward efforts to reduce inequalities within developed countries: promote exchanges of good practice in equality of opportunities, gender equality and pay transparency.

Increase efforts in support of the development of the poorest countries: refocus public resources on the poorest countries, rally more private investment in low income countries and increase women's digital financial inclusion in Africa by supporting the initiatives identified by the Gates Foundation in the report submitted to the G7 Finance Ministers.

AGENDA

WEDNESDAY 17TH JULY

12:30 - 14:30
(Working lunch)

Sequence 1.

ADDRESSING RISKS IN THE GLOBAL ECONOMY AND THE FINANCIAL SYSTEM

12:30 - 13:30 Global economy

13:30 - 14:30 Cybersecurity in the financial sector and stablecoins

14:45 - 17:45

Sequence 2.

ADDRESSING NEW CHALLENGES

14:45 - 16:15 International taxation

16:15 - 17:45 Competition and the digital economy

20:00 - 21:30

Working dinner on international cooperation

AGENDA

THURSDAY 18TH JULY

8:00 - 9:00	Working breakfast on climate / green finance
9:15 - 11:45	Sequence 3. FIGHTING INEQUALITIES BETWEEN AND WITHIN COUNTRIES
9:15 - 10:15	Inequalities within advanced economies
10:15 - 11:15	Development agenda, with Melinda Gates (Bill & Melinda Gates Foundation)
11:15 - 11:45	Session with stakeholders on gender equality in business and the economy

For information:

- The traditional press conference which closes the G7 with both the Governor and the Minister will take place Thursday July 18th at 12:00 am.
- The family photo is scheduled on Wednesday July 17th at 7:30 pm
- We will also hold a background debrief on Wednesday July 17th once the sessions have finished.

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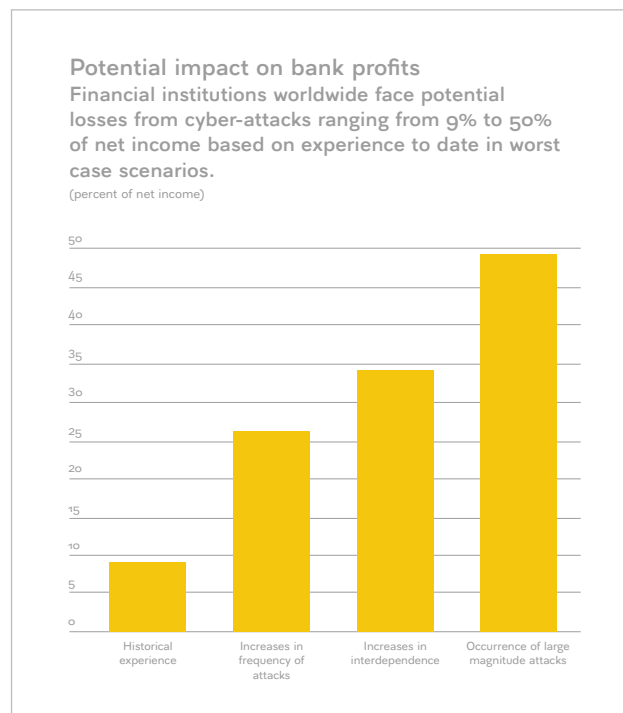
Secretary-General
OECD

CYBERSECURITY

1. Issues

Cyber risk is now one of the most serious threats to the financial system. The frequency, cost and level of sophistication of cyber attacks is raising more and more concerns. Deeper interconnections between financial institutions, and between financial institutions and third parties, also contribute to worsening the impact of cyber attacks. The G7 provides the perfect forum to examine topics like cybersecurity where confidentiality is key.

The question we are asking today is “How would we manage a large-scale cyber crisis if one did occur?”. The French Presidency in 2019 is seeking to step up coordination between countries in three main areas: harmonising regulations, sharing information and preparing for cyber attacks in the financial sector.



Source: IMF blog, Estimating cyber risk for the financial sector by Christine Lagarde, 22 June 2018

2. Role of the French G7 Presidency

With regard to regulation and supervision, much work is being carried out by the various financial sector regulators with the risk that they may not be sufficiently coordinated and lead to unnecessary divergences. This makes the regulatory framework unclear and forces market players to respond to multiple variants. An overly fragmented regulatory framework also adds the risk of regulatory arbitrage: some private agents may (de)locate their IT systems in jurisdictions with less regulatory requirements. The G7 Cybersecurity Expert Group has produced and published a set of high-level principles called «Fundamental Elements» that can serve as a common foundation and contribute to regulatory coherence; the G7 will promote and disseminate these principles.

We recommend working on a common classification of cyber incidents so we can better assess the impact of cyber attacks and gain a greater understanding of how cyber attacks are changing. In practical terms, this would involve financial authorities signing memoranda of understanding on information sharing and threat intelligence.

In June, the Banque de France, as part of the G7 Cyber Expert Group, organised the world’s first simulation of a cross-border cyber attack involving the G7’s financial authorities. The initial findings will be discussed at the G7 Finance Ministers’ and Central Bank Governors’ meeting in July.

→ DESIRED OUTCOMES

- Ensure consistent regulatory frameworks across the international financial sector's regulatory bodies.
- Produce a common classification of cyber incidents to better assess their impact.
- Draw conclusions from the cross-border coordination exercise conducted in June by the G7's financial authorities, support the positive outcomes and address the shortcomings identified during the exercise, and work out a timeline for simulations in the years ahead.

STABLECOINS

1. Issues

A number of private-sector initiatives are currently underway with the aim to create new payment products. These new products are different from crypto assets in two ways: they are pegged to assets (like a currency or a commodity) and have the potential to be used on a much bigger scale. They will therefore require close scrutiny, notably with regards to consumer protection and anti-money laundering. Two types of products have been in the spotlight lately:

1

JP Morgan's JPM Coin, which is backed by US dollars. The JPM Coin will enable the instantaneous transfer of large payments globally between institutional customers (broker dealers, banks and corporates).

2

Facebook's Libra, which is designed for retail payments. Libra would be pegged to a basket of currencies and used for payments to merchants and between individuals.

Both of these products would be issued on a permissioned blockchain (i.e. transactions are validated on the blockchain only by member nodes – nodes in this case are servers run by members). In the case of Facebook's Libra, only Facebook and its partners could introduce modifications in the blockchain. Users would not be able to access the blockchain directly. The G7 has chosen to add these new products to its agenda to examine the underlying risks and opportunities.

2. Role of the French G7 Presidency

All of the issues raised above are the subject of discussions by a G7 working group led by Benoît Cœuré, Member of the Executive Board of the European Central Bank (ECB) and Chairman of the Committee on Payments and Market Infrastructures (CPMI) of the Bank for International Settlements (BIS), and made up of representatives from central banks and the IMF.

The group is investigating whether these new products would be able to comply with the highest standards of security and resilience, from the standpoints of consumer protection and data protection, and the prevention of money laundering and terrorist financing. Their investigation will be based on a comprehensive risk analysis and with the aim to achieve a globally consistent approach. The group will submit its findings by the end of the French Presidency. A progress report will be presented at the meeting in Chantilly.

→ DESIRED OUTCOMES

- Provide an initial overview of the risks and opportunities associated with these new products, as part of a coordinated approach among regulators to identify priority areas for action.
- Investigate further the main risks identified with the aim of drafting recommendations to be examined by the end of the French Presidency. These will form the framework for a common approach.

INTERNATIONAL TAXATION

1. Issues

The fight against tax evasion, tax fraud, and aggressive tax avoidance and tax planning is a major work stream of the international community. Significant progress has been made, driven by the G20 and with the OECD's input. Standards regarding the transparency of financial flows have been strengthened, allowing tax fraud to be combatted more effectively, particularly with the introduction of the automatic exchange of information between tax authorities. The fight against aggressive tax planning by multinational companies has also seen major progress with the G20's adoption of the BEPS (Base Erosion and Profit Shifting) project in 2015, giving countries better tools to prevent the improper and artificial shifting of profits.

