ACCOUNTANCY EUROPE.

UPDATE

TECHNOLOGY

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POLICY DEVELOPMENTS

FINTECH RAPPORTEUR DISCUSSES HER REPORT

European Parliament (EP) Rapporteur Cora van Nieuwenhuizen (ALDE, NL) discussed her draft report on FinTech during a breakfast discussion at Hume Brophy on 2 February. According to the Rapporteur, FinTech presents *'massive opportunities'* for Europe. The EU should be careful not to lag behind if it wants to remain competitive.

To support innovation and guarantee the stability of the financial system, van Nieuwenhuizen believes the first three priorities of the European Commission's forthcoming FinTech Action Plan should be i) cybersecurity, ii) cybersecurity, and iii) cybersecurity.

The Rapporteur also takes a cautious approach when it comes to data storage. During the discussion, she highlighted the need for Europe to invest in data storage infrastructure to reduce independence from the US. In her report, van Nieuwenhuizen stresses the need for clear, comprehensive European guidelines for outsourcing data to the cloud in the financial sector.

Moreover, the use of Bitcoin and other virtual currencies by criminals was discussed. According to Europol, Bitcoin accounts for over 40% of all identified criminal-to-criminal payments.

The ECON Committee is scheduled to vote on the report on 10 April 2017. This own-initiative report is not legally binding. Rather, it is likely to influence current and future discussions on the regulation of FinTech.

ESMA INVESTIGATES NEW TECHNOLOGIES

The European Securities and Markets Authority (ESMA), an independent EU body that aims to safeguard the stability of the EU financial system, is investigating the use of cloud computing and distributed ledger technology (DLT).

ESMA announced in its Work Programme 2017 that it wants to better understand the impact and risks of the increased use of cloud computing in the trade repository (TR) and credit rating agency (CRA) industries. The purpose is to be able to formulate a clearer supervisory response to the subject.

ESMA intends to start with a stocktaking on the actual cloud computing implementations in the CRA and TR industries. Key areas of focus will include outsourcing, internal controls, and cyber security risks.

In January, ESMA published a report on the *"The Distributed Ledger Technology Applied to Securities Markets".* The document analyses how the technology interacts with the current legal framework and whether there is a need for additional regulatory action. ESMA concludes that the technology is still at an early stage and that it is therefore premature to fully appreciate what kind of regulatory response is necessary. The authority will therefore continue to monitor market developments to assess whether it needs to change its approach.

According to ESMA, DLT can have several advantages, such as enhanced reporting and data management capabilities. However, outstanding challenges include interoperability and the use of common standards, governance and privacy issues.

FIRST DIGITAL AMBASSADOR

In a unique move, Denmark announced plans to put in place a digital ambassador. The purpose of this ambassador would be to liaise with top technology companies, such as Apple, Google, and Microsoft. These are said to affect Denmark as much as some other countries do. Among other things, the ambassador would play an important role in attracting investments.

Noteworthy, while there are multinationals from several sectors that may affect investment in Denmark, it appears that the ambassador will only focus on technology giants. This shows the increasing influence of the technology sector.

The move is not without controversy. For example, Forbes believed that "equating those companies with nations sets a rather worrying precedent." After all, recent opposition to multilateral trade deals was grounded in fears that it would allow corporations to influence government decisions.

VIRTUAL CURRENCIES RISKS IN THE SPOTLIGHT

From 16 to 18 January 2017, the first Global Conference on Money Laundering and Digital Currencies discussed the risks associated with digital currencies. Among other things, participants agreed that countries should increase information sharing and training, as well as to consider the creation of the crime of unexplained wealth. Moreover, countries were advised to regulate Digital Currencies Exchangers and Wallet Providers under their current Anti Money Laundering (AML) legislation. The latter is in line with the current revision of EU AML rules.

During the conference, INTERPOL highlighted the importance of a global, cross-sectoral approach to ensure digital currencies are not exploited by criminals. INTERPOL is the world's largest international police organization and was one of the organisers of the conference. It is active in raising awareness about the use of virtual currencies by criminals.

ACCOUNTANCY EUROPE (MEMBER) INITIATIVES

ACCA: "THE FULL STACK"

The Global Body for Professional Accountants and the Economic and Social Research Council has identified six business models which could transform the way in which companies transact. Such models range from platform-based businesses, such as Airbnb, to 'Pay what you want', where customers can pay what they think is right. The author of the report, Jimmy Greer believes that accountancy practitioners will play an important role in advising business on these new business models.

