Dipartimento del Tesoro

The Results of the G7 Italian Presidency in the Finance Track

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1. The international context

On 1 January 2017, Italy assumed the G7[1] Presidency in a context of high political and economic uncertainty. At the global level, despite some signs of recovery, such as the uptick in global manufacturing and global trade, growth was still subdued and below historical trends, with 2016 recording the lowest growth rate in seven years[2].

Against this background, a key source of uncertainty for the global outlook was represented by the course and the effects of US policy under the new administration, both domestically, in relation to the scope of the announced fiscal plan, and at the international level, especially on trade, immigration, climate change and financial regulation[3]. A further risk factor involved the pace of monetary policy normalization adopted by the Federal Reserve, and its adverse impact on US growth, market volatility, global capital flows and debt sustainability in some emerging economies exposed to US interest rate hikes and to a dollar appreciation[4].

On the other side of the Atlantic, the European project was facing the greatest strain in its recent history, mainly due to the political instability ahead of the main national elections across the continent, the extraordinary migrant flows (around 360,000 people in 2016) and the rising perception of insecurity caused by a series of terroristic attacks (including the Berlin attack on 19 December). The future relationship between the European Union and the United Kingdom and the related economic consequences of *Brexit* constituted a further factor to be taken into account in G7 discussions.

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[1] The G7 is an informal forum of discussion among the world's most advanced economies (US, Canada, France, Germany, Japan, UK and Italy). Representatives of the European Union, including the EU Commission and the European Central Bank, as well as the heads of International Financial Institutions also regularly attend the meetings as non-enumerated members.

[2] According to the October 2016 IMF *World Economic Outlook*, global growth was projected at 3.1% in 2016 and 3.4% in 2017. In particular, growth forecasts in advanced economies appeared to slow down (+1.6% in 2016, with respect to 2.1% in 2015; and 2% in 2017), with most of G7 economies below average (US: 1.6% in 2016 and 2.2% in 2017; UK: 2.2% in 2015, 1.8% in 2016 and 1.1% in 2017; euro area: 2% in 2015, 1.7% in 2016 and 1.5% in 2017; Japan: 0.5% in 2016 and 0.6% in 2017).

[3] At the end of January 2017, the first Presidential executive orders confirmed the policy shift, including the decision to: withdraw the US from the Trans-Pacific Partnership (TPP), a trade deal with eleven Asia-Pacific countries (Australia, Brunei, Canada, Chile, Japan, Malaysia, Mexico, New Zealand, Peru, Singapore and Vietnam); suspend refugees admissions for 120 days and the Syrian refugee programme indefinitely; block citizens from Iran, Iraq, Sudan, Libya, Somalia, Syria and Yemen for 90 days from entering the US; and review the regulation on energy and financial issues.

[4] On 14 December 2016, the Fed rose the Federal Funds target range by 25 bps to 0.50-0.75% for the second time in ten years, following the December 2015 rise. Three further rate rises (16 March, 14 June and 13 December 2017) will later bring the target range between 1.25-1.50%.

2. The Priorities of the Italian Presidency in the Finance Track

In this difficult economic and political context, following a series of bilateral discussions with its partners, the Italian Presidency of the G7[5], identified four "pillars" in the Finance Track, in view of the Ministerial meeting in Bari (12-13 May, 2017): Growth and Inequalities, IFI Coordination, Security as a Global Public Good, and International Taxation.

2.1 Growth and inequalities

Recent literature has shown that over that last decades, while between-countries inequality has fallen globally mainly driven by the improvement in the standards of living in many emerging economies and developing countries, within-countries inequality (regardless of the indicator selected - income, wealth, employment opportunities and social mobility) has significantly increased, notably in advanced economies during the financial crisis (Milanovic, 2016).

In a context of low growth and high unemployment, inequality has assumed a central role both in the political and economic debate. In particular, according to the most recent evidence, income inequality is negatively correlated with productivity growth, with the strength and sustainability of the economic growth, and with social mobility. Further studies have shown that high inequality is not only perceived as socially unacceptable, but also has an adverse impact on social cohesion and political stability (IMF, 2014).

From the analysis of the literature on the causes of economic inequality, it emerges that the underlying drivers are both domestic (e.g. the effectiveness of the tax and transfer systems and demographic trends) and cross-border (IMF, 2014). On one hand, the process of creative destruction caused by technological progress, trade and financial integration, and the *financialization* of the economy have contributed to improving the standards of living globally, allowing many emerging economies to become key economic players within the international arena. On the other hand, the fruits of economic growth have been insufficiently distributed among our citizens, notably in the most wealthy economies. For example, some groups– e.g. low-skilled workers employed in sectors more exposed to import competition and/or to skill-

[5] The Italian Presidency started a few weeks later the installment of the new Gentiloni Government (12 December, 2016); Pier Carlo Padoan was confirmed as Finance Minister.

biased technological progress – have experienced a decline in their share of total income, with effects on wage gaps and income distribution[6].