However, three problems remain:

1

The BEPS project has not stopped the race to the bottom in tax rates. To maintain their appeal, some countries have reduced their corporate income tax rates (from 35% to 21% in the USA and from 33.33% to 25% in France, while the UK is considering a rate of 17%) or kept their rates very low (12.5% in Ireland, 10% in Bulgaria and 9% in Hungary). This trend is leading to a gradual decline in corporate income tax revenues, which is causing problems in terms of funding public spending in areas such as infrastructure, education and health. To offset this loss of income, some countries are increasing taxation on the less mobile tax base (consumer spending, less qualified workers etc.), resulting in greater inequality.

2

The international community is also being hampered by some countries – known as tax havens – deciding to tax companies at extremely low rates or not at all, allowing multinational companies to adopt highly aggressive tax planning arrangements. The value created by multinational companies often comes from highly mobile sources (intellectual property, financial assets etc.), which can easily be located in such territories, reducing the amount of tax they pay.

3

The digital transformation of the economy is also creating new challenges and making it even easier to shift profits to low-tax territories. Current tax rules prevent States from taxing the profits of groups operating in a jurisdiction where they have no physical presence. As a result, such rules are no longer suited to today's business models, particularly those of digital companies. These companies are able to avoid having a physical presence in many countries or limiting that presence to small-scale functions that generate little profit. This situation produces tax inequality between companies, since the tax raised from the giants of the digital economy is on average much less than that raised from companies with more traditional business models.

Accordingly, it is necessary to step up efforts to build a fairer international tax system. Revenue lost through tax avoidance by multinational companies represents, based on OECD estimates, between 4% and 10% of global corporate income tax revenues, i.e. up to €240 billion per year¹.

¹ OECD (2015), Measuring and Monitoring BEPS, Action 11 – 2015 Final Report, OECD/G20 Base Erosion and Profit Shifting Project, OECD Publishing, Paris.

2. Role of the French G7 Presidency

Major progress has been made in revising international taxation rules this year. On 29th May 2019, the OECD's Inclusive Framework - which brings together more than 129 countries and jurisdictions, approved a programme of work aimed at tackling the tax challenges raised by the digital economy and ensuring a minimum level of taxation for multinational companies. This programme of work received the full support of the G20 in the Osaka Summit (28-29 June) and provides a solid basis for future multilateral efforts. It raises the prospect of an agreement regarding a long-term solution by 2020. This is a priority for the French G7 Presidency.

The OECD programme of work approved by the G20 is based on two pillars:

1

The first explores how to reform international taxation rules to determine where tax should be paid and on what basis, and how to allocate taxable profits between jurisdictions in the digital age. Several proposals for reforming the current rules have been made. The proposals aim to give jurisdictions in which customers or users of services are located a right to tax part of companies' profits, whether that profit is generated by the value-creation role played by digital service users or whether it results from intangible assets. A unified approach must now be adopted in order to reach consensus on this matter.

2

The second pillar aims to create new rules allowing minimum effective taxation of multinational companies, regardless of the countries in which they operate or pay tax. These rules would introduce a minimum level of taxation on profits generated abroad by the subsidiaries of a group, or would prevent cross-border payments made by subsidiaries of a multinational company and subject to excessively low tax rates in another State from being deducted from taxable income in the usual way. This kind of minimum taxation rules will be a powerful weapon against aggressive tax planning strategies, will curb unfair tax competition and put an end to the unfair advantages of tax havens.

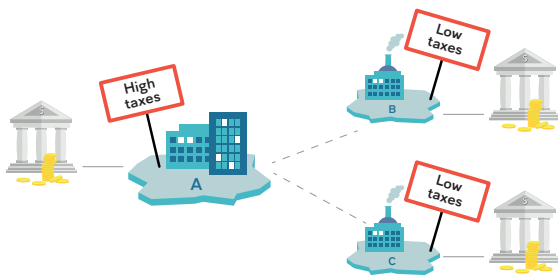
Following on from work done within the G7 throughout 2019, discussions in Chantilly should allow the G7 members to reach agreement on the reforms put forward for international negotiations on both pillars. On the first pillar, the challenge will be to agree a common approach to allocating the right to tax the profits of multinational companies between jurisdictions, even in countries where profits are generated without any physical presence (particularly in the case of digital companies). **On the second pillar,** the aim will be to agree international minimum taxation rules. The G7 countries should also reassert the need to move forward together on both pillars of the OECD's programme of work, given their complementary nature: the first pillar does not reduce incentives to shift profits to low-tax territories, while the second does not address the challenges posed by new business models.

→ DESIRED OUTCOMES

- Step up the fight against tax fraud, tax avoidance and aggressive tax planning by supporting the OECD's current efforts to reach an international agreement on key principles for a revised international taxation system by the end of 2019 and a full agreement by the end of 2020.
- Agree minimum taxation rules that would apply to the profits of multinational companies.
- Agree on the architecture of the reforms to the international tax framework capable of meeting the challenges raised by the digital economy and agree to push this reform proposal in international fora, i.e. both the G20 and the OECD.

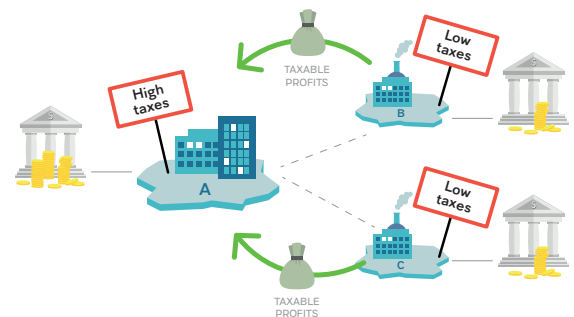
Examples on the impact of minimum taxation rules on aggressive tax planning schemes.

Example 1: a multinational group optimises its tax position by relocating its production and sales activities to a country where its subsidiaries pay little tax



Current situation

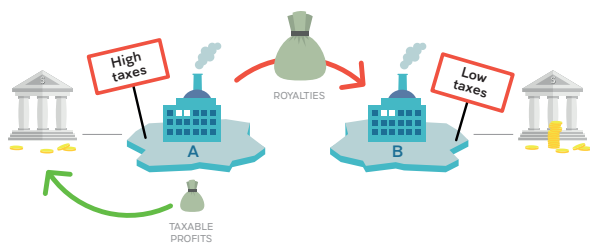
The parent of the multinational group is located in country A. However, its subsidiaries are the ones carrying out the group's production and sales activities. They are located in countries B and C, where corporate income tax is low, thus minimising their tax payments. This tax planning strategy enables the group to reduce the amount of tax it pays worldwide. Profits generated in countries B and C correspond to real activities, and so country A (the State in which the group's head office is located) cannot tax those profits.



Situation with minimum taxation rules

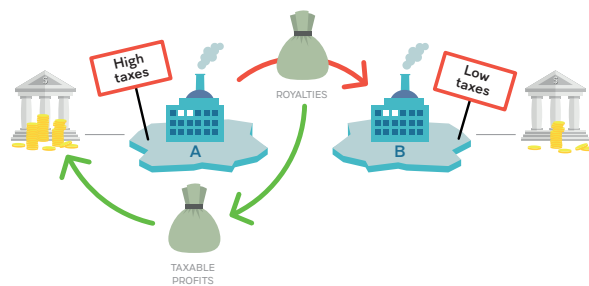
The introduction of minimum taxation rules will reduce the potential for this kind of planning strategy. The tax authorities in country A will be able to rule that the subsidiaries located in countries B and C are paying only a small amount of tax. Having made that ruling, they will be able to decide that the profits generated by those subsidiaries will be taxed not in countries B and C, but in the country in which the parent company is located, for the difference between the minimum tax rate (to be defined at international level) and the country tax rate. As a result, the tax paid in country A, where the tax rate is higher than in countries B and C, is increased. The same is true of the group's total effective tax liability.

