
RECOMMENDATIONS OF THE BUSINESS AND
FINANCE STEERING COMMITTEE

Transatlantic Cooperation in Economic and Financial Matters

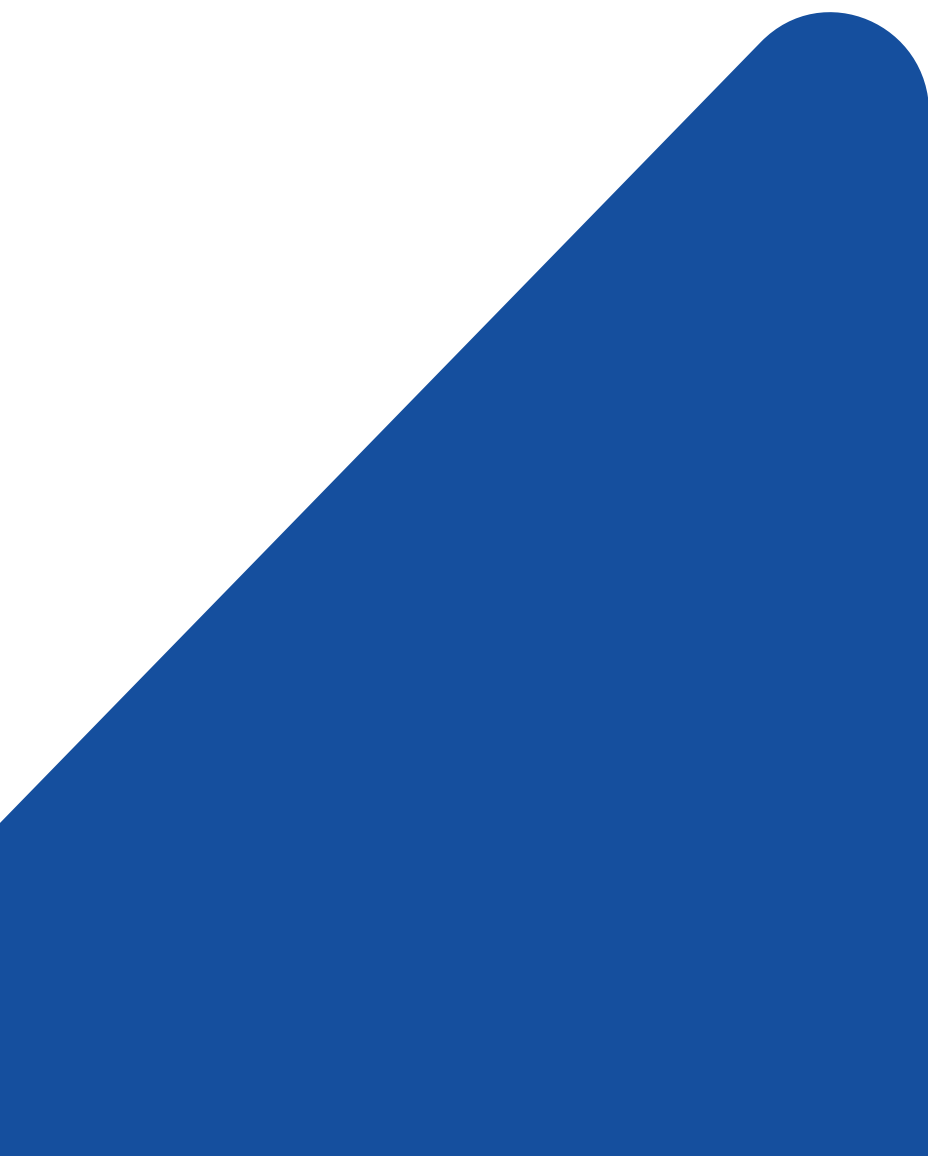


Table of contents

Executive summary	04
Recommendations	06
1. Export finance and alignment with the OECD Consensus	07
2. Combating money laundering and other forms of financial criminal behavior	07
3. Coordination of sanctions policies	08
4. Stepping up efforts for a global minimum corporate tax rate	09
5. A basic framework and international standards for digital money	10
6. Leveling the playing field between traditional and new financial services providers	11
7. Internationally compatible sustainability standards, definition systems, labeling, and reporting requirements ..	12
8. Regulatory harmonization and market access in the financial sector	13
Imprint	14

Executive summary

Cross-border bilateral and multilateral cooperation in economic and financial matters contributes to globally aligned frameworks and has proven to be helpful in addressing issues of shared significance and preserving financial stability. Transatlantic cooperation should underpin the development of new regulatory frameworks and increase the efficiency of addressing current and emerging challenges in the financial services landscape.

