

UK Statement on II. F. Addressing systemic issues, 13 February 2025

Reforming the International Financial Institutions so they are bigger, more shock-responsive and fairer is pivotal to meeting the challenges we face today and for financing the SDGs. We welcome the progress that has been made but recognise that we must go further and faster.

We strongly support increasing the voice and representation of low-income and vulnerable countries in financial institutions and the wider financial architecture.

As previously stated in the chapter on international development cooperation, we think the language on MDBs would sit better in this chapter and we should consider re-naming this to focus on the International Financial System.

Para 53 a): We would include language on timely implementation of the 16th General Review of Quotas, given this is vital for the continued functioning of the IMF. We welcome language on enhancing the role of basic votes, but this should be less prescriptive.

Para 53 b): We would like to see specific language on increasing the voice of low-income and vulnerable countries through this process, not just voting power and considering other reforms too. This should also be reflected in Para 53 c), reflecting the broader opportunities to improve voice in these institutions as has successfully been done in recent reviews and not limited to increasing the size of the Board.

Para 53 d): We suggest adding language on improving the quality and transparency of engagement with Civil Society Organisations.

Para 54 a): We think the language on an IMF swap line is premature to IMF Board discussions, and we will suggest language on ensuring an attractive and well-resourced suite of facilities.

Para 54 b): Given recent reforms to surcharges, we suggest tweaking language to focus on the upcoming IMF Review of Programme Conditionality which will be an opportunity to consider how best to build resilience and tailor IMF programmes in an increasingly shock prone world.

Para 54 c): The review of the Poverty Reduction and Growth Trust concluded in October and a mechanism to ensure self-sustainability was endorsed by the IMF Board. We would like to see language encouraging members to commit their portion of IMF internal resources to the PRGT as soon as feasibly possible.

Paras 54 d) and e): We would require edits to this text to reflect the reserve asset nature of SDRs. The IMF has its own global liquidity tests for a general Special Drawing Rights allocation. We continue to support encouraging countries to re-channel their 2021 SDR allocation, including through MDBs, on a voluntary basis.

On the section on regulation for a sustainable financial system, we are broadly supportive of the text but will suggest tweaks for clarity and share written proposals.

Paras 56 a) and b): We would like to see further detail on the proposed review to

explore whether the Financial Stability Board is the appropriate forum for taking forward this work. Again, we can share edits and would welcome further discussion.

And finally, we support the public payment systems language as drafted.

Annex A: UK language proposals on II. F. Addressing systemic issues

Para 53 a): We reaffirm our commitment to a strong, quota-based, and adequately resourced IMF at the center of the global financial safety net. The completion of the 16th General Review of Quotas (GRQ), increasing the Fund's quota resources by 50 percent, reinforces the quota-based nature of the Fund and strengthens its capacity to safeguard global financial stability in a shock-prone world. We recommit to further IMF quota realignment to enhance developing country voice and better reflect members' relative positions in the world economy, while protecting the shares of the poorest members.

Para 53 b): We will work through the World Bank Board of Governors to conduct a comprehensive and successful World Bank shareholding review in 2025 that delivers a more equitable balance of voice and representation at the institution, including for the poorest and most vulnerable countries to speedily implement the review outcomes, and to ensure future reviews continue to deliver on this agenda.

Para 53 c): We will work through the Executive Boards of the international financial institutions to consider broader opportunities to improve voice for developing countries in these institutions as has successfully been done in recent reviews. We also support achieving gender balance in the executive boards of all international organizations through more balanced nominations to the boards. We will work through all international organization boards to conduct regular reviews on diversity in the board and the executive and senior leadership to address geographic underrepresentation and gender imbalance, and to publish regular public reports on diversity and our reviews.

Para 53 d): We commit to enhance the transparency and accountability of decision making at international organizations including improving the quality and transparency of engagement with Civil Society Organisations.

Para 54: The global financial safety net, a multilayered arrangement for responding to crises with the IMF at its centre, has both gaps in its architecture and uneven coverage. With increasing systemic risks and growing frequency and intensity of crises, including those related to climate change, many countries will need external support to manage volatility and shocks alongside strong internal buffers

Para 54 a): We welcome the conclusion of the IMF Precautionary facilities review in 2023 and 2024. We will work through the IMF Executive Board to continue to strengthen the ex ante safety net, for example through considering a IMF swap like facility, and we will consider adjusting borrowing limits in all layers of the safety net to ensure that emergency and stand-by resources can meet needs.

Para 54 b): We welcome recent action on IMF charges and surcharges and will work through the IMF Executive Board to consider suspending repayments during disasters and exogenous shocks. We welcome the upcoming Review of IMF Program Design and Conditionality which will consider how to better support countries to deliver macroeconomic policy adjustment in a world of more frequent shocks and disasters.

Para 54 c): We will work through the IMF board to consider ways to maximise the impact and effectiveness of the Resilience and Sustainability Trust, We welcome the recent PRGT review and will work through the IMF Executive Board to encourage

members to commit their portion of IMF internal resources to the PRGT as soon as feasibly possible to ensure the self-sustainability of the Trust to increase the IMF's self-sustaining capacity to lend concessional resources.

Para 54 d): We welcome the IMF's issuance of SDRs in 2021 and the rechannelling for countries in need by both developed and developing countries in a position to do so. We encourage countries in a position to do so to voluntarily expeditiously rechannel 50 per cent of their 2021 SDR allocation to support poorer and more vulnerable members, including through channeling to MDBs, while retaining SDR's liquidity and reserve asset character.

Para 55: Credit ratings, which affect the cost of borrowing, are much less regulated than other aspects of the financial system in some jurisdictions. Credit assessments are pro-cyclical and excessively focused on short-term factors, which can disincentivize credit based on long-term growth and sustainability prospects. The sovereign ceiling on corporate ratings has unwarranted negative impacts on capital markets access for entities in developing countries. Regulatory regimes should encourage integrity, transparency and independence of credit ratings.

Para 56: Adequate financial regulation is essential to the stability and sustainability of the financial system. Banking regulation has been strengthened since the 2009 financial crisis, there is the potential for financial regulatory frameworks to price risks, especially related to new challenges and instruments (such as lending with guarantees), which could raise the cost of borrowing for sustainable development investments, especially in LDCs. Incorporation of environmental sustainability into financial regulation is in its infancy. Creating an effective financial regulatory framework that addresses social and environmental impact, coupled with effective climate policies, can facilitate both stability and sustainability.

Para 56 a): We suggest independent technical review of the international risk-weighting frameworks used in regulation, such as Basel III, to ensure that weightings correctly reflect risks in different country contexts, including for guarantees and blended finance, SMEs, infrastructure, and trade finance, and to review risks posed by the asset management industry. We invite the FSB to present their findings at the ECOSOC FFD Forum.

Para 56 b): Without diluting our focus on financial stability, we will consider whether to expand our financial regulatory framework to incorporate climate transition plans and climate stress testing and invite the relevant organisations to consider whether further evidence should be collected to help consider whether sustainability factors should be included in risk weightings.