Example 2:
a multinational group artificially reduces the taxation of its profits through the payment of royalties



Current situation

A global group has subsidiaries in countries A and B, and country B has a low corporate income tax rate. Currently, the subsidiary in country A can easily shift part of its profits to the subsidiary in country B by paying a royalty, for example as payment for using a brand owned by the country B subsidiary. Paying that royalty reduces the taxable profit of the country A subsidiary and thus the amount of tax paid in country A.

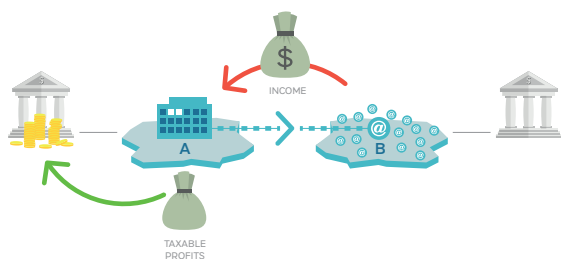


Situation with minimum taxation rules

The introduction of a minimum taxation rule will reduce sharply the potential for this kind of planning strategy. The tax authorities in country A will be able to rule that the subsidiary in country B is only paying a small amount of tax (below a minimum rate) and accordingly refuse to allow the royalty payment to be deducted from the taxable profits of the country A subsidiary. This increases the taxable profit in country A, and therefore the tax that the subsidiary will end up paying in that country. The group's total effective tax liability at the worldwide level is increased.

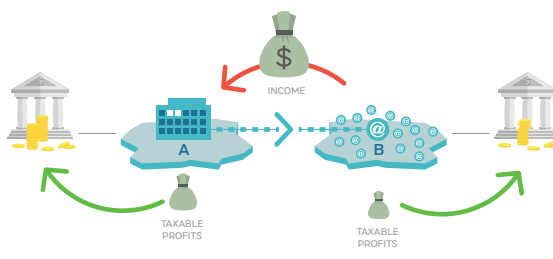
Illustrative example of one of the effects of the tax reform being developed under the first pillar to meet the challenges of digital economy:

Example 3: a company provides services in a State without a physical presence



Current situation

To this day, a country can only tax the profits of a company if it has a physical presence on its territory. However, some business models allow this presence to be avoided or limited to restricted functions with little profit. A global group can thus, from country A, provide remote digital services in country B, derive significant profits from them and not be taxed there, since it does not have a physical establishment in that territory.



Situation after the international tax reform

One of the benefits of the international tax reform being developed is that it will allow Country B to tax the profits generated on its territory by a global group, even if it does not have any physical establishments there. The reform will also allow the current rules to fit into the context of the digitisation of the economy by characterising, in certain situations yet to be defined, a direct link between country B and a portion of the group's profits, which will therefore be taxable in country B. As a result of this reform, the taxable profits in country B will increase, as will the tax paid there.

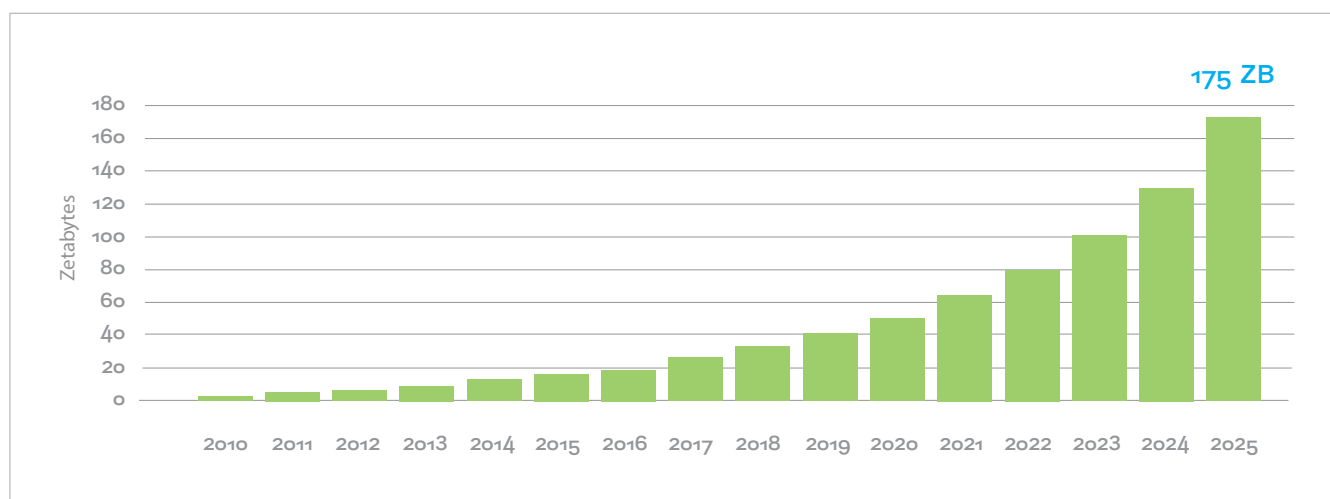
COMPETITION AND THE DIGITAL ECONOMY

1. Issues

The digitisation of the economy has prompted a major restructuring of how the economy works as new markets emerge and consumers and businesses interact in new ways. Digital platforms provide new opportunities for engaging directly with users and are growing solidly without the need for reinvestment. Digital platforms also harness the power of network effects (i.e. they become more valuable as more people use them) by collecting (see Figure 1) and using data on a huge scale.

Figure 1

Estimate of the size of the global datasphere in zettabytes (1 zettabyte = 10^{21} bytes; 1 byte = 8 bits)



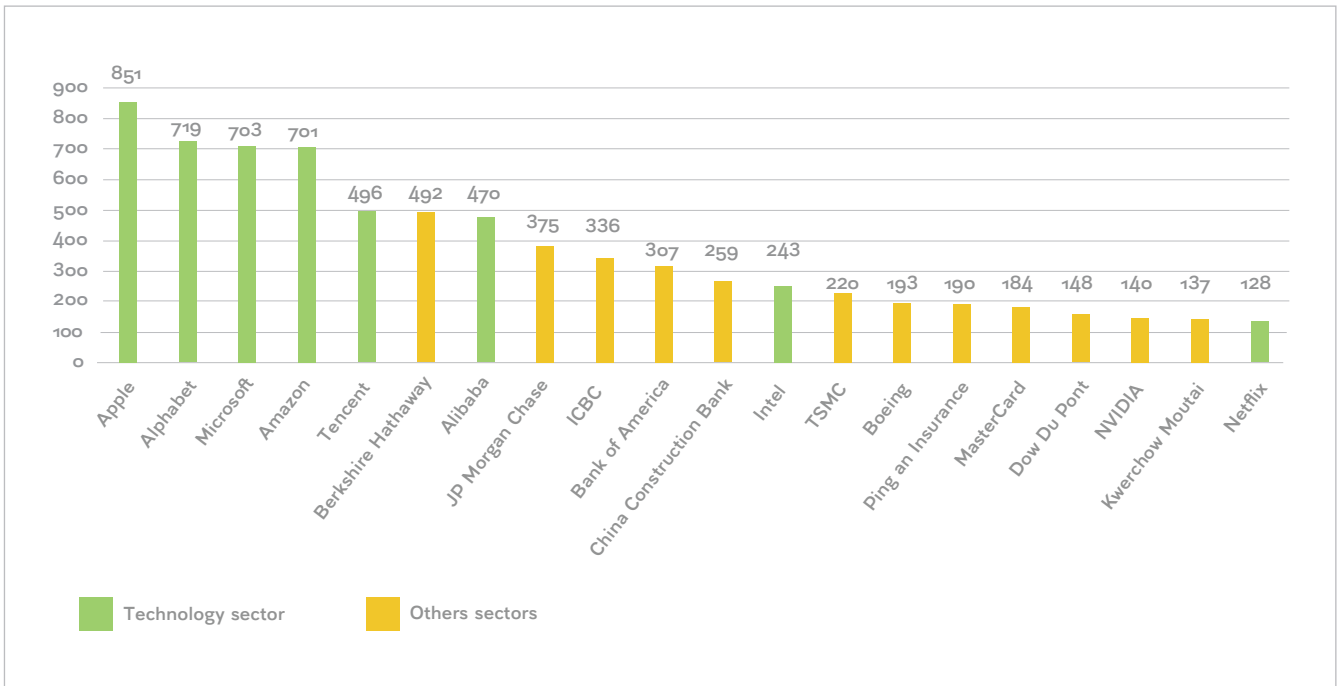
Source: IDC, The Digitisation of the World, From Edge to Core, November 2018, p. 6