This high-level paper was developed by the Business and Finance Steering Committee (BFSC) of the Transatlantic Business Initiative (TBI). Members of the BFSC have been working on topical issues in the transatlantic nexus, including corporate and export finance, taxation, sanctions, combating money laundering and terrorist financing, sustainable finance, digitalization of financial services as well as financial market regulation and supervision. This paper includes the BFSC's most important policy recommendations in these fields for policymakers on both sides of the Atlantic.

High-level positions

1. EXPORT FINANCE AND ALIGNMENT WITH THE OECD CONSENSUS

As part of the OECD Consensus on officially supported export credits, the United States and the EU should work together on harmonizing conditions for government export finance and adapting the Consensus so that it meets the challenges of a changing economic, social, and geopolitical landscape.

2. COMBATING MONEY LAUNDERING AND OTHER FORMS OF FINANCIAL CRIMINAL BEHAVIOR

The EU, United States, and Canada must engage in rigorous transatlantic policy coordination and use their important position in the global political arena to strengthen prevention efforts and facilitate a comprehensive exchange of information.



3. COORDINATION OF SANCTIONS POLICIES

It is highly appreciated that the United States and the EU imposed coordinated sanctions against Russia. This path should be continued and expanded to other sanctions regulations. The United States should refrain from passing sanctions laws designed to have an extraterritorial reach, whereas the EU should revise its blocking statute in a way that it does not hinder EU companies in their sanctions compliance due diligence.

4. STEPPING UP EFFORTS FOR A GLOBAL MINIMUM CORPORATE TAX RATE

The EU, United States, and Canada should leverage their political capital to support a global effective minimum tax rate of 15% and redouble their efforts to create international tax rules that ensure a level playing and prevent harmful tax competition between countries.

5. A BASIC FRAMEWORK AND INTERNATIONAL STANDARDS FOR DIGITAL MONEY

The EU, United States, and Canada should engage in an open strategic dialogue to ensure alignment and basic regulatory, operational, and technological standards on both sides of the Atlantic to achieve digital and monetary sovereignty and foster international trade.

6. LEVELING THE PLAYING FIELD BETWEEN TRADITIONAL FINANCIAL SERVICES PROVIDERS AND NON-BANK TECHNOLOGICAL FIRMS

The transatlantic community should coordinate efforts to put in place risk-based rather than entity-based rules for traditional and emerging financial services providers as well as to ensure operational resilience and lower systemic risk stemming from too much concentration.

7. INTERNATIONALLY COMPATIBLE SUSTAINABILITY STANDARDS, DEFINITION SYSTEMS, LABELING, AND REPORTING REQUIREMENTS

The transatlantic community should take joint steps to reduce fragmentation on sustainable finance labeling, taxonomies, standards, and reporting requirements.

8. REGULATORY HARMONIZATION AND MARKET ACCESS IN THE FINANCIAL SECTOR

Transatlantic authorities should join forces to address traditional and emerging risks in financial regulation and supervision and to ensure a standardized two-way market access to each other's financial markets.

The BFSC recommendations are described in detail in the following sections.





Recommendations

1. EXPORT FINANCE AND ALIGNMENT WITH THE OECD CONSENSUS

The TBI sees opportunities but also challenges, in financing transatlantic projects, businesses, and classic transactions. A level playing field can only be created and maintained with much closer transatlantic trade and investment relations. Working together on export transactions and on export finance, and therefore opening up new markets together, will provide a decisive competitive advantage. Bilateral negotiations between the EU and the United States may serve as a positive example for any multilateral efforts that follow.

As part of the OECD Consensus on officially supported export credits, the United States and the EU, among others, have agreed to harmonize conditions for government export finance. The Consensus forms the basis of a strong and value-oriented competitive position vis-à-vis non-member states. Uniformly applied standards are in the interests of companies and banks since they aim to prevent businesses from migrating to areas outside the OECD Consensus.

