



LSEG

Unlocking the value of data flows in the digital economy

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Our Group

Who we are

LSEG is a leading global financial markets infrastructure and data provider. We play a vital social and economic role in the world's financial system. With our trusted expertise and global scale, we enable the sustainable growth and stability of our customers and their communities. We are leaders in data and analytics, capital formation and trade execution, and clearing and risk management.

Our purpose

Driving financial stability, empowering economies and enabling customers to create sustainable growth.

Our vision

As a leading global financial markets infrastructure and data provider, we want to shape the future of our industry to serve our customers and markets better.

Where we operate

LSEG is headquartered in the United Kingdom, with operations in 70 countries across EMEA, North America, Latin America and Asia Pacific. We employ over 24,000 people globally, more than half of whom are located in Asia Pacific.



Executive summary

At LSEG, we believe that an open, global digital economy can drive sustainable growth, empower businesses and communities, and facilitate solutions to society's greatest challenges. As a financial markets infrastructure and data provider, we see the value of digital technology in helping businesses to start, grow, and flourish. We observe the growing demand for data to inform decision-making, fuel innovation and support efforts to address issues such as climate change and financial crime.

Policymakers have an essential role in unlocking this potential. While the data ecosystem that underpins the digital economy is inherently global, a fragmentation in policy risks undermining both business and broader society being able to harness the benefits of international data transfers. Governments and international organisations have made important advances over recent years in agreeing on principles and arrangements to promote digital economic cooperation. However, further progress is required to establish a long-lasting secure, trusted and resilient digital economy.

We therefore encourage countries to pursue digital economic cooperation and to promote international data transfers as a strategic priority, focusing energy on contributing to this agenda. Pursuing a proactive approach will demonstrate the benefits of an open, global digital economy and encourage other jurisdictions to adopt a similar way forward.

In this context, LSEG proposes two key policy recommendations for policymakers to consider:

1

The establishment of a G7-led forum to strengthen international coordination on data and digital governance.

In pursuing this work, the G7 should coordinate with private sector stakeholders to provide practical input and should seek to promote the following objectives:

- Enable the free flow of data across borders, recognising that data flows are the lifeblood of the global digital economy, including for micro, small and medium-sized enterprises
- Address local data storage and processing requirements, recognising that data security depends on how data is stored and processed, not where it is stored and processed
- Promote inclusive growth and sustainable development by enhancing connectivity, building capacity and developing digital skills
- Facilitate the adoption of risk-based policies that ensure transparent, interoperable and secure data regimes
- Promote communication channels to cooperate with international bodies and regulators.
- Prioritise interoperability among domestic regulatory systems, including in developing new regulations
- Foster cooperation among regulators to address global challenges and promote innovation in the digital economy

2

The conclusion of best-in-class digital trade agreements that facilitate the free flow of data.

To enable trusted data flows, provisions in such agreements should:

- Prohibit limits on cross-border data flows and requirements for localisation of computing facilities, with limited exceptions tailored to specific policy objectives
- Prohibit requirements to transfer or allow access to source code or algorithms
- Prohibit cryptography transfer requirements, with appropriate exceptions for law enforcement
- Adopt or maintain interoperable frameworks to protect personal information, while supporting innovation
- Mitigate risk of cyberattacks and cyber theft by adopting common risk-based approaches as well as initiatives to address specific concerns such as submarine cable disruptions
- Deepen regulatory cooperation in technological innovation, complementing multilateral and other bilateral provisions aimed at promoting cross-border technology development and growth, including in the financial technology sector
- Promote regulatory dialogues to share best practices and resolve potential frictions, and establish regulator-to-regulator memoranda of understanding to provide more detail on implementing commitments to cross-border data flows
- Promote the use of technologies, such as cloud, that support cyber and operational resilience

Overview: the value of data flows to the global economy and society

The digital transformation of the global economy has been revolutionary for both markets and society. Digital technology is changing the way businesses operate and serve their customers and it has been key to reducing the costs of international trade and facilitating the rise of global value chains.

According to the World Bank, **the digital economy is now equivalent to 15.5% of global GDP**, having grown more than two and a half times faster than overall global GDP over the past 15 years.¹

This growth is **helping to stimulate economic opportunity and is facilitating innovative solutions to society's greatest challenges**, such as climate change and financial crime. It enables businesses, large and

small, to provide services to customers across jurisdictions, and to leverage cutting-edge technologies that drive sustainable development.