Note: The International Data Corporation (IDC) predicts that the size of the global datasphere will grow from 33 zettabytes in 2018 to 175 zettabytes in 2025

The opportunities for growth and international development offered by digital technology have helped to fuel the trend toward concentration of digital platforms. The combination of network effects, economies of scale and customer retention strategies (which undermine the interoperability of a service with a rival's service, for example) has led to situations where digital platforms are capturing a very large share of the market over the long term (the winner-takes-all model). While digital transformation has delivered many benefits for consumers in terms of innovation and productivity, there remains a risk that unfair and anti-competitive practices will take on new forms and become more widespread if companies extend their market power, play the role of intermediaries and engage in vertical and horizontal integration (see Figure 2).

Figure 2

The world's 20 largest companies by market capitalisation in USD billions at 31/03/2018



Source: PwC, Global Top 100 companies by market capitalisation, 31 March 2018, p. 17
 Note: At 31/03/2018, six of the 10 largest companies by market capitalisation were technology companies

Academics' and institutions have examined these changes and questioned whether the existing competition framework adequately addresses the challenges of the digital economy. A number of reports are being drafted for governments, including a report² chaired by Jason Furman for the UK government (March 2019), a report³ by a group of experts for the European Commission (April 2019) and a report to be prepared by the "Competition Law 4.0" commission for the German government (autumn 2019).

Contributing to the debate, the Ministerial Council Meeting of the Organisation for Economic Cooperation and Development (OECD) was held in Paris on 22 and 23 May 2019⁴. Participants discussed the role of government and the importance of international cooperation in harnessing the potential of the digital transition.

At the high-level Conference on Competition and the Digital Economy organised as part of the G7 French Presidency⁵ on 3 June 2019 in Paris⁶, a strong consensus emerged among panellists as they discussed the **relevance and flexibility of competition law** in dealing with the challenges posed by digital transformation for competition policy. Other topics included the **need to respond faster and more effectively to tech giants' anti-competitive behaviour** (exclusionary practices, predatory pricing, abuse of a dominant position) and whether measures to scrutinise mergers would indeed help in **preventing "killer acquisitions"** (where incumbents buy start-ups that develop innovative services and are potential competitors). Participants also debated the **role of data** in determining a dominant position and the issues associated with **interoperability and data portability**. In dealing with global technology companies, panellists recognised the need to strengthen international coordination between governments and competition authorities, in particular to gain a deeper understanding of the digital economy and share best practice.

¹ Report released by the Committee for the study of digital platforms of the Stigler Centre of the University of Chicago, led by Fiona Scott Morton, with Ariel Ezrachi, May 2019.
² Report of the Digital Competition Expert Panel, Unlocking digital competition, March 2019.
³ Jacques Crémer, Yves-Alexandre de Montjoye, Heike Schweitzer, Competition policy for the digital era, April 2019.
⁴ <https://www.oecd.org/fr/rcm/documents/>
⁵ Co-chairs' summary (OECD, Autorité de la concurrence, French G7 Presidency)
⁶ See conference agenda: https://www.oecd.org/daf/competition/Competition_and_the_Digital_Economy-agenda.pdf

2. Role of the French G7 Presidency

For the first time at a G7 Finance Meeting, the challenges of the digital economy for competition policy will be examined, recognising the macroeconomic importance of the development of the digital economy and its impact on competition in markets.

The competition authorities of the G7 countries have been actively involved in a working group led by France's Competition Authority. The group has adopted a "common understanding" of the competition challenges raised by the digitisation of the economy and identified areas for future work. The aim is to achieve greater balance and growth in digital transformation, while also adhering to the basic rules that underpin our societies – fair competition, respect for privacy, freedom and transparency.

→ DESIRED OUTCOMES

- Welcome the Common Understanding of competition challenges raised by digital transformation, as adopted by the working group of the G7 competition authorities and presented to the G7 by Ms Isabelle de Silva, President of the French Competition Authority.
- Encourage exchanges and experience sharing about the adaptation of the regulation, including competition regulation, in the digital era. The work areas identified under the French G7 presidency are intended to be further explored and complemented.

CLIMATE AND GREEN FINANCE

1. Issues

Fighting climate change is a global challenge and a priority. Extremely large amounts of financial investments will be needed if we are to be successful in the effective transition to a sustainable and low-carbon economy. **The OECD estimates that US\$6.9 trillion of investment a year is required before 2030 just to finance resilient infrastructures which will enable us to stay on the right path for a 2-degree Celsius maximum scenario** (“Financing Climate Futures” report, 2018).

International cooperation and the work of the G7 and the G20 have helped to raise collective awareness of the challenge. Investment in environmentally sustainable projects has increased (constructing renewable energy facilities, improving the energy efficiency of buildings, etc.). The financial system has a critical role to play in the transition as it mobilises these investments. According to the Climate Policy Initiative’s report¹, global climate finance flows amounted to more than €500 billion in 2017.

In both developed and developing economies, however, the realignment of financial flows is yet to match the scale of the challenges. Finance must be increasingly mobilised away from emission-intensive projects. In order to align financial flows with more environmentally sustainable activities, it is important to increase the transparency of economic and financial activities and their impact on the environment and to develop tools that help to better assess climate-related financial risks.

Coordinated international action from central banks and supervisors is also crucial in promoting the orderly, healthy development of green finance. At the initiative of the Banque de France, eight central banks established the Network of Central Banks and Supervisors for Greening the Financial System (NGFS) at the One Planet Summit in December 2017. The NGFS has since grown to 40 members and six observers from all over the world.

The NGFS released its first report, in April 2019². The report explicitly acknowledges that climate-related risks have an impact on financial stability and issues six recommendations that will be submitted to ministers and governors for their approval at the G7 meeting in Chantilly: the first four apply to the work of central banks and supervisors while the last two are addressed to policymakers³. In the report, NGFS members also acknowledge that there is much work to be done in order to equip central banks and supervisors with appropriate tools and methodologies to identify, quantify and mitigate climate risks in the financial system.

¹Climate Policy Initiative, “Global Climate Finance: an Updated View” 2018

²Network for Greening the Financial System, “A call for action. Climate change as a source of financial risk”, April 2019

³The four recommendations for central banks and supervisors are as follows: (1) Integrating climate-related risks into financial stability monitoring and micro-supervision; (2) Integrating sustainability factors into own-portfolio management; (3) Bridging the data gaps; and (4) Building awareness and intellectual capacity and encouraging technical assistance and knowledge sharing. The actions that can be taken by policymakers to facilitate the work of central banks are as follows: (1) Achieving robust and internationally consistent climate and environment-related disclosure; and (2) Supporting the development of a taxonomy of economic activities.

2. Role of the French G7 Presidency

The French Presidency of the G7 is seeking to promote an approach including all stakeholders - from both the public and private sectors - because only coordinated action will enable us to address this fundamental challenge.

The aim is to bring together members of the financial industry, the business sector, central banks, regulatory and supervisory authorities, multilateral and bilateral development institutions and multilateral climate funds to secure their commitment to mobilising more finance to encourage the transition to a low-carbon economy and to reducing their exposure to and support for carbon-intensive assets.