We must aim to build on this Consensus and return to a level playing field. In doing so, we need to adapt the Consensus so that it meets the challenges of a changing economic, social, and geopolitical landscape. It was a good sign that an agreement to modernize the Arrangement was reached by the Participants in March 2023 after several years of negotiations. The modernization will provide incentives for the export of particularly climate-friendly and transformation-relevant technology. Exporters of such technology can be offered particularly attractive financing conditions in the future. Nevertheless we must negotiate new flexible terms in guaranteeing/insuring or funding the financing of the down payment, whether it is through government-backed reinsurance or other practicable techniques and including all ways of financing, such as export credit agencies (ECAs), development finance institutions (DFIs), and official development assistance (ODA). Companies are facing negative impacts due to the Corona and Ukraine crises, as well as interrupted supply chains, therefore there is a need for temporary (18 months) support of 100% of the contract value limited to emerging and developing markets. This must be enforced jointly by the EU and the United States.

2. COMBATING MONEY LAUNDERING AND OTHER FORMS OF FINANCIAL CRIMINAL BEHAVIOR

Members of the TBI actively support effective and efficient measures against money laundering (AML), terrorism financing and all other forms of criminal behavior. Nevertheless, experts are increasingly calling into question the instruments currently used to combat money laundering.

The costs associated with AML are making it increasingly uneconomical for the financial industry to do business with “problematic” countries, while growing compliance risks are becoming increasingly unreasonable. This is reflected, for example, in the trend away from correspondent banking relationships. This is having an indirect effect on the industry, which depends on functioning financial services for exports. At the same time, financial services providers are frequently accused of indulging in “overcompliance”.

Current and recent legislation in the United States and EU has indeed tried to address some of these problems. The financial sector welcomes the initiatives in the United States to establish, and in the EU to strengthen, registers of data on ultimate beneficial owners (UBOs). Another positive development is the EU’s plan to set up a single rule book for all Member States, e.g. for customer due diligence.

However, current measures do not go far enough. The basic strategy of international money-laundering prevention has to be improved in terms of both effectiveness and efficiency. The EU and United States should work together on this and ensure rigorous transatlantic policy coordination with a clear focus on harmonizing the legislation. Both sides should also use their important position in the global political arena and in the global economy to campaign to strengthen international organizations and facilitate a comprehensive exchange of information for the purpose of combating money laundering.

3. COORDINATION OF SANCTIONS POLICIES

We welcome the decisive and jointly coordinated action of the G7 members on sanctions to stop Russia's war on Ukraine. Largely synchronized sanction measures between the United States and the EU create clarity for companies and banks alike. As allies, the United States and the EU should continue to coordinate their sanctions policies to the highest possible degree, structurally increasing the effectiveness of measures, while ensuring legal certainty and reducing compliance costs.