As digital technology becomes more integral to all sectors of the economy, **data is becoming increasingly important as the foundation of digital trade**. OECD research estimates that rapidly growing cross-border data transfers already contribute US\$2.8 trillion to the global economy², and further estimates show that global data flows are expected to grow to US\$11 trillion by 2025³ – greater than the value of the world's total trade in goods.

As outlined in Figure 1, an open global data ecosystem has enormous potential to **accelerate growth, innovation and coordinated action to address societal problems**.

1 World Bank, Digital Development Overview (2022) <https://www.worldbank.org/en/topic/digitaldevelopment/overview>

2 OECD, Mapping approaches to data flows (2020) <https://www.oecd.org/sti/mapping-approaches-to-data-and-data-flows.pdf>

3 OECD, Measuring the Economic Value of Data and Cross-Border Data Flows (2020) <https://www.oecd.org/digital/measuring-the-economic-value-of-data-and-cross-border-data-flows-6345995e-en.htm>

Figure 1: The value of cross-border data flows

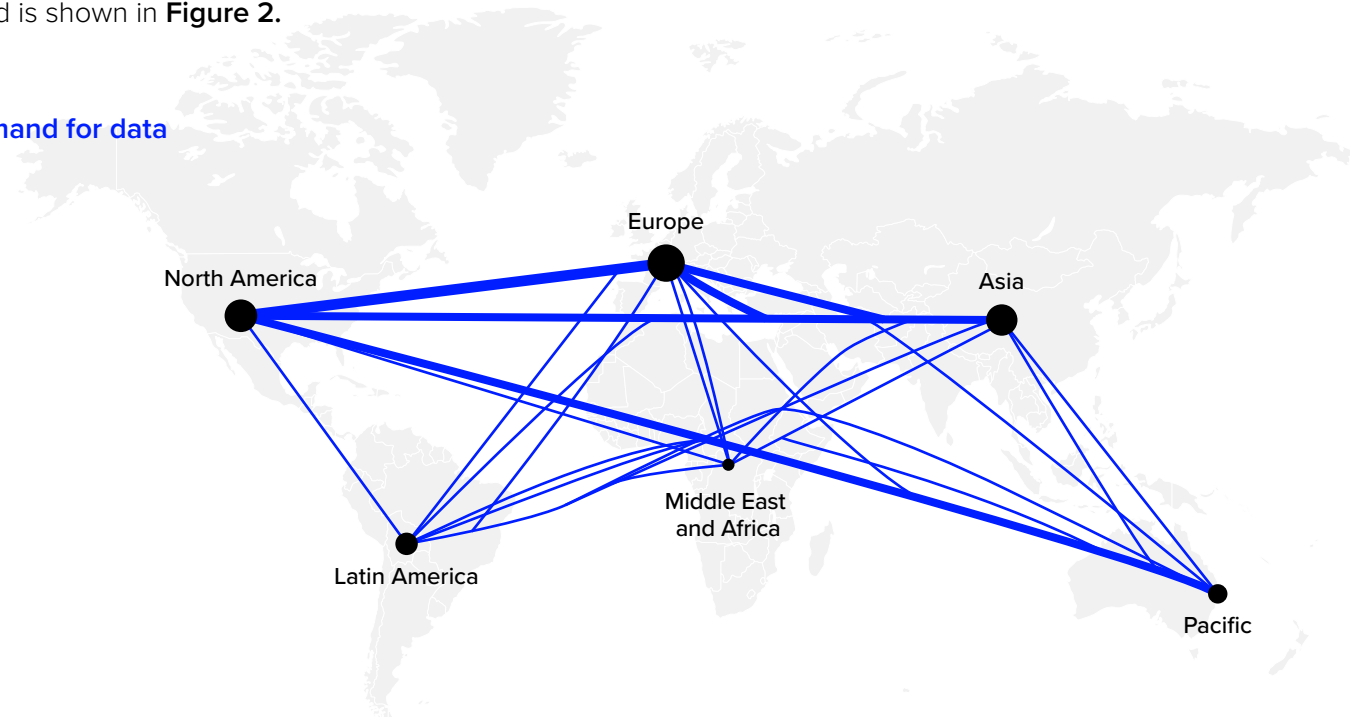
Economic empowerment and growth	Cross-border data flows are essential to unlocking economic opportunities. Being able to transfer data across borders supports enhanced productivity, greater competition and efficient delivery of goods and services. Such data flows empower small and medium-sized enterprises to start and scale and enable business of all sizes to serve customers across global markets.
Innovation	Cross-border data flows enable consumers and businesses to access a broader range of services and leverage cutting-edge technologies, such as artificial intelligence and machine learning. Such innovation can help to advance progress across a range of fields to benefit society, from global health to the green economy.
Risk management	Cross-border data flows enable companies to track operations across multiple jurisdictions and manage risk consistently and comprehensively. For example, globally accessible know-your-customer (KYC) data helps financial institutions to prevent their business from being used to launder the proceeds of financial crime, and cross-border data flows allow firms to monitor and respond to cybersecurity and other operational risks in real time.
Resilience	Storing and transferring data across jurisdictions helps to support the resilience of the global economy and the security of consumer and business information. For example, as the effects of climate change continue to develop, the use of cloud computing can minimise the potential impacts of wildfires and flooding to a company's data and operations.
Compliance and oversight	Regulators need access to information from across jurisdictions to fulfil their responsibilities. For example, as financial regulators conduct oversight on international transactions to promote safety and soundness, they require a comprehensive picture of both sides of each transaction to understand the financial and legal implications. ⁴ Many regulators also require financial institutions to aggregate certain types of information, creating a more comprehensive picture of potential cyber and financial crime. With timely access to data across jurisdictions, companies can meet this obligation.