Policymakers, notably in the G7, have adopted different approaches to design country-specific actions to address the inequality challenge; however, so far results have been mixed, also because policy responses appear to have been unable to address the cross-border implications of the main drivers of inequality. Against this background, the Italian Presidency worked with its G7 partners to define the *Bari Policy Agenda on Growth and Inequalities,* a common operative framework that Finance Ministers and Central Bank Governors endorsed at the Bari meeting in May.

This framework aims at inspiring G7 member-led actions in identifying policies and measures to promote a more inclusive growth. The G7 recognizes the need to define comprehensive, coherent and effective policy packages that go beyond the focus on the economic dimension of inequality to cover additional areas of well-being (e.g. health, education, social mobility, opportunities). Moreover, it acknowledges that, even though pro-inclusive growth policies are largely domestic, some policy responses require international cooperation. In particular, the framework is composed of two sets of policy actions aimed at fostering inclusive growth, by exploiting the synergies between macroeconomic and structural policies, while mitigating potentially adverse effects on equity.

The first set of policies relates to the role of fiscal policy and the quality of public finances (i.e. effective budget re-allocation) to boost growth and productivity and mitigate inequality, without affecting the overall budget envelope and macroeconomic stability. Potential tax measures should aim at making the system more equitable and growth-friendly, by broadening the tax base; curtailing inefficient tax expenditures and the tax wedge on labour, particularly for low-skilled workers; and enhancing tax incentives for skills development and lifelong learning.

On the spending side, G7 countries should focus on the efficiency of social services, by improving access to affordable housing and quality education, also by investing in educational infrastructure; on the transition from education to employment, especially in most disadvantaged areas; on the targeting and efficiency of the social safety nets; on the participation in the labour market; and on the promotion of network infrastructure, especially in distressed regions.

Fiscal policies should be accompanied by a second set of structural reforms to create an enabling environment for broad-based growth while facilitating the adjustment to the dislocations created by technological progress and international

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6 Weakening labour protection (e.g. a growing share of non-standard labour contracts and a lower coverage of collective bargaining) is among the factors that may have contribute to slow down the wage growth for low-skilled workers and increase the wage gap with more skilled workers (OECD, 2017).

trade. To this end, G7 countries could consider measures to invest in education (both initial and lifelong); reduce labour market segmentation and duality; promote an effective reallocation of workers across sectors through active labour market policies; ensure access to health services and job and training opportunities; eliminate obstacles to participation in the economic life, especially of women, youth and elderly; promote market competition by encouraging firms to invest in R&D, skills, organizational know-how and other forms of knowledge-based capital; and make the public administration more efficient. Moreover, they should focus on gender equality, by implementing measures aimed at reducing the income gap (e.g. fiscal incentives to education, training and mentorship programmes) and facilitating the integration of women in economic activities (e.g. provision of accessible, high quality and affordable childcare services) and of gender budgeting practices[7] into policy-making and budgeting processes.

At the international level, the *Bari Policy Agenda* identifies some collective efforts required to make globalization work for all citizens, also by creating of a level playing field in those areas characterized by significant spillover effects, such as international taxation. In particular, in a context of increased levels of capital mobility and enhanced use of aggressive tax planning strategies, a full implementation of the G20/OECD agenda on international taxation is fundamental. Finally, the developments related to the digitalization of the economy require G7 countries to discuss the potential impact on markets, on business models and on the challenges for tax systems, on the basis the conclusions of the works of the OECD *Task Force of the Digital Economy* (see section on *International Taxation*).

2.2. IFI Coordination

The International Financial Institutions (IFIs)[8] , including the Multilateral Development Banks (MDBs), play a critical role in the international financial architecture, as they provide financing and knowledge, especially to developing countries.

Despite the dramatic changes in the geo-economic landscape since their creation, the IFI model, combining technical and financial capacity in a politically-backed cooperative, remains an effective vehicle to support economic development.

[7] Gender budgeting practices require the adoption of a gender perspective in the different phases of programming, implementation and evaluation of the budgeting process to make it more transparent and equitable.

[8] In this Report, IFIs denote MDBs (e.g. World Bank), including Regional Development Banks and the IMF.

Over the last decade the MDBs have been called upon to play a countercyclical function alongside the IMF, especially during the recent financial crisis, as well as to tackle other emerging global challenges[9], including in non-traditional areas of expertise (e.g. non-economic shocks, such as health crisis). This evolution in the IFIs' activity requires fresh thinking among members about their future roles and mandates, in particular to ensure that international organizations are not dealt with as individual institutions competing for scarce resources but as a system of complementary actors.

In the last decade the international community has repeatedly called[10] on the MDBs to coordinate more efficiently and effectively their activities, with a view to ensuring the best possible use of capital and donor contributions, in line with their respective mandates. In particular, over the last years the G7 has been instrumental in forging a consensus within the international community on launching several initiatives aiming at enhancing the effectiveness and the efficiency of the IFIs' collective action[11].