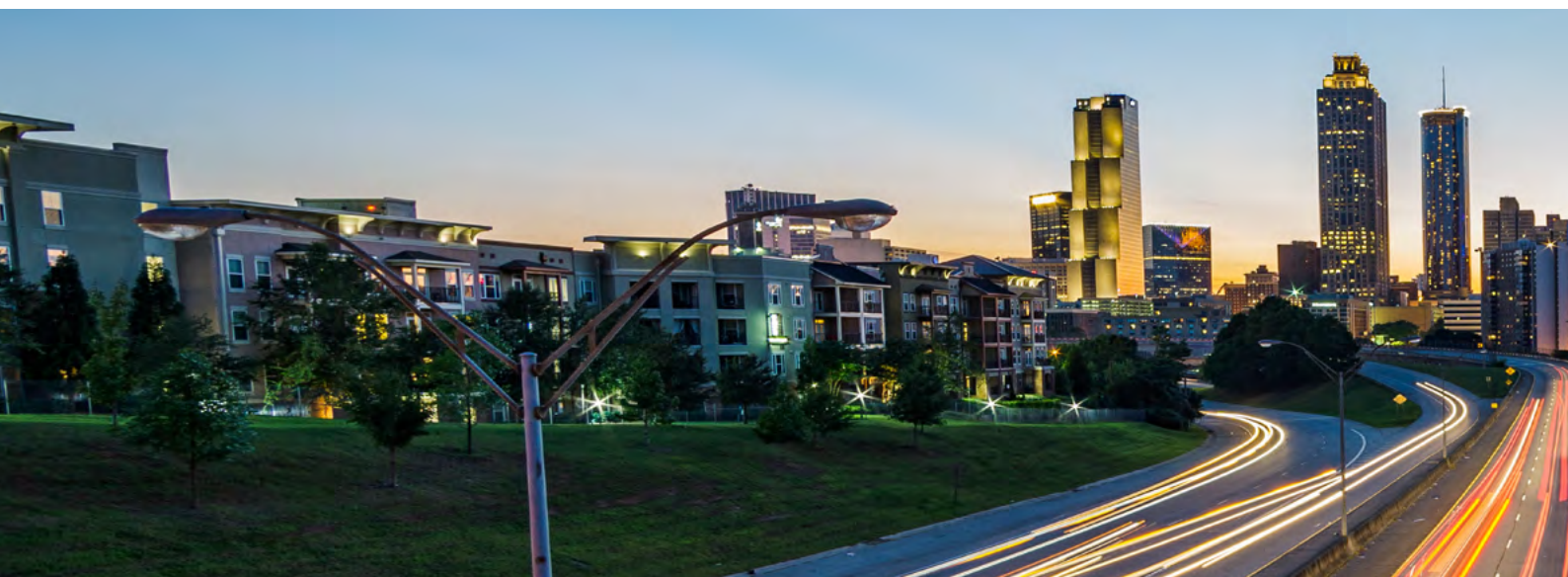
In particular, the EU should in future be more specific in its sanctions regulations. The recent regulations have shown that the complexity and speed of newly issued rules created a lot of uncertainty regarding their interpretation. Therefore, it is crucial that the wording of EU sanctions regulations and, above all, their interpretation by national supervisory authorities become much more precise and unambiguous to improve legal certainty. As part of this, the interpretation and guidance by the European Commission and national competent authorities should be better aligned.

In some cases, sanctions regimes of the EU and the United States diverge from another which makes it difficult for

European companies to ensure easy and frictionless compliance. If rules on sanctions diverge, companies often face a conflict that is difficult to resolve and gives rise to considerable legal risk since they are frequently subject to contradictory requirements that must be observed and may lead to severe penalties in the event of non-compliance.

The Russian war against Ukraine fundamentally challenges the existing economic order. Dealing with the associated political and economic impact on the global economy will be with us for years to come. This situation should be used as an opportunity to deepen cooperation, especially on security and sanctions. This includes ensuring that the sanctions policy of one ally does not hinder EU companies in their sanctions compliance due diligence.

This concerns extraterritorial U.S. sanctions that companies in third countries are expected to apply even if the business relationships and transactions involved are permissible under German law. The United States should refrain from passing sanctions laws designed to have adverse extraterritorial effects on EU companies. At the same time, the EU should revise its blocking statute in a way that it is not directed against U.S. sanctions. Our close relationship should not be endangered by this tool.



4. STEPPING UP EFFORTS FOR A GLOBAL MINIMUM CORPORATE TAX RATE

The TBI supports stable, transparent, efficient, fair, and predictable tax regimes that incentivize innovation, long-term investment, job creation, and economic growth. Double taxation on the same activity by different jurisdictions as well as redundant paperwork and other unnecessary administrative burdens should be avoided. Businesses in the EU, United States, and Canada need international tax rules that ensure a fair and level playing field and prevent harmful tax competition between countries.

We therefore welcome the concept of creating a fair and level playing field for corporate income taxation with a global effective minimum tax rate of 15%. While in the public perception this might seem a relatively simple measure of raising the corporate income tax rate in some low-tax countries (so-called “tax havens”), Pillar 2 is in fact an extremely complex tax project at OECD level. Creating a level playing field requires not only a nominal (minimum) tax rate but also harmonization of the underlying tax base, which will require companies to recalculate or at least adjust their profits for tax purposes.

15%



The TBI supports stable, transparent, efficient, fair, and predictable tax regimes that incentivize innovation, long-term investment, job creation, and economic growth.



One major challenge within Pillar 2 will be consistent implementation and administration throughout participating countries to achieve a level playing field. Inconsistencies in national regulations implementing Pillar 2 would lead to a significantly higher effective tax burden for multinational enterprises (MNEs) subject to the new rules. This would especially be the case if alignment between existing anti-abuse regulations, such as the national “Controlled Foreign Company” (CFC) rules, the EU interest deduction restrictions, the U.S. “Global Intangible Low-Taxed Income” (GILTI), “Base Erosion and Anti-Abuse Tax” (BEAT), or “Stopping Harmful Inversions and Ending Low-Tax Developments” (SHIELD) rules is not ensured.