⁴ IRSG, How the trend towards data localisation is impacting the financial services sector (2020), https://www.irsg.co.uk/assets/Reports/IRSG_DATA-REPORT_Localisation.pdf

As a global financial markets infrastructure and data business, LSEG observes this growing global demand for data. Every day, we deliver around **300 billion data messages to customers across 190 countries**. With data becoming ever more central to the global economy, we have seen **customer demand for our data rise by around 40% per year since 2019**. This global demand is shown in **Figure 2**.

Part of this demand is fuelled by the private sector's **increasing concern about its societal and environmental impact**. A recent survey⁵ of our customer base shows that alongside digital transformation and innovation, sustainable finance initiatives and anti-money laundering and fraud prevention are among the top focus areas across all regions.

Figure 2: The global demand for data



This map shows the global reach of LSEG's data. Looking at all real-time data instruments (Exchange- and contributor-provided) over the last 12 months, this visualisation shows the origin point of data and where it is consumed. Measuring the number of times each instrument was requested, we observed just over 100bn hits over the 12-month period.

⁵ Refinitiv (an LSEG business) customer survey, H12022: 'Which of the following is your organization currently focused on?': Digital transformation (Americas 36%, Asia Pacific 50%, EMEA 48%); Regulatory compliance (Americas 34%, Asia Pacific 39%, EMEA 40%); Sustainable finance (Americas 21%, Asia Pacific 25%, EMEA 31%); AML and fraud prevention (Americas 16%, Asia Pacific 27%, EMEA 25%)

Data provides the information companies and financial institutions need to address these concerns, and in turn contributes to the objectives of governments, regulators and society more broadly.

For example, data can help to **combat financial crime**. Criminal networks operate without borders, and consequently, companies need to have access to global data required to detect and prevent their activities. Beyond anti-money laundering efforts, the need for global data also applies in the context of **green crime** – including environmental crime, wildlife crime and any actions that flout regulations which aim protect to the environment. LSEG's World-Check database is a good example, with tens of thousands of records which relate to green crime, spanning more than 10,000 locations across 170 countries.

Our data also helps the financial sector to drive growth across the global economy and to **allocate capital more sustainably**. For example, we offer one of the richest environmental, social and governance (ESG) databases in the industry, covering standardised ESG data points and analytics for over 85% of global market cap based on publicly reported company data. This includes 12,000 global companies, across 76 countries, spanning major global and regional indices.

In recent years, however, **the regulation of data across the world has become more fragmented**, making it more challenging for companies to operate across jurisdictions and harness the benefits of cross-border data flows.