Against this background, under the Italian Presidency, the G7 has reached a common understanding on a number of important principles, including on how the MDBs can scale up their impact, make better use of their balance sheets, mobilize greater amounts of truly additional private finance, better align their approaches and practices and support domestic resource mobilization. This understanding will help shape coherent positions across the IFIs' governing bodies.

The G7, in particular, considered how the MDBs could improve their effectiveness and efficiency through better coordination and collaboration, and how they could track and report results to deliver, both collectively and individually in a comparable way.

To this purpose, the G7 called on the MDBs[12] to work together on the development of common frameworks on the *Value for Money* agenda, including

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[9] Main examples include the 2030 Global Agenda for Sustainable Development (2015), the *Addis Ababa Action Agenda* of the third UN *Financing for Development* conference (2015), and the Paris agreement on Climate Change (2016).

[10] At the 2009 Pittsburgh Summit, G20 *leaders* urged "*to enhance their effectiveness, the World Bank and the regional development banks should strengthen their coordination, when appropriate, with other bilateral and multilateral institutions".*

[11] Main examples include the *Action Plan to Optimize Balance Sheets* (2015), aimed at improving the lending capacity of the MDBs without affecting their ratings; the *MDBs' Joint Declaration of Aspirations on Actions to Support Infrastructure Investment* (2016), a joint commitment to increase infrastructural investment and attract private investment; and the *Joint Principles and Ambitions on Crowding-in Private Finance* (2017), a set of principles and practices aimed at promoting private financing.

[12] In addition, at the October 2017 Annual Meetings, seven MDBs (WB, EIB, IDB, AfDB, IADBank, ADB, EBRD) autonomously announced a new coordination platform on economic migration and forced

harmonized metrics and a joint reporting format to capture key dimensions of economic efficiency and effectiveness, and on the additionality of MDBs investments with the private sector. This exercise will allow harmonizing standards and rules across MDBs, in particular in mobilizing private financing, and thus preventing moral hazard and facility shopping[13] It will, in addition, allow for meaningful benchmarking among MDBs enhancing their accountability and facilitating mutual learning to improve their performance and results.

Following G7 discussion and input, in March 2017, at the Baden Baden meeting, G20 Finance Ministers and Central Bank Governors endorsed the *Principles for Effective Coordination between the IMF and the MDBs* to improve collaboration and policy consistency among the IFIs when MDBs consider providing policy-based financing to countries facing macroeconomic vulnerabilities

2.3 Security as a Global Public Good

In a globalized world characterized by increasingly complex interdependences across economic and financial systems, some risks and threats, such as terrorism and cyber-attacks, evolve very rapidly and endanger security, both at domestic and international level.

Therefore, given its intrinsic characteristics, security assumes a dimension that goes beyond national borders, i.e. it becomes a global public good; public as characterized by non-rivalry (i.e. consumption by one actor does not prevent the simultaneous consumption by other actors) and non-excludability (i.e. the impossibility to exclude someone from consumption); global as its benefits are available to the world population, also in the future.

Due to these characteristics, some countries may benefit, without bearing the cost (*free riding*), of the positive effects stemming from the security provided by other

displacement to institutionalize and enhance their collaboration on these areas. The platform aims to accelerate activities in four areas i) enhance policy dialogue through common analytical work; ii) define priorities, by identifying gaps in current initiatives; iii) facilitate an agreed approach on technical assistance for preparation and implementation of high-impact projects; iv) strengthen data collection and evidence to improve understanding of the development dimensions of migration and displacement, to inform more impactful project-level interventions.

[13] The lack of harmonization of the conditions and criteria set by the different IFIs financing facilities may result in arbitrage possibilities, i.e. countries requesting support under the cheapest and less stringent facilities.

actors, and therefore decide to not provide the good. As a consequence, a sub-optimal quantity of security would be provided at the global level. Only through international cooperation (e.g. the institution of a supranational body with binding powers or an agreement between a sub-group of countries making an extra financial effort) is possible to provide an optimal level of security globally (Olson, 1965).

Even though the G20 may appear as the primary forum for international security coordination, the G7 continues to play a key role in providing a strong political input to ensure security and stability at the global level, as the seven economies share similar institutions and governance mechanisms. In this area, the Italian Presidency articulated its agenda along two lines of work: Countering the Financing of Terrorism and Cyber-security.