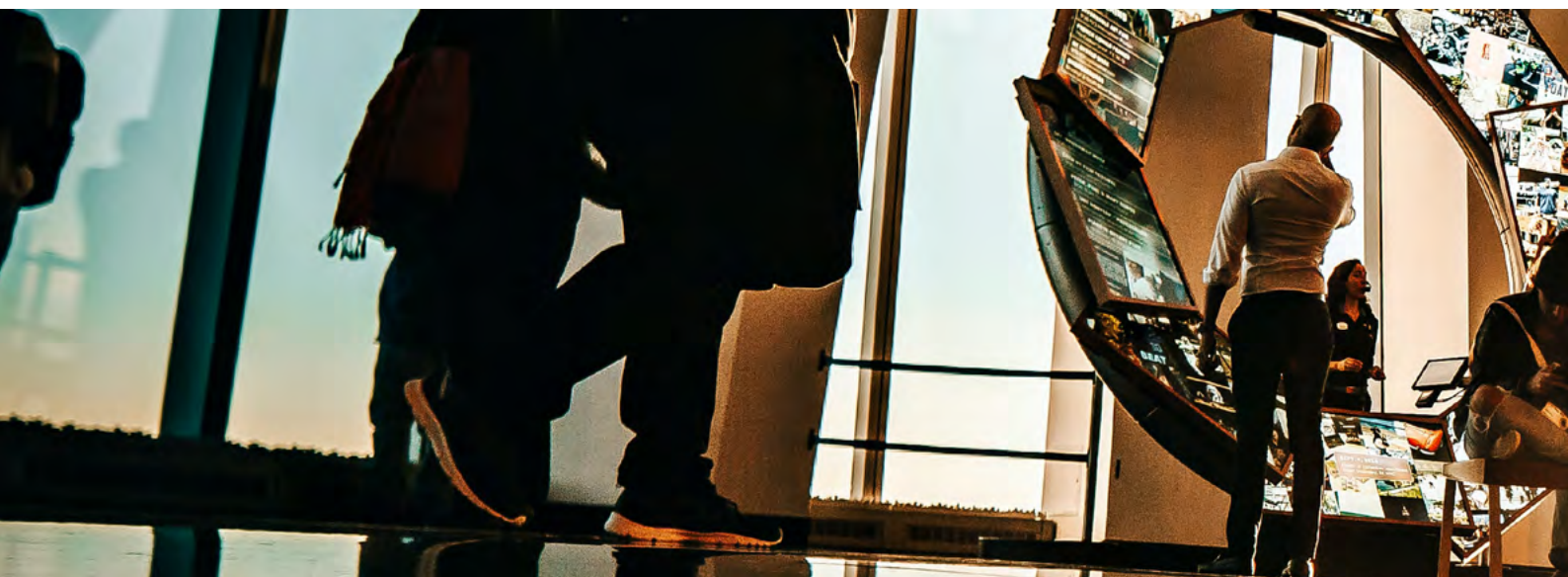
In adhering to the minimum tax rate of Pillar 2, participating countries should avoid additional domestic measures like deductibility limitations of interest and royalty payments or BEAT and GILTI in the United States. Some of those measures go beyond the intentions of Pillar 2 and have the effect of protecting national taxpayers. On the other hand, the EU tends to be overly restrictive in implementing international tax agreements to the detriment of their own companies. We encourage both sides to work together to achieve a level playing field which serves all companies best.

5. A BASIC FRAMEWORK AND INTERNATIONAL STANDARDS FOR DIGITAL MONEY

International value and supply chains are undergoing a fast-paced digital evolution. Digital, programmable payments are important for the digital industry as they represent a form of exchange/payment medium. The industry needs a stable fungible digital currency that maintains its value and comes from a trustworthy source in an operating money and payment (eco)system. It should also comply with national and international regulations (e.g. AML, taxation) as well as supervisory reporting requirements.