The ministers and central bank governors will discuss climate and environment related financial risk management, based on the work of the NGFS, which is also preparing a technical document for supervisory authorities and financial institutions. They will also debate scenario-based risk analysis and best practices for incorporating sustainability criteria into central banks' portfolio management. This work will be published in the form of handbooks and guidelines for the broader public, in addition to NGFS members.

The G7 will encourage multilateral development banks (MDBs) to scale up their work on climate finance, in particular to develop indicators to better measure their commitments in this area. This session will also examine the role of the **International Monetary Fund (IMF)** and how it could more effectively integrate climate-related issues into its bilateral surveillance activities focused on individual countries' fiscal and tax policies.

In addition, this session will provide an opportunity to encourage the G7 to be ambitious in the process of the Green Climate Fund replenishment. This multilateral fund is the United Nations' main financial mechanism for climate action and is due to complete the first replenishment of its resources in 2019.

The focus will also be on the importance of mobilising private-sector stakeholders in eliminating carbon-intensive assets from financial portfolios. This includes the challenges of identifying activities that contribute to the transition towards a green and low-carbon economy (developing a taxonomy), examining similar regional initiatives, especially in Europe. The goal is twofold: to single out investments that foster the transition to a green and low-carbon economy and to ensure that consumers of financial products are making "sustainable" investments, in order to prevent misselling and misleading information on the environmental benefits of an investment. It is essential to develop a common language in sustainable finance, taking into account the differences between countries' industrial and environmental policies and the difficulty in determining which economic activities can be regarded as sustainable. The G7 will also address the commitments that financial players can make, such as the Paris financial centre which undertook at the beginning of July 2019 to define individual strategies to disengage from coal. These commitments will be subject to an independent monitoring mechanism by national supervisors.

Participants could also start discussing ways of achieving the goal of cutting fossil fuel subsidies by 2025.

This session will be attended by Brune Poirson, the State Secretary for Ecological and Inclusive Transition. It is designed to mobilise the G7 ahead of upcoming multilateral climate events, in particular the Climate Action Summit hosted by the UN Secretary-General on 23 September. Many countries will use the Climate Action Summit to announce initiatives to step up their efforts to fight greenhouse gas emissions.

→ DESIRED OUTCOMES

- Welcome the progress made by central banks and supervisory authorities in fighting climate change (integrating climate-related risks into financial stability monitoring and micro-supervision and integrating sustainability factors into own-portfolio management) and support the implementation of the recommendations of the Network for Greening the Financial System (NGFS).
- Encourage international financial institutions (e.g. development banks and the IMF) to accelerate their work on climate and green finance and to incorporate climate-related impacts into their activities to a greater extent.
- Commit to an ambitious replenishment of the Green Climate Fund in 2019.
- Discuss the relevance and format of a taxonomy of activities that contribute to the transition towards a green and low-carbon economy, building on existing regional initiatives.
- Mobilise the G7 ahead of upcoming multilateral events, in particular the Climate Action Summit on 23rd September which aims to increase ambition and climate action by governments by 2020 as they implement the Paris Agreement. Encourage financial actors to make climate and environmental commitments.

INEQUALITIES IN DEVELOPED ECONOMIES

1. Issues

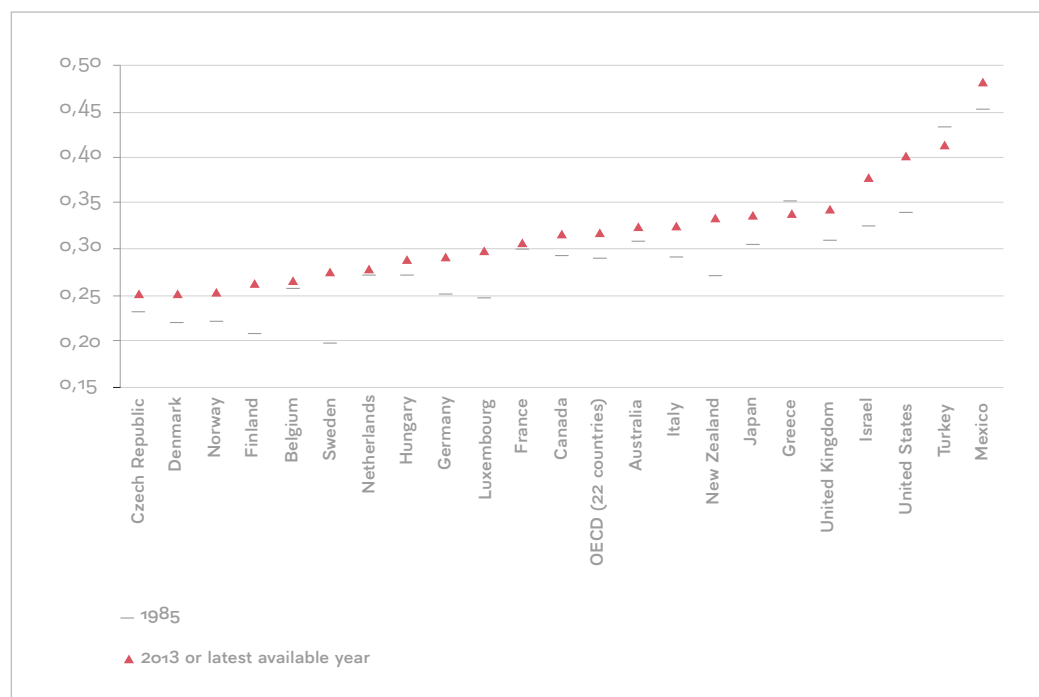
Globalisation and international cooperation have enabled substantial social progress in recent decades, particularly in poverty reduction in both developing countries and advanced economies.

But the current model of international capitalism is being challenged, with growing condemnation of inequalities in most of developed countries. Citizens expect the benefits of technological progress and economic and trade integration to lead to a more fairly shared wealth. Their uneven distribution has come under criticism. This situation is fuelling distrust in governments as well as in multilateral institutions and international cooperation.

Economic literature has looked into the relations between inequalities and growth. A recent IMF study finds that greater equality of opportunity can generate growth gains.¹ The OECD has also suggested on the basis of harmonised data covering the OECD countries in the last three decades that income inequalities have a negative impact on growth.² There are wide income inequalities to be found in particular in many developed countries (see Figure 1).

Figure 1

Gini coefficients of disposable income inequalities after redistribution (1985 & 2013)



Note: Income inequalities have widened in many developed countries since the 1980s, as shown by the Gini coefficients trend (after redistribution).

Source: OECD 2015, In It Together - Why Less Inequality Benefits All.

Making growth more inclusive has therefore been a major issue on the G7 agenda since the Italian Presidency in 2017 (the "Bari" agenda on growth and inequalities).

¹ IMF, Inequality of Opportunity, Inequality of Income and Economic Growth, 15 February 2019.

² OECD, Trends in Income Inequality and its Impact on Economic Growth, 9 December 2014.