2.3.1 Countering the Financing of Terrorism

In line with the works of the previous Japanese Presidency, under which the *Action Plan on Combatting the Financing of Terrorism* was adopted, the Italian Presidency worked to strengthen the international framework against terrorism financing, by focusing the G7 action on the following priorities:

i) on the basis of the recent progress achieved by the Financial Action Task Force[14] (FATF), the G7 committed to enhance information exchange, both at domestic and international level, among Financial Intelligence Units[15] (FIUs) and competent authorities (e.g. police forces) on tackling terrorism financing. On this, in a context of heterogeneous national legal frameworks, several initiatives have been promoted to share best practices and identify areas to improve international cooperation and the implementation of international standards (on which the FATF and the Egmont Group of Financial Intelligence Units[16] are currently working), also including possible improvements in domestic

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[14] Established in 1989, the Financial Action Task Force (FATF) is an intergovernmental body aimed at setting standards and promoting effective implementation of legal, regulatory and operational measures for combating money laundering, terrorist financing and other related threats to the integrity of the international financial system.

[15] As defined by the Bank of Italy (where the Italian Financial Intelligence Unit has been established), a FIU is an independent body in charge of i) collecting data and financial information mainly through the suspicious transaction reports transmitted by financial intermediaries, professionals and other operators, in order to prevent and combat money-laundering and the financing of terrorism; ii) analyzing the information, drawing on the available sources of intelligence and using the powers at its disposal; and iii) assessing the relevance of this information for possible transmission to investigative bodies and cooperation with the judicial authorities, as well as in respect of eventual countermeasures.

[16] Established in 1995, the *Egmont Group of Financial Intelligence Units* is an informal network of 156 FIUs aimed at promoting the development, the cooperation and the mutual exchange of information on money laundering and terrorist financing; in addition, it elaborates standards and common practices,

regulation and practices;

ii) given the significant amount of information on entities and transactions detained by the private sector (e.g. financial institutions), the G7 committed to promote private-public partnerships and foster better information exchange to support actions aimed at identifying suspicious financial flows;

iii) in order to ensure a stronger and more coordinated approach to financial sanctions (e.g. listing and freezing measures), the G7 committed to promote a wider cooperation, by co-sponsoring proposed UN listing, taking into account the national lists proposed by G7 countries, and strengthening the capacity to make and respond to specific requests of freezing terrorist assets from other G7 countries;

iv) the need to find a sustainable and dynamic equilibrium between mitigating the risk of terrorism financing and money laundering within the Money and Value Transfer Services[17] (MVTS) sector, and safeguarding the legitimate behaviour of relevant stakeholders and promoting financial inclusion (e.g. mitigate de-risking phenomena[18]). In this area, the G7 committed to continue to improve the effective supervision and monitoring of the sector (including its agents) by competent authorities on a risk-based approach and recognized the need to conduct regular reporting and maintain updated information relating to the admission of agents into the MVTS sector[19];

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and support the establishment of new FIUs in other countries, by providing the necessary technical support.

[17] According to the FATF definition, Money and Value Transfer Services (MVTSs) refer to financial services that involve the acceptance of different means of payment (e.g. cash, cheques, other monetary instruments or other stores of value) to a beneficiary by means of a communication, message, transfer, or through a clearing network to which the MVTS provider belongs. The MVTSs operate on a global scale (especially in areas with no or limited banking services) through a large number of financial intermediaries based in different jurisdictions. Taking into account the cross border characteristics of the sector and the simplicity through which these channels allow to transfer money in real time, their effective supervision appears particularly complex, making them potentially able to finance terrorism. On the other hand, MVTSs represent a sensitive area for the purposes of financial inclusion of the most vulnerable groups. Therefore, imposing strict and expensive rules could drive financial transactions into less/non-regulated channels, reduce transparency of financial flows and create financial exclusion, thereby increasing exposure to money laundering and terrorist financing risks.

[18] The term "de-risking" refers to the phenomenon of financial institutions terminating or restricting business relationships with countries, clients or categories of clients to avoid, rather than manage, risk; on this, in October 2016 the FATF published a *Guidance on Correspondent Banking Relationship* to address de-risking by clarifying the application of its standards in the context of correspondent banking relationships and MVTS providers.

[19] At the Ministerial meeting in Bari, a report on *Promoting Best Practices in the Money and Value Transfer Services Sector* was published with the aim to describe the regulatory frameworks and best practices adopted by G7 countries in this area, and to identify the main pillars of a common framework, including the supervision of relevant financial intermediaries, *ad hoc* monitoring programmes and

v) strengthening the institutional basis, governance and capacity of the FATF, by inviting all its members to act to ensure it has necessary support and resources for the completion of its mandate;

In addition to the themes included in the *Action Plan on Combatting the Financing of Terrorism*, the agenda of the Italian Presidency focused on:

i) the harmonization of the control systems of Free Ports and Free Trade Zones, to counter the illicit traffic of works of art, considered as possible alternative source of financing of terrorism, by encouraging the FATF and the G7 countries to better understand the vulnerabilities of the current system and implement adequate measures to address them;

ii) the effective implementation of the Anti-Money Laundering/Countering Terrorism Financing (AML/CTF) regime in the FATF global network, notably for developing countries[20], through the coordination and the improvement of the delivery technical assistance programmes, by involving the IMF, the World Bank and the UN Office on Drugs and Crime (UNODC);

iii) the works of the Financial Sector Stability Fund, a recent IMF capacity building initiative[21] aimed at strengthening financial sector stability in low and lower middle income countries, also against the risks of money laundering and terrorism financing;

iv) the continuation of the works by the FATF on modern slavery, migrant smuggling and human trafficking, by updating its typologies and risk indicators.