Besides various forms of crypto assets, numerous payment token initiatives – most prominently “stablecoin” and central bank digital currency (“CBDC”) initiatives – have been launched by private or governmental institutions worldwide in recent years. Irrespective of geographical and technological developments, it is important to ensure that digital and programmable currencies and payment schemes are interoperable, fungible, secure, and comply with data protection and privacy laws.

Dialogue about, alignment of, and agreement on basic regulatory, operational and technological standards on both sides of the Atlantic will be essential to strengthen digital and monetary sovereignty and therefore foster international trade. Furthermore, establishing an open strategic dialogue



and developing a common basic framework with the goal of connecting industry and payment services across the Atlantic will be of key importance.

6. LEVELING THE PLAYING FIELD BETWEEN TRADITIONAL AND NEW FINANCIAL SERVICES PROVIDERS

Large platform service providers are outpacing traditional financial services institutions with superior customer experience and operational efficiency. However, the dominance of such non-bank technological firms that are developing embedded finance within their ecosystems could lead to limited competition, higher prices, and concentration risk of future service outages.

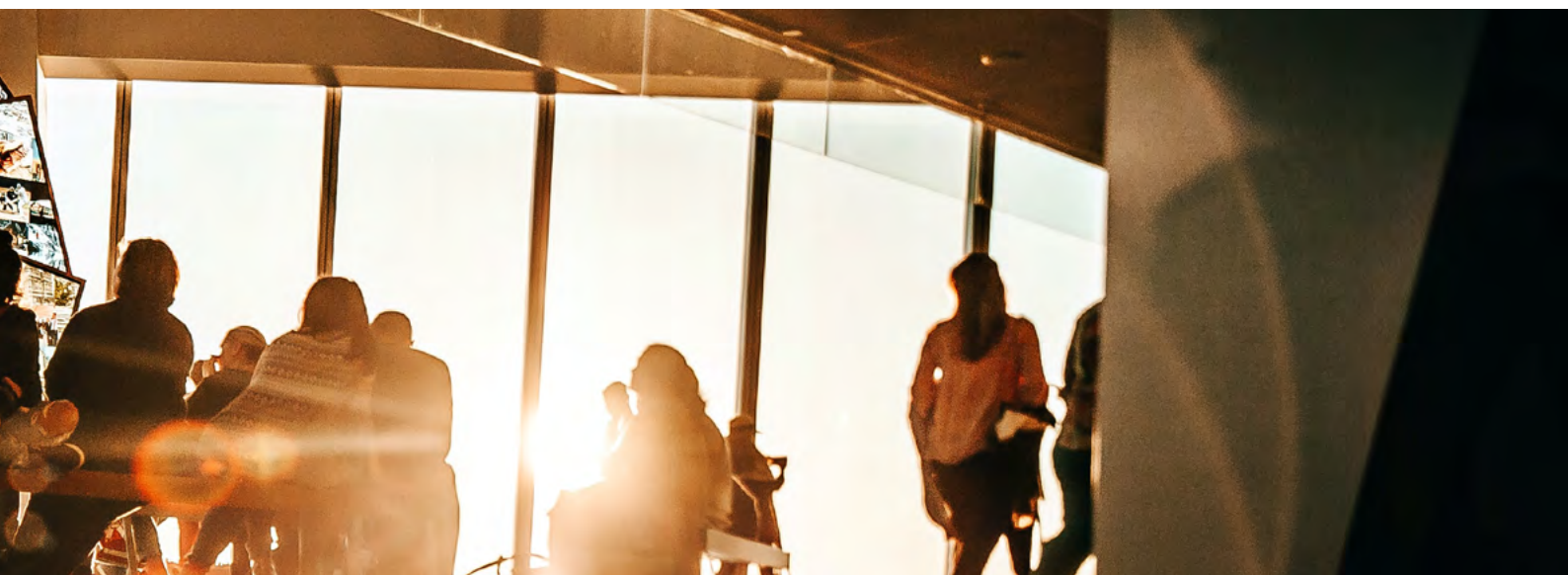
Rules currently in force for financial services providers were formulated with specific financial stability risks in mind and may be inadequate for addressing the unique combination of policy concerns associated with the big tech companies.