Restrictions on digital trade are on the rise – around a third of data-localisation measures apply across sectors, and around 40% specifically target technology infrastructure, telecommunications or financial services.⁶ In addition, according to the World Economic Forum, **data flow restrictions and data-localisation requirements can lower economies' GDP by up to 0.4% and 1.7%, respectively**, depending on the economy and severity of the measure.⁷

Given this context of data localisation, at LSEG we believe **rapid action is required to develop principles and agreements for cross-border data transfers**, and for digital trade more broadly. Policymakers have made progress on this agenda through global forums and bilateral and multilateral agreements. However, to maximise the value of digital economic cooperation, **more international coordination and public-private collaboration** from governments, regulators, international organisations and the private sector is required.

6 OECD, A preliminary mapping of data localisation measures, Trade policy paper n.262 (2022), https://www.oecd-ilibrary.org/trade/a-preliminary-mapping-of-data-localisation-measures_c5ca3fed-en

7 World Economic Forum, Paths Towards Free and Trusted Data Flows (2020), https://www3.weforum.org/docs/WEF_Paths_Towards_Free_and_Trusted_Data%20Flows_2020.pdf

1

Enhancing global digital economic cooperation to unlock the value of data flows

We support the establishment of a G7-led forum to strengthen international coordination on data and digital governance.

Policymakers have made welcome progress on enhancing digital economic cooperation. Governments and international organisations have been valuable in driving this forward, as **Figure 3** shows.

Figure 3: International developments to enhance digital trade

World Trade Organisation (WTO)	A group of more than 80 WTO members are seeking to advance discussions on digital trade through the Joint Statement Initiative on E-commerce.
G7	The G7 published (2021) a set of Digital Trade Principles and the G7 Finance Ministers and Central Bank Governors established (2020) a Technical Experts Group on Cross-Border Data Flows.
G20	The G20 launched (2019) the Data Free Flows with Trust initiative.
Organisation for Economic Co-operation and Development (OECD)	The OECD developed (2021) a Cross-border Data Flows Toolkit.
Asia-Pacific Economic Cooperation (APEC)	The APEC Framework for Securing the Digital Economy provides non-binding principles and strategic recommendations to inform member economies as they develop policy and regulatory frameworks.
Global Cross-Border Privacy Rules Forum (CBPR)	The new Global Forum (2022) seeks to promote trusted global data flows and to enable interoperability with other privacy frameworks. The signatories of the declaration are the US, Canada, Japan, South Korea, the Philippines, Singapore and Chinese Taipei.
Financial Stability Board (FSB)	Financial regulators formed (2021) a working group to consider ways of addressing the impact of cross-border data restrictions on cross-border payments to lower costs and improve speed.
Free Trade Agreements (FTA) and Digital Economy Agreements (DEA)	A number of bilateral agreements have helped to enhance cross-border data flows between the economies concerned. For example, the UK-Japan Comprehensive Economic Partnership Agreement includes a ban on unjustified data-localisation measures.



While this work has advanced over recent years, data-localisation requirements and restrictions on international data transfers have continued to proliferate. These requirements undermine broader efforts to enhance cross-border data sharing, and in turn the benefits that it brings. Policymakers can help address this challenge by **creating a new forum for international coordination and cooperation on policy frameworks affecting the digital economy.**

Japan is particularly well placed during its G7 host year to create such a forum. It would be an appropriate next step following Japan's leadership in advancing the concept of Data Free Flow with Trust (DFFT) and international digital rulemaking during Japan's tenure as G20 chair in 2019.

Building on the G7's existing work in this area, the forum would help its members find **common ground and creative approaches to promote open principles for digital economic cooperation.** In turn, it could complement and support the WTO electronic commerce negotiations and help to build a trusted environment for cross-border data flows. A cross-sectoral group of companies supported a similar idea in the run-up to the UK G7.⁸

⁸ Aflac, Amgen, Applied Materials, Citi, Dell Technologies, Dow, ENGIE, EY, GM, GSK, IBM, Mastercard, Mercedes, NEC, Nexi, Nike, NTT, Qualcomm, Schneider Electric, Siemens, SoftBank Group, Toyota, UL, Visa, and Zoom, Setting principles for the digital economy: Establishing a G7 Data and Technology Forum (2021), <https://www.mastercard.com/news/insights/2021/setting-principles-for-the-digital-economy-establishing-a-g7-data-and-technology-forum/>

Specifically, through the forum, **governments and regulators should develop common principles and practical approaches to establishing resilient, interoperable, transparent and stable policy frameworks.**

These principles and approaches would address ongoing challenges such as ensuring security, data protection and intellectual property, and would recognise the importance of cross-border data flows for productivity, innovation, competitiveness and sustainable development.