2.3.2 Cyber-security

Given the significant number of attacks[22], 2016 was considered a turning year for cyber-security; nevertheless, in 2017 threats have become even more sophisticated[23]. On this theme, the Italian Presidency not only continued the existing

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adequate sanctions.

[20] Progress on financial inclusion can potentially trigger disruptive economic effects (e.g. a rise in remittances costs) if not accompanied by adequate institutional frameworks or financial supervision and risk management practices, especially in small or emerging economies.

[21] Italy was one of the first contributors to the Financial Sector Stability Fund with €2 mn in 2017. The first meeting of its Steering Committee took place in Rome on 3 November 2017.

[22] For example, data breaches experienced by US giant Yahoo and by UK financial institution Tesco Bank; the attack against the US Democratic Party National Committee; the $80 bn loss recorded by the Central Bank of Bangladesh; the ransomware against San Francisco's public transport system; and a two-day Internet outage suffered by Deutsche-Telecom customers.

[23] During the G7 Ministerial meeting in Bari, the ransomware *WannaCry* hit more than 150 countries, including the UK National Health System and Spain's leading telecommunications company Telefónica.

lines of work, but it provided a strong political input to open new areas of potential cooperation.

Cyber-security in the financial sector

Given the growing digitalization and interconnectedness of financial systems, financial data and services represent an attractive target for cyber-attacks with the potential to disrupt essential services for the real economy, also by exposing firms to legal actions, cyber-ransoms and high reputational costs[24].

To ensure an adequate response to these concrete and diversified threats, in addition to the existing international initiatives[25], in 2015 the G7 established the Cyber Expert Group (CEG), an international coordination platform on cyber-security. In October 2016, the CEG defined the *G7 Fundamental Elements of Cyber-security for the Financial Sector*[26] (G7FE), a set of non-binding practices within private entities, public authorities and the financial sector that provide a framework to build greater financial system resilience and guide private and public entities in the design and implementation of cyber-security policies and operating frameworks.

In line with the G7FE, in October 2017 the *Fundamental Elements for Effective Assessment of Cyber-security in the Financial Sector* were approved under the impulse of the Italian Presidency. This set of non-binding principles aims at inspiring national jurisdictions and firms operating in the financial sector to promote the effective practices outlined in the G7FE.

Indeed, it introduces five desirable outcomes related to cyber-security, such as: 1) the adoption of the G7FE by all entities operating in the financial sector, regardless of their current levels of cyber-resilience; ii) the incorporation of cyber-security considerations into the organizational decision-making processes; 3) the awareness of

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[24] According to the estimates of the *Center for Strategic and International Studies*, in 2014 cyber-attacks caused around $400 bn of losses for the global economy.

[25] Among them, the *Guidance on cyber-resilience for financial market infrastructures* set by the *Committee on Payments and Market Infrastructures* of the *Bank for International Settlements* and the *International Organization of Securities Commission*.

[26] According to the G7FE, effective cyber-security requires i) the definition of strategies calibrated on the characteristics of the entity (e.g. nature, size, risk profile); ii) effective and efficient governance structures to strengthen their accountability; iii) a cyber-risk evaluation of the processes, technologies, human resources and data flow, and of the effectiveness of mitigation controls and protection mechanisms; iv) an effective monitoring that allows entities to maintain risk below certain thresholds and strengthen their existing control systems; v) the identification of strategies and protocols for clearly defined and regularly exercised responses to cyber-incidents; vi) the definition of criteria for a smooth and effective recovery in case of disruptive cyber-events; vii) the sharing of technical information and procedures as to maintain their defense systems updated; viii) a periodic review of the cyber-security strategies and a continuous learning process.

the possibility of operational disruptions and associated consequences, and on the need to make balanced investment choices against this risk; iv) the ability of processes and procedures to adapt to changing cyber-risks; v) the creation of a cyber-security culture within entities, notably through training, to inspire secure behaviours.

In addition, the *Fundamental Elements for Effective Assessment of Cyber-security in the Financial Sector* define five components aimed at promoting the quality of cyber-security assessments, facilitating a process of continuous improvement and providing confidence in the scope, execution and communication of assessment results. In particular, they include: 1) clear goals to ensure an effective and efficient evaluation; ii) clear and measurable expectations, in line with the objectives and the complexity of the entity under assessment; iii) the use of a diverse and adequately selected kit of assessment tools and techniques; iv) clear reporting of the results and identification of the concrete remedial measures to guide future decisional processes; v) reliable and fair assessments, based on sound methodologies, skills, independency and transparency.