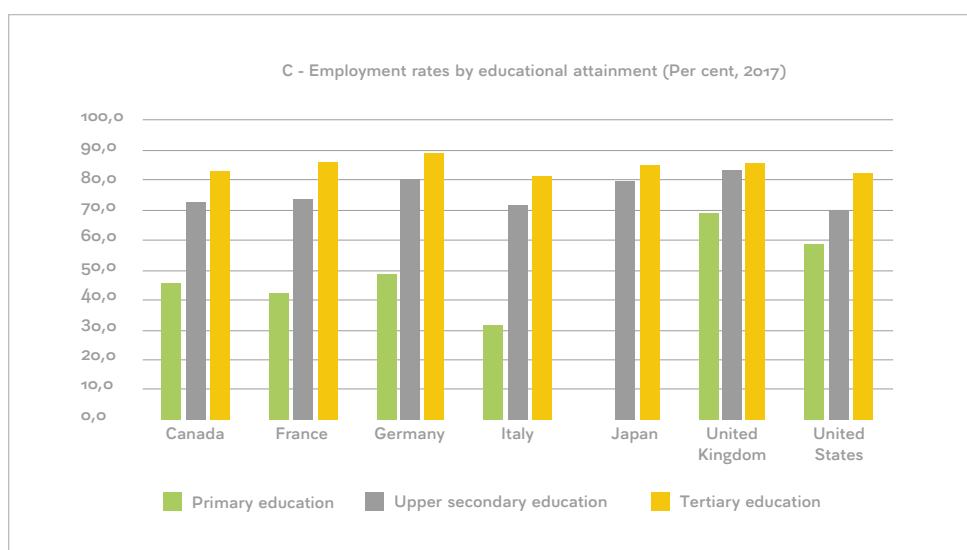
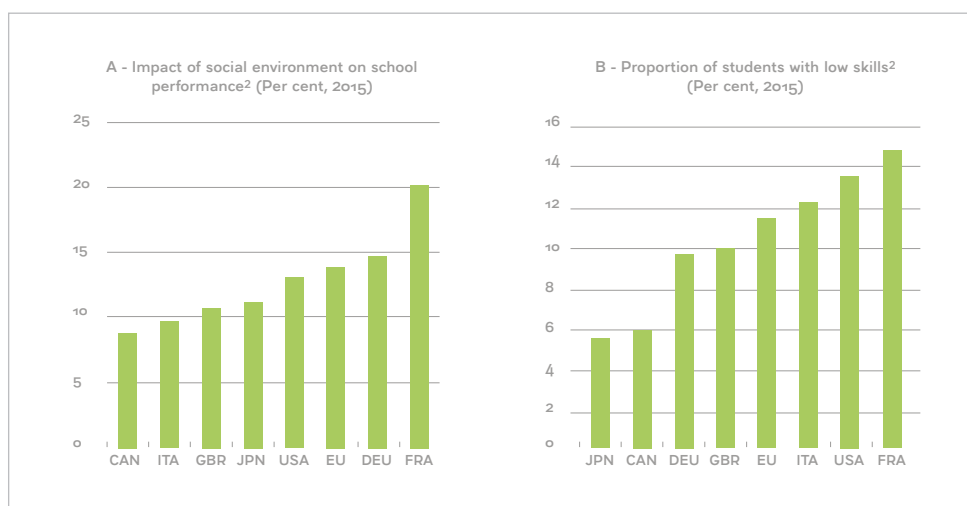
2. Role of the French Presidency of the G7

Fighting inequality is a cross-cutting objective of the French Presidency of the G7. A number of specific actions in the economic and financial field are dedicated to this fight: promoting greater tax fairness for businesses, preventing rent capture by tech giants, promoting an ambitious development agenda to close the gap between developing and advanced economies.

In doing so, the French Presidency of the G7 has sought to highlight the need for public policies to strengthen equal opportunities. Ministers and governors will therefore draw on an OECD studies (OECD note on inequalities in the G7 countries prepared specifically for the G7 in Chantilly and the Going for Growth report published by the OECD on July 12th 2019) and share experience-based public policy best practices which can help make progress with equal opportunities and inclusion.

Figure 2

Influence of the socio-economic background on educational achievements and employment rates by educational attainment



Note:

¹ Student performance in mathematics explained by socio-economic profile as measured by the PISA index of economic, social and cultural status.

² Percentage of students obtaining low marks in the three PISA areas (science, reading and mathematics).

Source: OECD PISA database, Educational attainment and labour force status.

Among the inequalities, pay inequalities are a subject of close attention of all the G7 members. The G7 in Chantilly **will promote pay transparency as a useful tool for informing citizens and enabling a real societal debate on these pay disparities.** It will address policy options which allow vertical (between management and staff) and horizontal (among staff) pay disparities to be highlighted. For instance, the Presidency will showcase recently introduced measures such as the **fairness ratio** between management and staff (implemented by the **Business Growth and Transformation Action Plan - PACTE - Act**) and the **gender pay gap index**. The goal of the exchange is to launch a debate to encourage the highest ambitions for all G7 countries.

The answer to inequalities is found not only in public policies, but also in rallying the private sector. Here again, in the same spirit of working bottom-up with tried-and-tested grassroots experience, **the G7 in Chantilly will hold an outreach session with civil society representatives working on promoting gender equality in the business world.** These players will present their initiatives and share their experiences in support of more inclusive business models promoting equal opportunities and combating discrimination.

→ DESIRED OUTCOMES

- Promote pay transparency policies as a way to shed light on pay disparities, such as the fairness ratio introduced in France by the Business Growth and Transformation Action Plan (PACTE) Act.
- Highlight the private sector's key role in developing a fairer business model
- Follow up on the policy discussion on equal opportunities, including through exchanging on good practices and sharing experiences between G7 countries

FINANCING FOR DEVELOPMENT

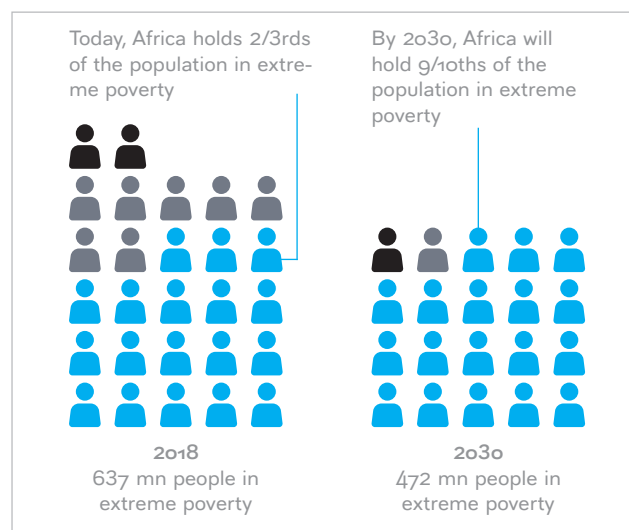
1. Issues

The world's poorest countries, particularly those in Africa, have huge financing needs. According to World Bank forecasts, the average infrastructure financing needs of low and middle-income countries are likely to represent between 2% and 8% of their GDP per year between now and 2030, i.e. between \$640 billion and \$2,700 billion across all sectors (electricity, transport, provision of drinking water, farming etc.)¹. In addition to these requirements, investment is needed in other key areas such as human capital and healthcare. The challenges are particularly great in Africa, which is likely to be home to almost 90% of those living in extreme poverty around the world by 2030 (see Figure 1).

It is therefore important to find new financing methods in order to address these requirements without threatening the sustainability of public debt. Debt vulnerabilities have significantly increased since mid-2014, with almost 42% of low-income countries being in debt distress or showing a high risk of debt distress (see Figure 2).

Figure 1

Global Population in Extreme Poverty 2018 and 2030

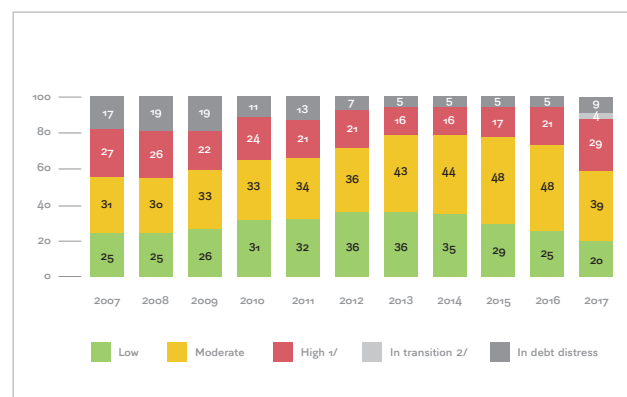


■ Africa ■ Asia ■ Rest of World

Source: World Poverty Clock

Figure 2

Evolution of risk of Debt Distress (in percent of PRGT-Eligible LIDCs with DSAs)



Source:

IMF-World Bank, Macroeconomic Developments and Prospects in Low Income Developing Countries (LIDCs), March 2018.