Governments should also work in collaboration with stakeholders.

Public-private collaboration is essential in the context of digital trade to provide policymakers with real-world insights on the challenges businesses face. Private sector stakeholders, for example, could support the development of the guidelines on **storing, accessing and processing data, to encourage interoperability between jurisdictions.**

In pursuing its work, the G7 should seek to promote the following objectives:

Growth and trust:

- Enable the free flow of data across borders, recognising that data flows are the lifeblood of the global digital economy, including for micro, small and medium-sized enterprises
- Address local data storage and processing requirements, recognising that data security depends on *how* data is stored and processed, not where it is stored and processed
- Promote inclusive growth and sustainable development by enhancing connectivity, building capacity, and developing digital skills
- Facilitate the adoption of risk-based policies that ensure transparent, interoperable, and secure data regimes
- Promote communication channels to cooperate with international bodies and regulators

Solutions to practical challenges:

- Prioritise interoperability among domestic regulatory systems, including in developing new regulations
- Foster cooperation among regulators to address global challenges and promote innovation in the digital economy



2

Setting the gold standard for digital trade agreements

We support the conclusion of best-in-class digital trade agreements, which facilitate the free flow of data.

Addressing fragmentation of global data flows is an ecosystem-level challenge that will require multilateral as well as bilateral solutions.

While putting in place a global structure for cooperation on digital trade is essential, countries can also **enhance cross-border data flows through bilateral and multilateral agreements**.

The Comprehensive and Progressive Agreement for Trans-Pacific Partnership (CPTPP), for example, includes a commitment by its members not to impose requirements for businesses to locate data storage centres or computing facilities in a particular market.⁹ Market participants view these provisions positively: 69% of medium and large firms surveyed by the Centre for Strategic and International Studies highlight the CPTPP's enabling of free data transfers as beneficial.¹⁰

Countries have also negotiated important commitments on data transfers in **standalone digital economy agreements**.

The UK-Singapore Digital Economy Agreement (DEA) and the US-Japan Digital Trade Agreement set good examples in this regard, with both containing provisions to ensure the free flow of trusted data and to assure standards for personal data protection.

Nonetheless, not all trade agreements include strong provisions on digital governance and some include broad carveouts, which weaken their effectiveness in promoting digital trade. According to the OECD, of 29 trade agreements involving 72 economies between 2008-2021, only 45% have binding commitments to enable cross-border data flows (for all types of data).¹¹

Financial data provides a strong case study to demonstrate how **progress on enhancing cross-border data flows can be achieved in specific areas without undermining broader policy objectives**. Trade deals such as the United States-Mexico-Canada Agreement (USMCA) show that it is possible to ensure financial regulators maintain access

⁹ Australian Government, CPTPP outcomes: trade in the digital age (2019) <https://www.dfat.gov.au/trade/agreements/in-force/cptpp/outcomes-documents/Pages/cptpp-digital>

¹⁰ CSIS, What do CPTPP member country businesses think about the CPTPP? (2021) https://csis-website-prod.s3.amazonaws.com/s3fs-public/publication/210824_Suominen_CPTPPSeries_Paper2.pdf?u7QKCCnHIXjTh3X954_D6ZVbbuKMxgj

¹¹ OECD, Mapping commonalities in regulatory approaches to cross-border data transfers (2021) https://www.oecd-ilibrary.org/trade/mapping-commonalities-in-regulatory-approaches-to-cross-border-data-transfers_ca9f974e-en

to data when required, without restricting international flows in more general terms. Financial authorities have also taken their own steps to promote cross-border data flows, recognising their value to promoting financial stability, through joint statements such as the 2022 statement by the Monetary Authority of Singapore and the Swiss State Secretariat for International Finance.¹²

Policymakers can also **negotiate arrangements that supplement trade agreements and provide more detail on future cooperation to promote data connectivity**. For instance, the UK-Singapore DEA is accompanied by a memorandum of understanding (MoU) to ensure ongoing cooperation between HM Treasury and the Monetary Authority of Singapore.