Finally, G7 countries tasked the CEG to work on:

i) advancing the analysis of the potential vulnerabilities stemming from the interaction with third parties located outside the control perimeter (e.g. service providers);

ii) strengthening the coordination with other critical sectors correlated with the financial system (e.g. energy, TLC);

iii) the definition of a set of non-binding and non-prescriptive fundamental elements for threat-led penetration testing in order to evaluate cyber-security measures adopted in the financial sector;

iv) the elaboration of proposals for cross-border cyber-crisis simulation exercises involving G-7 financial authorities.

Cyber-security in the real economy

Cyber-threats are not confined to specific sectors, such as the financial industry, but they can affect the whole economy. In this context, effective policy measures must be based on reliable, impartial and accessible data[27] on the frequency and the impact of the cyber-attacks. On this, the G7 invited International Organizations and governmental institutions, in partnership with the private sector, to harmonize and coordinate their definitions and collection methodologies, and share information, national experiences and best practices on optimal cyber-security legislation and relevant regulatory initiatives.

In addition, the G7 confirmed its intention to continue to work on the development of a cyber-insurance market, that could provide a key mechanism in case of cyber-attacks, by supporting the recovery and strengthening the resilience of affected sectors and firms. At the Bari Ministerial meeting, the OECD, which had been working on a specific project since April 2016, presented a report (*Supporting an Effective Cyber Insurance Market*) with the results of a questionnaire submitted to OECD governments (i.e. Finance Ministries and regulators) and to agents operating in the insurance industry from around the world (e.g. brokers, insurance and reinsurance companies, industry associations)[28]. The report provides an overview of the cyber insurance markets, including the available coverage, potential gaps and risks[29], with a specific focus on the policy measures to address some of the main challenges[30] to the development of a market.

[27] Currently, most available statistics are partial, unverifiable, fragmented and produced by unofficial sources, e.g. entities selling defensive software or providing security consultancy services, with a clear conflict of interests.

[28] The report estimates that in 2016 in the cyber insurance market reached around $3.5 bn in written premiums (of which $300 mn on behalf of European companies); by 2020, the market could more than double, mostly due to growth in Europe.

[29] The report includes a classification of the main cyber-risks: i) privacy breach, an unauthorized disclosure of third party personally identifiable information; ii) denial-of-service, a targeted attack on a server leading to the unavailability of a company website; iii) cyber-fraud, an illegitimate financial transfer as a result of social engineering (e.g. phishing); iv) cyber-extortion, a ransomware impeding access to data or a network until a ransom is paid.

[30] Across the main challenges, the OECD report identifies: low data availability, limited quantification of cyber-risks, low awareness and misunderstanding among agents about coverage and available insurance products.

2.4 International Taxation

In this area, the Italian Presidency continued the G7 works aimed at creating a fair, modern and transparent international system, by articulating the agenda along four strands of work.

2.4.1 G20 Agenda on BEPS and Tax and Transparency

In this area, work was focused on the role the G7 can play in supplementing the efforts made by the G20 with regard to:

i) the smooth and full implementation of the OECD/G20 BEPS package[31]; on this, G7 countries invited all jurisdictions interested to join the *BEPS Inclusive* Framework and to sign the *Multilateral Convention to Implement Tax Treaty Related Measures to Prevent BEPS*[32];

ii) tax transparency; on this, G7 countries joined the G20 call on all jurisdictions to sign and ratify the *Multilateral Convention on Mutual Administrative Assistance in Tax Matters*[33], and urged all relevant countries and jurisdictions, including all financial centers which have not yet done so, to commit to implementing the *Common Reporting Standard* (CRS) on automatic exchange of financial account information[34] (monitored by the *Global Forum on transparency and exchange of information for tax purposes*[35]) and to take all necessary

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[31] The OECD/G20 BEPS package includes a list of measures aimed at addressing base erosion and profit shifting (BEPS), i.e. tax planning strategies that exploit gaps and mismatches in tax rules to make profits disappear for tax purposes or to shift profits to locations where there is little or no real activity but the taxes are low, resulting in little or no overall corporate tax being paid.

[32] The *Multilateral Convention to Implement Tax Treaty Related Measures to Prevent BEPS* is a multilateral instrument that helps the fight against BEPS by implementing the tax treaty-related measures developed through the BEPS Project in existing bilateral tax treaties in a synchronized and efficient manner. As of 20 October 2017, the Convention has been signed by 70 signatories, covering 71 jurisdictions.

[33] The *Multilateral Convention on Mutual Administrative Assistance in Tax Matters*, jointly developed by the OECD and the Council of Europe in 1988 and later amended in 2010, is a multilateral instrument for all forms of tax cooperation to tackle tax evasion and avoidance. As of 25 October 2017, 114 jurisdictions participate in the Convention.