To ensure a fair and level playing field among market participants as well as sufficient operational resilience and lower systemic risk stemming from concentration, the following steps could be taken by the transatlantic community:

1. Enhancing transatlantic collaboration between competition authorities in the EU, United States and Canada.
2. Ensuring that financial regulation and supervision focuses on activities and is therefore risk-based rather than (banking) entity-based.
3. Promoting open finance and the data economy and establishing a cross-industry data exchange framework to support the transformation to a data economy and allow for the development of data-driven innovations for the greater good of the economy.
4. Setting up an international digital identity scheme as a public-private partnership to prevent the dominance of proprietary identity solutions offered by privately held companies.

Furthermore, the upcoming European Parliament Elections in June 2024 provide the chance to take measures to strengthen global competitiveness in the financial sector. This should include for example:

- Streamlining regulatory processes: simplifying and reducing the burden on financial institutions, harmonizing regulations across Member States and reducing duplication of regulatory requirements.



- Promoting innovation: providing regulatory frameworks that support development of new technologies, support for startups and support for SMEs aiming for an Initial Price Offering (IPO).
- Strengthening cybersecurity: protecting against cyber threats, improving customer confidence in the sector, improving incident reporting requirements, and increasing cooperation between the sector and regulators/supervisors.

7. INTERNATIONALLY COMPATIBLE SUSTAINABILITY STANDARDS, DEFINITION SYSTEMS, LABELING, AND REPORTING REQUIREMENTS

Divergence on sustainable finance labeling, taxonomies, standards, and reporting requirements has led to a lack of comparable information and a distorted playing field.

While there are differing views in the transatlantic community on the approach and necessary legislative and non-legislative steps to be taken, the standards and taxonomies developed in the EU, Canada, and the United States should be compatible/interoperable. Reducing fragmentation should therefore be a common priority across jurisdictions on a transatlantic, but ideally also on an international level.

When developing a taxonomy, it is important to consider all the activities that can contribute to the success of the transformation of our economies toward greater sustainability in the short, medium, and long terms. It is critical that such a development is technology neutral and open for new technologies as well. The technical screening criteria should be defined in a way that provides for reasonable implementation and without excessive effort for the reporting entities. Quantitative targets must be ambitious, but they should also be realistic. This is especially true for technologies that are of great importance for the transition. It must be ensured that existing production plants can continue to be operated and further developed while gradually being replaced by new technologies simultaneously.

Without an international sustainability reporting standard, different regional reporting standards might lead to parallel measurement and reporting structures that do not improve the sustainability of the reporting operation or company. Sustainability reporting standards should provide a focused, relevant, and decision-useful set of standardized metrics to be disclosed, combined with a clear materiality principle.

To avoid parallel reporting structures, it is necessary to build on the various global initiatives that try to establish a common sustainability reporting framework. The recently established International Sustainability Standards Board (ISSB) could assume such a role and should coordinate efforts and develop a global baseline for standards, with an option for expansion in the individual regions to cover regional specificities.

It is imperative that EU and ISSB activities are harmonized. For instance, the definitions for key concepts in the context of sustainability disclosure should be aligned on a global level, such as the understanding of impacts and materiality.

European and international standard setters have announced plans to establish a framework that clarifies the compatibility of the EU's standards with the ISSB baseline. Despite the establishment of such an equivalence mechanism, the reports under the frameworks will most likely result in two reports with differing structures and content. Thus, compatibility remains limited and international users of sustainability data will likely still require European entities to provide a separate report following the ISSB's methodology, rather than identifying ISSB information within the European reports themselves. To avoid these duplications and the resulting competitive disadvantages for European companies, we urge the regulators to agree on one common reporting standard. Furthermore, it should be considered if the framework for compatibility could be transformed into a legally binding instrument of reciprocal nature.

In the United States, climate risk regulation needs to be finalised and implemented in a timely manner in order to provide legal security to multinational companies.

In order to combat climate change, trillions of dollars need to flow into green investments annually across critical sectors of the global economy. While public finance will continue to play a vital role, a significant portion of this funding must come from the private sector. In the coming years, billions of dollar need to be invested into new sustainable infrastructures, digital networks, and net-zero-ready energy and production facilities. There needs to be a competition of ideas of how best to 'crowd in' private investors' money and which areas of the economy should only be reserved for the public good by the state.

Furthermore, the TBI welcomes that the United States, Canada and Germany are joining forces to push for ambitious World Bank reforms aiming at mobilizing private capital for global climate protection. It is important to stress that an early and intensive private stakeholder involvement is key to success when it comes to implementation.