The countries concerned are low-income developing countries eligible for the IMF's Poverty Reduction and Growth Trust (PRGT) and with a Debt Sustainability Analysis (DSA).

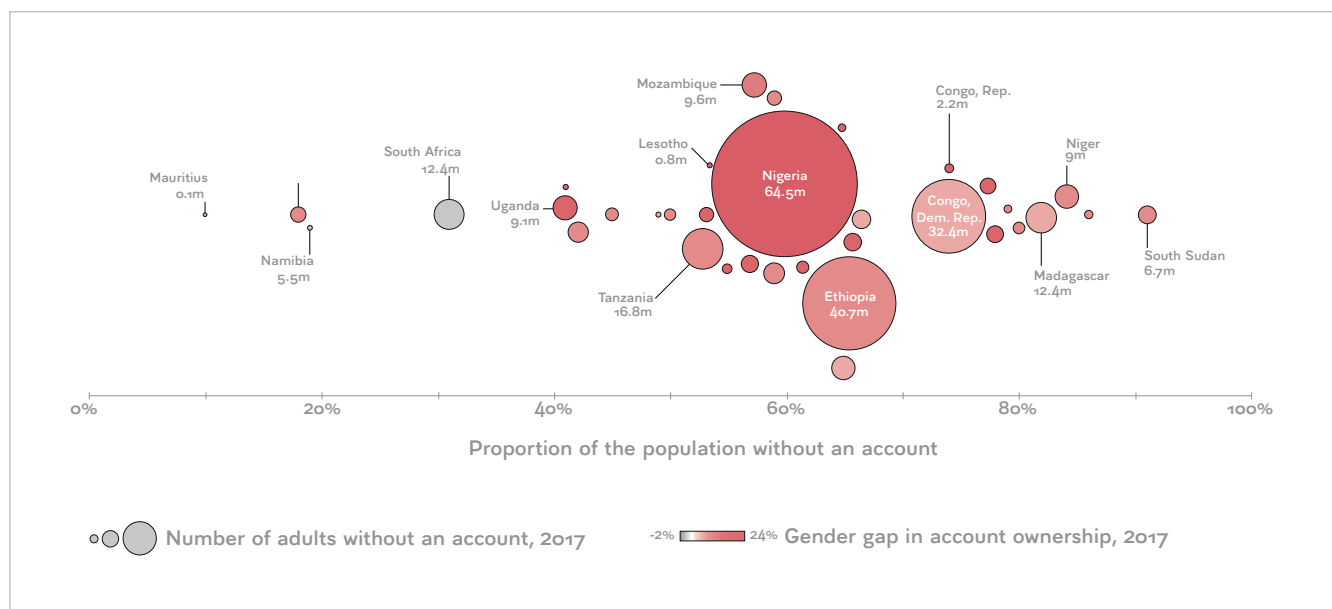
¹ Source: "Beyond the Gap: How Countries Can Afford the Infrastructure They Need while Protecting the Planet" Sustainable Infrastructure Series, World Bank, 2019

The extent of the financing needs means that the private sector must be more involved and that domestic resources need to be enhanced in developing countries. For example, this means building more robust tax authorities and reducing the size of the informal sector. The challenge is to scale up development financing, moving from billions of dollars to trillions. Firstly, **private-sector funding must be increased and local private sectors must be developed**, by supporting entrepreneurship and creating a favourable institutional environment. Secondly, it is vital to refocus public resources – i.e. both official development assistance and resources from multilateral development banks – **on the most vulnerable countries**. Lastly, it is crucial to **step up administrative capacity-building** efforts, particularly regarding taxation, sound management of public finances and efforts to combat corruption, in order to lay the foundations for sustainable development.

As part of this development agenda, increasing financial inclusion in the poorest countries is a theme common to a number of issues, such as increasing social inclusion, supporting entrepreneurship and developing local private sectors. As regards women more specifically, this agenda is also an essential tool for strengthening the role of women and promoting gender equality. New digital technologies represent an opportunity in this respect. By 2025, McKinsey estimates that digital financial services could allow 1.6 billion people to enter the formal economy, increasing the annual GDP of emerging countries by \$3.7 billion. Digital-driven financial inclusion could also create almost 95 million new jobs and generate up to \$2.1 billion of lending to individuals

to start their own businesses. However, **the benefits of the digital era are not being shared fairly**. Women – particularly those living in poverty and in rural communities – are the ones mostly likely to find themselves on the wrong side of a persistent digital divide. As a result, there is a strong case for making **the digital financial inclusion of women in Africa** a key priority. It is against this background that the French G7 Presidency asked Melinda Gates and her Foundation to produce a report on the subject and identify areas for action.

Financial inclusion and the gender gap in Sub-Saharan Africa



Source: Global Findex Database, 2017
 Note: Adults refers to people aged 15+

2. Role of the French G7 Presidency

The G7 has a crucial role to play in encouraging the international community to remove obstacles preventing sustainable development goals from being achieved by 2030. This forum, which also includes the IMF, World Bank and OECD, brings together the main providers of official development assistance and the main contributors and providers of technical assistance to low-income countries.

The G7 Finance meeting in Chantilly should achieve progress towards four key objectives.

1

Refocusing public resources on the poorest countries: the discussions in Chantilly will aim to produce a common position on the strategic direction to be pushed forward as part of the ongoing replenishment exercises of the International Development Association (IDA, the World Bank institution that provides highly concessional loans and grants to the poorest countries) and the African Development Fund (ADF, the concessional window of the African Development Bank (AfDB) Group focusing on low-income regional member countries). The aim will be for G7 members to agree that an ambitious replenishment of these two Funds is essential, paying particular attention to the resources targeted to good governance and capacity building issues (building solid, sound administrations and strengthening debt sustainability and transparency).

2

As regards administrative capacity-building in the most vulnerable countries, the aim of the discussion will be to reach agreement on the need to step up the efforts of international institutions in terms of technical assistance and to improve their co-ordination.

3

As regards leveraging the private sector, the discussion between Ministers will explore ways of improving G20 initiatives such as the Compact with Africa. The Compact was introduced under the German presidency of the G20 in 2017, and aims to promote private investment in Africa by bringing together all relevant participants (governments, the private sector, international organisations and bilateral partners) within country teams pursuing a reform agenda intended to make those countries more attractive to investors. Several ideas are being considered, such as increasing technical assistance to Compact countries, having the World Bank play a leading role in running country teams and co-ordinating the initiative, or strengthening the coordination role of country teams regarding provision of technical assistance and dialogue with the private sector.

4

As regards the digital financial inclusion of women in Africa, the G7 discussions will consider the report presented by Melinda Gates on behalf of the Bill and Melinda Gates Foundation. This report stresses the importance of five areas of action: (i) interoperability, to allow the development of inclusive and interoperable payment systems, with the African Development Bank providing technical and financial assistance to national governments; (ii) digital identification, since one of the main obstacles to financial inclusion is people's inability to prove their identity for the purposes of digital financial services, particularly for women who often have the most difficulty obtaining proof of identity; (iii) regulations, to ensure that financial regulations keep pace with technological innovation; (iv) evaluation, to enable African governments to establish their priorities in terms of digital investments, particularly regarding women's access to digital products; and (v) research, to produce data broken down by gender and ensure that reforms do not leave the poorest women behind. These five pillars form a coherent plan of action that the G7 countries should commit to supporting, including financially, by contributing to existing initiatives such as those run by the African Development Bank, the World Bank and the United Nations.

→ DESIRED OUTCOMES

- Agree on the need for an ambitious replenishment of the relevant multilateral funds devoted to the poorest countries (IDA, ADF), with the view to push forward this objective in the ongoing and upcoming negotiations.
- Agree on the importance of stepping up efforts to build robust and sound administrations, while improving co-ordination between development partners, in order to give impetus to work currently underway (particularly at the IMF and World Bank).
- Agree on ways of improving the Compact with Africa in order to generate greater private investment in developing countries.
- Provide support, including financial support, to initiatives identified by the Gates Foundation to improve women's digital financial inclusion in Africa.

