

Valdis Dombrovskis  
Vice-President European Commission  
Rue de la Loi 200  
1049, Brussels  
Belgium

Brussels, 16 May 2017

**Subject: Response to the Public consultation on FinTech**

Dear Vice-President,

Accountancy Europe is pleased to provide you with its comments on the European Commission *Public consultation on FinTech: a more competitive and innovative European financial sector*.

This letter focuses on the following issues:

- cloud computing: we need to form 'intelligent buyers' and address unjustified data localisation restrictions
- distributed ledger technology: a user-needs approach is best suited to look at applications for this promising technology
- boosting efficiency: FinTech could help reduce the compliance burden related to client due diligence
- data analytics: it can improve the audit quality, but also create a number of challenges. Regulators need to understand these issues and follow the innovations at the same pace as audit practices
- European supervision: European Supervisory Authorities (ESAs) should play a key role in ensuring consistency and common approaches to FinTech supervision across the EU

These issues are further elaborated in the annex.

Thank you for your consideration

For further information on this letter, please contact Willem Roekens on +32 (0)2 893 33 68 or via e-mail at [willem@accountancyeurope.eu](mailto:willem@accountancyeurope.eu).

Sincerely,



Edelfried Schneider  
President



Olivier Boutellis-Taft  
Chief Executive

## **CLOUD COMPUTING**

Cloud computing can bring many benefits. To create trust in cloud solutions, it is important that cloud service providers meet the minimum legal requirements, including those laid down by the General Data Protection Regulation (GDPR). The use of standard contractual clauses, as foreseen in the GDPR, is one way to support consumers of cloud solutions. Any potential EU initiatives in line with the *European Cloud Initiative* that are related to cloud contracts for business users might also be of interest in this regard, especially when it comes to non-personal data.

It is also important that users of cloud solutions are ‘intelligent buyers’, i.e. that they have access to knowledge that allows them to make an informed decision when choosing a cloud service provider. This includes having a good understanding of whether a particular cloud solution is in compliance with the law. Aside from compliance, businesses need to consider many factors when looking for appropriate cloud solutions.<sup>1</sup>

Finally, data localisation restrictions can limit the choice of cloud service providers. This means that companies might not be able to choose the service that best fits their needs. In its response to the Commission consultation on *Building the European data economy*, Accountancy Europe called to address unjustified data localisation restrictions by introducing guidance and creating more transparency regarding which measures are in place.

## **DISTRIBUTED LEDGER TECHNOLOGY TO STORE DATA**

Distributed ledger technology (DLT) can be used to store data. However, when deciding to use DLT to store data, it is important to take a user-needs approach.<sup>2</sup>

There are different types of information and different types of tools to store and share information. Ideally, the best match should be found between the storage needs of the information and the extent to which a particular data storage tool can address these.

DLT has a number of specific characteristics. It is therefore important to carefully assess the user-needs before supporting the application of DLT in a certain area. If a specific data storage need does not require the characteristics of DLT, then it might be that there are better alternatives than DLT. For example, public DLTs are probably unsuitable for storing personal data because they are irreversible and transparent. Besides, it is also important to take into account that there are different types of DLT that can have different characteristics.

One user case the Commission might find interesting to consider is the use of DLT in Delaware. This US State started experimenting with the use of DLT to register companies, track share movements, and manage shareholder communications. Recently, a group within the Delaware State Bar Association's Corporation Law Section has also [proposed](#) to allow the use of distributed ledger technology (DLT) to create and manage corporate records.

The use of DLT has the potential to benefit professional accountants<sup>3</sup>. For example, external auditors might benefit from the fact that it is difficult to introduce false transactions on a distributed ledger, which increases the certitude that a recorded transaction actually happened.

---

<sup>1</sup> Accountancy Europe, *Moving to the cloud*, available at: <https://www.accountancyeurope.eu/publications/moving-to-the-cloud/>

<sup>2</sup> See for example: Open Data Institute, *Applying blockchain technology in global data infrastructure*, available at: <https://theodi.org/technical-report-blockchain-technology-in-global-data-infrastructure>

<sup>3</sup> Narayanan Vaidyanathan, *Divided we fall, distributed we stand: The professional accountant's guide to distributed ledgers and blockchain* (2017, ACCA).

## **OUTSOURCING POTENTIAL TO BOOST EFFICIENCY**

Compliance with anti-money laundering rules can be very cost-intensive for financial institutions and other obliged entities. Any outsourcing solutions that could reduce this burden, while maintaining or improving customer due diligence quality, are therefore welcome.

For example, the Commission could look at the use of Know Your Customer (KYC) utilities and how their use can be facilitated. We welcome in this regard the Commission's Consumer Financial Services Action Plan's intention to set up a dedicated expert group to develop common guidelines on the use of FinTech for identifying customers.

## **DATA ANALYTICS**

Evolving technology has resulted in an increasing focus on data analytics, including in the field of audit. However, the journey is evolutionary and the data analytics audit is still a 'work-in-progress'.

Data analytics offer opportunities for auditors to obtain a more effective and robust understanding of the audited entity. For example, the use of data analytics might allow auditors to test 100 percent of transactions of a population. However, this does not imply that the auditor is able to provide more than reasonable assurance that the financial statements are free from material misstatements, or that the meaning of 'reasonable assurance' changes.

Moreover, the quality of a financial statement audit can be enhanced using data analytics. However, skilled and experienced auditors are a pre-requisite for data analytics to enhance audit quality. There is therefore a need to enhance the education and skillset of professional accountants and auditors as well as increase access to IT specialists (who also understand assurance needs).

This is equally valid for regulators' skills, as they significantly influence how the audit practice develops. Therefore, they need to understand the issues and follow the innovations at the same pace as audit practices as well as encourage this innovation in order to progress audit quality.

Data analytics are being used in practice now, but the current auditing standards predate this time and understandably did not anticipate the extent to which technology might evolve. Consequently, auditors and regulators find themselves in a situation where technology is rapidly outpacing the development of standards. We therefore support the International Auditing and Assurance Standards Board's efforts to embrace technological innovation within their suite of International Standards on Auditing (ISAs).<sup>4</sup>

## **A ROLE FOR THE EUROPEAN SUPERVISORS**

Given the fragmented and nascent nature of FinTech, it is too early to establish a common and comprehensive EU-level regulatory framework tailored for the FinTech sector. In the absence of such a common EU framework, the role of the European Supervisory Authorities (ESAs) in FinTech should be carefully assessed.

---

<sup>4</sup> Accountancy Europe, *IAASB's Request for Input: Exploring the Growing Use of Technology in the Audit, with a Focus on Data Analytics*, available at: <https://www.accountancyeurope.eu/consultation-response/iaasbs-request-input-exploring-growing-use-technology-audit-focus-data-analytics/>



For the time being, we see a role for ESAs in ensuring consistency and common approaches to FinTech supervision across the EU. On the one hand, uniform supervisory practices would ensure that FinTech innovation has room to grow and bloom across all EU Member States. In this context, there should be as much convergence in definitions, criteria and treatment of FinTech stakeholders as possible without a binding regulatory approach. On the other hand, national supervisors could learn from each other's best practices. As the Commission points out, there is a myriad of ongoing national initiatives and experiments across the EU, where undoubtedly some countries are more developed than others.

ESAs need to, therefore, be in a place where they can monitor, gather, compare and present national experiences and practices to supervision and promoting innovation. Given the cross-sectoral impact that FinTech innovations have on banking, financing and insurance sectors alike, the Joint Committee of the ESAs could be an appropriate forum for this purpose.