8. REGULATORY HARMONIZATION AND MARKET ACCESS IN THE FINANCIAL SECTOR

Cross-border bilateral and multilateral cooperation across various jurisdictions contributes to globally aligned frameworks as well as to reducing financial stability risks and market fragmentation. We have seen increased cooperation and coordination amongst authorities on both sides of the Atlantic as well, the backbone of which is the joint regulatory dialogue between the EU and the United States, and Canada respectively, which provides a platform to exchange views on each other's regulatory agendas and priorities.

Such coordination has proven to be helpful in many areas. Going forward, one focus area should be the rollout of the final elements of the Basel package. For instance, coordination of the implementation timeframe across jurisdictions at Basel Committee level, a more risk-adequate approach to determining the capital requirements for exposures to corporates in the standardized approach, and incorporating lessons learned from the COVID-19 event could benefit the transatlantic and also the international community.

Furthermore, standardized two-way market access across the Atlantic should be encouraged to reduce market fragmentation, contribute to increased international activity and competition, and thus increase market efficiency. As part of equivalent access to third countries, foreign branches should be regulated appropriately in each jurisdiction to avoid retaliation or escalation from other jurisdictions, which might result from too strict a regulatory approach. Also, regional regulation should limit extraterritorial application to foreign branches.

Finally, transatlantic coordination should encompass mutual exchange on best practices and learning from each other. For example, to relieve banks' balance sheets and free up much needed firepower in the fight to finance the real economy on the post-Covid path to recovery, securitization in the EU could be re-established and re-designed in a way that incorporates positive aspects from the U.S. framework.

Imprint

THE TRANSATLANTIC BUSINESS INITIATIVE (TBI)

The Transatlantic Business Initiative (TBI) is the German business and financial community's contribution to a successful new phase in transatlantic relations. Launched in 2021 by four business associations, the Federation of German Industries (BDI), the Association of German Chambers of Industry and Commerce (DIHK), the Federation of German Wholesale, Foreign Trade and Services (BGA), and the Association of German Banks (BdB), the TBI advocates for strengthening the economic relations between Germany and the European Union on the one hand, and the United States and Canada on the other. Members of the TBI work in four steering committees, focusing in particular on trade and investment policy, energy and climate policy, data and the digital economy as well as business and finance, and seek to engage with policymakers, regulators and supervisors, business and trade representatives as well as other stakeholders to strengthen transatlantic ties and facilitate coordination on matters of shared interest.

THE BUSINESS AND FINANCE STEERING COMMITTEE (BFSC)

The Business and Finance Steering Committee of the Transatlantic Business Initiative is chaired by Melanie Kreis, Chief Financial Officer of Deutsche Post and James von Moltke, President and Chief Financial Officer of Deutsche Bank. The steering committee's membership comprises financial institutions, including banks, insurance companies, stock exchanges, and asset managers as well as representatives of corporations of various sizes and operating in diverse sectors, such as pharmaceuticals, chemicals, media, automotive and industrial technology. The BFSC's work is structured into six workstreams, focusing on issues relating to corporate and export finance, anti-money laundering and sanctions, taxation, sustainable finance, digitalization in the financial sector, and financial market regulation and supervision.

Publisher

Transatlantic Business Initiative (TBI)

c/o Bundesverband der Deutschen Industrie e.V. (BDI)
Breite Straße 29, 10178 Berlin, Germany
Breite Straße 29
D-10178 Berlin
Phone: +49 30 2028-0
www.transatlanticbusiness.eu

Editors

Kolja Gabriel
Member of the Executive Board,
Political Affairs + Innovation
Association of German Banks
Phone: +32 27 88 22 01
Email: kolja.gabriel@bdb.de

Dan Constantin
Associate, European and International Affairs
Association of German Banks
Phone: +32 471 83 31 07
E-Mail: dan.constantin@bdb.de

Design & Implementation

www.man-design.net

Picture credits

P. 1: 4371513 | pixabay.com
P. 4: 52262383 | stock.adobe.com
P. 6: 4275885 | pexels.com
P. 8: 45FJgZMXCK8 | unsplash.com
P. 10: xUXmS_gOFR8 | unsplash.com

Status

December 8th, 2023