As noted in the City of London's report on The Practical Implications of Digital FTA Provisions on the UK Financial Services Sector, to which LSEG contributed, digital MoUs that detail how regulators intend to implement shared commitments to data connectivity can be

valuable in providing the clarity required to enhance digital trade.¹³

LSEG recommends likeminded countries continue to build momentum on digital trade by **putting in place best-in-class digital trade agreements that facilitate data transfers across sectors**. Specifically, to enable trusted data flows, provisions in such agreements should:

- Prohibit limits on cross-border data flows and requirements for localisation of computing facilities, with limited exceptions tailored to specific policy objectives
- Prohibit requirements to transfer or allow access to source code or algorithms
- Prohibit cryptography transfer requirements, with appropriate exceptions for law enforcement
- Adopt or maintain interoperable frameworks to protect personal information, while supporting innovation

- Mitigate risk of cyberattacks and cyber theft through adoption of common risk-based approaches as well as initiatives to address specific concerns such as submarine cable disruptions
- Deepen regulatory cooperation in technological innovation, complementing multilateral and other bilateral provisions aimed at promoting cross-border technology development and growth, including in the financial technology sector.
- Promote regulatory dialogues to share best practices and resolve potential frictions, and establish regulator-to-regulator memoranda of understanding to provide more detail on the implementation of commitments to cross-border data flows
- Promote the use of technologies, such as cloud, that support cyber and operational resilience

¹² Monetary Authority of Singapore and the Swiss State Secretariat for International Finance, Joint Statement of Intent between the Monetary Authority of Singapore and the Swiss State Secretariat for International Finance to Promote Data Connectivity for Financial Services (2022), <https://www.mas.gov.sg/news/media-releases/2022/joint-statement-of-intent-between-the-monetary-authority-of-singapore-and-the-swiss-state-secretariat-for-international-finance-to-promote-data-connectivity-for-financial-services>

¹³ City of London Corporation, The Practical Implications of Digital FTA Provisions on the UK Financial Services Sector (2022) <https://www.cityoflondon.gov.uk/assets/Business/digital-fta-provisions.pdf>

Navigating the way forward

As the global economy continues to reset and rebuild from the Covid-19 pandemic, **connectivity and cooperation across borders** have never been more important. Society faces increasing costs, the growing threat of climate change and ongoing challenges such as financial crime.



Given that **harnessing data** will be critical to overcoming these problems, businesses need a robust policy framework underpinning digital trade to do so.

The G7 can lead the way by **establishing a new forum to strengthen coordination on data and digital governance**, under which it can agree on a baseline set of principles to facilitate international data transfers and digital trade more broadly. These principles would help reduce fragmentation and enhance cooperation to address global challenges.

While the G7 is well placed to set the foundations for digital trade, **an open global digital economy is essential**. That is why the forum would eventually seek to expand participation beyond the G7 and build incrementally to achieve a **common global approach to digital trade and data**.

At the same time, the G7 and other governments can put in place **best-in-class digital trade agreements** that serve as a blueprint for other countries. Importantly, by taking a leadership role on this agenda, countries that see digital economic cooperation and the free flow of data as a strategic priority can help to strengthen the case for other countries to follow suit.

The potential of digital trade is enormous, but the policy environment on which it depends is at a crossroads. It is vital that policymakers and the private sector work together to **enhance coordination and prevent fragmentation in the digital economy**. Doing so will be key to establishing a secure, trusted, resilient digital ecosystem that will help to address many of the world's most pressing challenges. LSEG is committed to collaborating with policymakers and industry to advance digital economic cooperation and to unlock the value of data flows in the digital economy.



LSEG is more than a diversified global financial markets infrastructure and data business.

We are dedicated partners to our customers, with an open model and commitment to excellence. With extensive experience, deep knowledge and global presence across financial markets, we enable businesses and economies around the world to fund innovation, manage risk and create jobs. It's how we've contributed to supporting the financial stability and growth of communities and economies globally for more than 300 years.

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