[34] The Common Reporting Standard, approved by the OECD in 2014, calls on jurisdictions to automatically exchange information from their financial institutions with other jurisdictions on an annual basis. Around 100 jurisdictions committed to the automatic exchange of information between authorities. In September 2017 a first group of countries will start exchanging automatically financial information, while a second group will start in September 2018.

[35] Re-established in 2009, the OECD *Global Forum on transparency and exchange of information for tax purposes* is a platform joined by 146 members aimed at ensuring the implementation of the internationally agreed standards of transparency and exchange of information in the tax area.

actions including putting in place domestic legislation, in order to start exchanges under the CRS by September 2018 at the latest. On this issue, the OECD work for the preparation of a list of non-cooperative jurisdictions with respect to tax transparency will guide future G7 works on the defensive measures to be adopted against the identified jurisdictions;

iii) beneficial ownership[36], thanks to the work of the FATF and the Global Forum on Transparency and Exchange of Information for Tax Purposes aimed at improving the implementation of the international standards on the availability of beneficial ownership information of legal persons and arrangements, as well as thanks to the OECD work in complementary areas (e.g. regarding specific needs of tax authorities regarding beneficial ownership information).

2.4.2 Tax Crimes and Other Illicit Financial Flows

The facilitation of tax crimes and other financial crimes, such as tax evasion, money laundering, bribery and corruption, are among the negative side effects of the diffusion of technology and global integration. To effectively counteract these crimes, enhanced cooperation among tax and law enforcement authorities, also through information (both automatic and on request) and best practice sharing, is critical.

Despite some recent progress[37], the exchange of relevant information between these authorities continue to face significant barriers, allowing serious tax crimes and other illicit financial flows crimes to go undetected, incompletely investigated or unsuccessfully prosecuted. Indeed, some recent cases (Paradise Papers, Panama Papers and Bahamas Papers) have revealed the existence of complex off-shore non transparent structures located in many jurisdictions all over the world, often developed with the help of specialized intermediaries (e.g. lawyers, corporate service providers) and advisers.

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[36] According to the FATF definition, "beneficial owner refers to the natural person(s) who ultimately owns or controls a customer and/or the natural person on whose behalf a transaction is being conducted. It also includes those persons who exercise ultimate effective control over a legal person or arrangement ".

[37] Main initiatives include: the *Oslo Dialogue*, launched in 2011 by the OECD to address tax and other financial crimes holistically, using a "whole of government" approach, and promote domestic inter-agency and international cooperation, at both legislative and operational level; the *G7 Action to Fight Corruption*, launched in 2016 under the G7 Japanese Presidency, to promote the cooperation between authorities to fight every form of corruption; the *Joint International Taskforce on Shared Intelligence and Collaboration*, a platform established within the OECD Forum on Tax Administration to share expertise, information, best practices and experience among the tax authorities of different (also non-OECD) countries.

Under the guidance of the Italian Presidency, by endorsing the *Bari Declaration on fighting tax crimes and other illicit financial flows*, G7 countries assumed a strong political commitment to:

i) support a whole-of-government approach to fighting tax and financial crimes, with the aim to promote effective interagency (e.g. tax authorities, anti-money laundering, anti-corruption) and international cooperation, especially through improved access to and effective exchange of information;

ii) continue to work to ensure access to beneficial ownership information for tax authorities, FIUs and law enforcement agencies, supporting the work by the FATF, the Global Forum on Transparency and Exchange of Information for Tax Purposes and the OECD in this area (see section on *Agenda G20 on BEPS and Tax and Transparency*);

iii) task the OECD to work on possible ways to address all arrangements to circumvent reporting requirements under the CRS or aimed at providing beneficial owners with the shelter of non-transparent structures, also by considering model mandatory disclosure rules, following the approach already taken for avoidance arrangements within the BEPS Action 12 Report[38];

iv) fully and effectively implement the FATF standards, including on professions and non-financial businesses, integrating the work on global professional conduct and practice standards of professions (e.g. lawyers, accountants, auditors) that could pay an important role in the fight against tax and financial crimes;

v) support initiatives aimed at strengthening the capacity of developing countries in the fight against tax crimes and other illicit financial flows, such as the *Africa Academy Programme for Tax and Financial Crime Investigation* in Kenya (see section on *Tax and Development*).

2.4.3 Tax and Development

The third strand of work focused on strengthening the tax capacity building of developing countries, to achieve the targets set by the Global Agenda for Sustainable

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[38] Action 12 of the BEPS Action Plan contains recommendations regarding the design of mandatory disclosure rules for aggressive tax planning schemes, taking into consideration the administrative costs for tax administrations and business and drawing on experiences of the increasing number of countries that have such rules. In Europe, in June 2017 the European Commission presented a proposal for a Council Directive amending Directive 2011/16 with regard to the mandatory automatic exchange of information in the field of taxation to reportable cross-border arrangements.