G7 PAY TRANSPARENCY MEASURES IN THE WORKPLACE

Measures / Country	Canada (provincial level)	France	Germany		Italy
Perimeter (companies)	Listed	Listed	Corporations (size-dependent), certain commercial partnerships (size-dependent), financial institutions, insurance companies	Listed	Listed
Perimeter (persons)	Directors, CEO, CFO and the 3 other most highly compensated executive officers	Executives and non-executives directors (individual)	Each group of management board, supervisory board, advisory board or a similar body	Individual members of the management board, members of the supervisory board	Members of the management board, members of the supervisory board, executive directors (individually) and managers (aggregate)
Perimeter (compensation)	All compensation, including pension value	All compensation, fixed, variable, etc., including pension value	Total remuneration (salaries, profit, participations, options and other stock-based compensation)	All types of remuneration and benefits - fixed or variable	Compensation of any form (fix and variable, short and long term)
Disclosure	Yes for directors, the CEO and CFO and when total compensation exceeds Cdn\$150,000 for the 3 most highly compensated EOs	Yes	Yes general reporting requirements	Yes	Yes
Pay ratio	No	Yes Executives only, with evolution of the pay ratio over the most recent 5 financial years	No	Yes	Yes
Medium (publication support)	Report on Executive Compensation in information circular/proxy	Annual corporate governance report	Notes supplementing the annual financial statements, to be published in the Federal Gazette	Remuneration report, to be published on the company's website	Remuneration report, to be published in advance of the annual shareholder meeting
Sanction	Civil liabilities for misrepresentation, cease trade order for failure to file, fine, imprisonment	Issuance of commercial court order and imposition of daily fine	Criminal penalties, regulatory or administrative fines	Criminal penalties and regulatory fines	Administrative fines (monetary and non-monetary) for both listed company and auditors

United States¹

¹In the United States, many States have equal pay and pay transparency protections in addition to federal provisions. The U.S. Department of Labor tracks such state laws at <https://www.dol.gov/wb/equalpay/equalpaymap.htm>.

Japan		United Kingdom	United States ¹	E.U.
Listed		Listed with >250 UK-based employees	Listed	Depending on type of pay transparency measure, recommended by 2014 Pay transparency recommendation (starting from >50 employees)
Each group of board directors, auditors, and executive directors	Individual (board directors, auditors, and executive directors)	CEO	CEO	Employees
Compensation amount & breakdown by type of remuneration (base salary, bonus, stock options, etc.)	Idem when individual total compensation is >JPY 100 million	Pay	Total compensation	Pay (the ordinary basic or minimum wage or salary and any other consideration, whether in cash or in kind, which the worker receives directly or indirectly, in respect of his/her employment from his/her employer), Art 2 (e) of Directive 2006/54/EC
Yes	Yes	Yes	Yes when total compensation is >US\$100.000	Yes
No		Yes CEO's pay to the median, lower quartile and upper quartile pay of UK employees	Yes Median of the annual total compensation of all employees except CEO; annual total compensation of CEO; ratio	No
Annual Securities Report		Remuneration report within company's Annual report	Report on Executive Compensation in annual proxy	
Civil monetary penalties, fine, imprisonment		Court conviction and fine applying personally to the directors		

G7 MEASURES TO PROMOTE GENDER PAY EQUALITY IN THE WORKPLACE

Measures / Country	Canada (federal level)		France	Germany	
Perimeter (companies)	Federally regulated private-sector employers with >100 employees	Federally regulated employers with >10 employees, including the federal private sector and the federal public service (expected to come into force 2020)	Companies with >250 employees (in force from 09/2019) >50 employees (in force from 03/2020)	Companies/public employers with >200 employed persons	Companies with >500 employees
Disclosure	<p>Proposed employer wage gap data including: mean and median hourly wage gaps, bonus pay gaps and overtime pay gaps, as well as other aggregated bonus and overtime information.</p> <p>These measures will raise awareness of wage gaps that affect women, Indigenous peoples, persons with disabilities and members of visible minorities.</p>	<p>Yes pay equity plans posted in workplaces will identify F/M job classes and report the value of those job classes, compare compensation associated with F/M-predominant job classes of similar value, and identify which female-predominant job classes require an increase in compensation.</p>	<p>Yes gender equality 100-point index, based on indicators such as pay levels, increases, promotions and the weight of women in the highest salaries</p>	<p>Yes individual right for employees to obtain information once every two years about comparable works' pay (average monthly pay of at least six colleagues of the other gender who perform the same work or work of equal value), and about the criteria and procedure for determining remuneration</p>	<p>Yes pay reviews to verify and create equal pay for women and men in case companies with more than 500 employees are obliged to file a management report in accordance with the German Commercial Code they have to report on equality and equal pay, including the measures for promoting gender equality and their impact, sex disaggregated statistics and average number of full-time and part-time employees</p>
Medium	Employment equity annual report and government website	Annual statements to the Pay Equity Commissioner reporting on the results of the pay equity exercise	Publication on the company's website (global index value) ; communication (detailed indicators) to the company's Economic and Social Committee and to the Labour Inspectorate (Direccte)		Report on equality and equal pay of women and men is to be attached to the next management report that is prepared after the reporting period in question, and has to be disclosed in the Federal Gazette
Sanction	Administrative monetary penalty within two years of the violation	Administrative monetary penalties	Companies with an index below 75 points on March 1, 2022 will be subject to a penalty of up to 1% of the total payroll. For companies with 50 to 250 employees, publication will become compulsory from March 1, 2020 and the penalty will be applicable from March 1, 2023	No	

	Italy	Japan	United Kingdom	United States	E.U.
	Public and private companies with more than 100 employees.	Companies with >300 employees (100 employees after the enforcement of the revision act enacted in May 2019.)	Private, public and voluntary sector organizations with >250 employees	Companies with >100 employees (and federal contractors with >50 employees)	Directive 2006/54/EC on equal treatment of women and men in occupation and employment prohibits any gender-based discrimination on ground of sex in relation to all employees
	Yes (to trade unions and Public Administrations) Data and gender based analysis of recruitment processes, training, promotion, dismissal, retirement and other forms of labour mobility, as well as awarded pay, by job category, for all employees	Yes i) assessment and analysis regarding women's participation in companies ii) formulation/notification/ and publication of an action plan based on the assessment and analysis iii) publication of information regarding the active participation of women	Yes data on gender pay gaps: - overall gender pay gap (difference between the average earnings of men and women, expressed relative to men's earnings) (mean and median) - gender bonus gap (mean and median) - proportion of male and proportion of female employees that received a bonus - proportion of men and women working at different pay quartiles (optional) organizations are also strongly encouraged to produce an action plan to address their gender pay gaps	No the Equal Employment Opportunity Commission EEOC had passed a rule requiring employers to include compensation data on gender and ethnicity in their annual EEO-1 reports – not currently applied	2014/124 recommendation encourages to implement measures in at least one of four core areas related to wage transparency: - individuals' entitlement to request information on pay levels - company level reporting (in companies with >50 employees) - pay audits (in companies with >250 employees) - equal pay addressed in collective bargaining
	Biennial gender equality report to be submitted on-line to the Ministry of Labour, and presented to trade unions	Employer's website or government's website	Employer's website and government's website		
	Yes Administrative monetary penalties	No but recommendations from the relevant ministries ,and possible disclosure of non-compliant companies (after the enforcement of the revision act enacted in May 2019)	The Equality and Human Rights Commission (EHRC) holds statutory powers to conduct enforcement action against organizations that have failed to comply with their duties		Member States which should provide for effective, proportionate and dissuasive penalties for breaches of the obligations under Directive 2006/54/EC

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