> "Technology is only part of the story here. It is also about the ability of entrepreneurs and innovators to access new networks, capital and ecosystems amidst a challenging economic climate and in doing create new sources of lasting value." (Jimmy Greer, ACCA)

CIPFA/PUBLIC FINANCE: "ROBOT REVOLUTION: AUTOMATION AND PUBLIC SERVICES"

The Chartered Institute of Public Finance and Accountancy released a feature about the reality of how automation is affecting public sector jobs: Is it really cutting costs, improving productivity and saving time?

The article quotes several companies and experts about the pros and cons of technology. This includes warnings that 16% of public sector workers could be affected, with up to 861,000 public sector jobs ripe for automation by 2030. On the other hand, the article says that the public sector is at a lower risk of automation than other sectors that are less dependent on personal interaction.

"Overall, the public sector has a high number of roles that require a high degree of public interaction, caring and decision making, and these are relatively safe from automation, but there are still a number of roles where we can see technology displacing human work." (Ed Roddis, Deloitte)

CIPFA/PUBLIC FINANCE: "MARCH OF TECHNOLOGY 'COULD MAKE 250,000 PUBLIC SECTOR JOBS OBSOLETE'"

In a second technology related article, the Chartered Institute of Public Finance and Accountancy spotlights how artificial intelligence (AI) and automation in the public sector could render almost 250,000 administrative roles obsolete. The numbers are based on the *"Work in progress."* report from Reform, a think-thank, which examined how public sector productivity could be improved. The report highlights the pressures on the public-sector workforce to undergo change. In particular, it is important to deliver better value for money and to adopt a more user-friendly approach in the public sector.

"Various companies aim to develop artificial intelligence that can diagnose conditions more accurately than humans." (Alexander Hitchcock, Reform)

ROBOTS ARE TAKING OVER

JOURNAL OF ACCOUNTANCY: "DRONES SET TO INVADE ACCOUNTING PROFESSION"

The article states that unmanned flying devices (drones) have the potential to bring new ways of doing business to accounting firms. Small- and medium-sized firms (SMEs) can adapt drone technology as an add-on service to enhance routine audits or asset assessments. A practical example could be a firm which is working with clients that own large mineral deposits or mining operations. Drones would fly over an area and take thousands of pictures and measurements. CPAs can then use that data to provide exact estimates of holdings.

"Commercial drones are the way of the future, and it's going to make a big difference for any firm" (Julia Morriss, AICPA)

IFAC: "AUDIT DATA ANALYTICS: OPPORTUNITIES AND TIPS"

The International Federation of Accountants published an article about how technological advances and new software solutions enable auditors to engage in audit data analytics in a variety of new ways. The exploration of

large sets of audit-relevant data from internal and external sources may produce audit evidence used in risk assessment, analytical procedures, substantive procedures and control testing.

THE NEW YORK TIMES: "IBM GIVES WATSON A NEW CHALLENGE: YOUR TAX RETURN"

"Watson" is an artificial intelligence (AI) developed by IBM. "*Now, in its broadest deployment so far, Watson will be assisting H&R Block's 70,000 tax professionals this filing season at 10,000 branch offices across the country, where 11 million people file taxes*", the New York Times reports. The article is very interesting as it describes how the technology was slowly tested and introduced into the company.

"Seventy-five percent of Americans who file taxes get money back.
For H&R Block clients, the figure is about 85 percent [using "Watson"]."
(Bill Cobb, H&R Block)

ERNST & YOUNG: "PATH TO CYBER RESILIENCE: SENSE, RESIST, REACT"

In this report, EY looks at the findings of the latest "*Global Information Security Survey 2016-17".* Based on the responses of 1735 interviewed persons, EY suggests three steps to achieve cyber resilience: i) sense, ii) resist, and iii) react. Furthermore, the report highlights the key characteristics of a cyber resilient enterprise: Understanding the business and the cyber ecosystem, determining risk factors and (protecting) critical assets, exceptional leadership, creating a culture of change readiness, and conducting formal investigations and preparation for prosecution.

UPCOMING EVENTS

- 21/03/2017: *European Consumer Day 2017* - The Digital Single Market: How does it benefit consumers? European Economic and Social Committee, Malta. See website
- 29/03/2017: *Digital Day*, Accountancy Europe, Brussels. Register here.

ABOUT ACCOUNTANCY EUROPE

Accountancy Europe unites 50 professional organisations from 37 countries that represent close to **1 million** professional accountants, auditors, and advisors. They make numbers work for people. Accountancy Europe translates their daily experience to inform the public policy debate in Europe and beyond.

Accountancy Europe is in the EU Transparency Register (No 4713568401-18)