Development, also through technical and financial support provided by G7 countries in their bilateral programmes with regard to domestic resources mobilization.

To this end, G7 countries confirmed their commitment in supporting the principles of the Addis Tax Initiative[39] and the work of the Platform for Collaboration on Tax[40], by acknowledging its key role in deepening the cooperation between International Organizations and in enhancing effective external support in building tax capacity of developing countries. In addition, new initiatives were promoted in the area of tackling tax and financial crimes, such as the establishment of the *Africa Programme for Tax and Financial Crime Investigation* in Kenya (based on the experience of the *OECD International Academy for Tax Crime Investigation*[41]), financed by Kenya, Italy, Germany and the OECD, aimed at developing the ability of African tax investigators and officers to tackle tax and financial crimes within their public administrations.

2.4.4 Digital Economy

In addition to the traditional tax agenda topics, the Italian Presidency promoted a discussion on the relationship between digital economy and tax systems. On one hand, the digitalization of the economy provides huge benefits in terms of productivity gains and economic efficiency, by deeply transforming the existing business models and the global value chains. Most of economic value is now created by global multisided web platforms (e.g. travel agencies, flat renting, digital books). These platforms, by linking together different types of users, can systematically collect, store and record data and user behaviour, a key tool to test the performance of an application, customize the services provided on a personal basis and profile customers for marketing purposes.

On the other hand, the rapid development of digital economy raises different types of challenges to national tax systems and international tax rules, as the

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[39] Launched in July 2015 in the course of the third *Financing for Development Conference* in Addis Ababa, the Addis Tax Initiative intends to catalyze significant increases in domestic revenue for capacity building and to improve the transparency, fairness, effectiveness and efficiency of tax systems in partner countries.

[40] Launched in April 2016, the Platform for Collaboration on Tax is a joint IMF-WB-OECD initiative to intensify the cooperation among these organizations on tax issues (e.g. design and implementation of common standards) to strengthen their ability to provide capacity building support to developing countries.

[41] Established in June 2014 at the headquarters of the Tax Police School of the Italian Financial Police (Guardia di Finanza) in Ostia, the *OECD International Academy for Tax Crime Investigation* provides intensive training courses to officers from developing countries to strengthen their investigation abilities in tackling illicit financial flows.

digitalization of the economy splits *de facto* the link between the fixed place of the economic activities and the specific location where goods and services are consumed and that serves as a base for tax assessment. Therefore, it becomes more difficult not only to identify profits and other taxable bases on a territorial dimension (e.g. VAT), but also the definition of the object and the economic value to be submitted to taxation.

Given the sub-optimality of unilateral initiatives (which, if uncoordinated, could produce unintentional consequences and negative spillovers, such as increased tax uncertainty, double taxation and litigations), G7 countries recognized the need for a common tax approach to address the global dimension of the digital economy. On the basis of the conclusions of the work[42] of the Task Force on the Digital Economy (TFDE - established in 2013 by the OECD), adequate policy options will be considered to address the broad challenges to tax systems consistently.

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[42] An interim report will be published in 2018, while the final report will be submitted in 2020.

3. Conclusions

At the beginning of 2017, Italy assumed the G7 Presidency in a context characterized by critical political and economic tensions, with the risk of causing a stalemate in the global governance.

Having acknowledged these difficulties[43], the Italian Presidency worked, also through an effective diplomatic strategy, to reinstate the G7 at the center of the global arena, alongside the G20, that in the immediate aftermath of the financial crisis had become the primary forum for international coordination, notably in the areas of global economic governance and financial regulation.

Ten years after the crisis, the G20 has lost its initial impetus and appears to be a heterogeneous group of countries with different interests, while the G7, also thanks to the efforts of the Italian Presidency, has confirmed its role as a key forum of coordination and dialogue for the most advanced economies, characterized by similar challenges and values.

A complete assessment of the results of the Italian Presidency in the Finance Track will only be possible next year, by analyzing the way the G7 Canadian Presidency will continue the work started in 2017; nevertheless, Italy has the merit to have exploited the available room for manoeuvre effectively.

First, in some areas (e.g. international taxation, fighting against terrorism financing and cyber-security), it has built on the existing G7 agenda, achieving notable progresses, such as the *Declaration on fighting tax crimes and other illicit financial flows* and the *Fundamental Elements for Effective Assessment of Cyber-security for the Financial Sector*.

Second, further cooperation has been enhanced in key areas, such as digital economy and cyber insurance markets, while additional work streams have been opened, notably on the nexus between growth and inequalities and on IFIs coordination, where significant results, including the *Bari Policy Agenda*, have been obtained, in spite of the different sensitivities among G7 countries.

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[43] The motto of the G7 Italian Presidency was "Building the Foundations of Renewed Trust".

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