

### **UPDATE**



26 June 2017

### **POLICY DEVELOPMENTS**

#### EUROPEAN PARLIAMENT CRITICAL OF MECHANISM TO TRANSFER DATA TO THE US

The European Parliament <u>adopted</u> a resolution on 6 April that is critical of the Privacy Shield. To recall, the latter is the main tool for companies to transfer personal data from the EU to the US. When the predecessor of the Privacy Shield (the Safe Harbour Agreement) was struck down, it created major legal uncertainty for audit and accountancy firms that used servers in the US.

This non-binding resolution is the latest sign that there is still a lot of unease in the EU about the adequacy of the Privacy Shield to protect the privacy of EU citizens. The Commission will review the tool in September. It is therefore advisable for practitioners that store their data in the US to closely follow any relevant developments in this field.

#### MID-TERM REVIEW DIGITAL SINGLE MARKET

On 10 May, the European Commission <u>published</u> its mid-term review of the Digital Single Market. Among other things, the EU's executive tackles issues related to data and cyber security.

In the review, the Commission focuses on the free flow of non-personal data within the EU. This includes ensuring the availability of data across borders for regulatory purposes, for example for tax controls.

Moreover, the Commission is expected to propose an initiative in autumn on cloud contracts for business users. This initiative could have an impact on the accountancy profession since many practitioners are moving to the cloud. Accountancy Europe is in favour of EU action to address unjustified data localisation measures to help accountancy professionals make best use of available cloud services.

It is important to note that the Commission also intends to review the EU cybersecurity strategy by September 2017, as well as the mandate of the European Union Agency for Network and Information Security (ENISA). Moreover, the Commission will develop measures on cyber security standards, certification, and labelling to make ICT-based systems more cyber-secure. The latter might be beneficial to accounting firms which are offering services related to cyber risk management. In an increasingly digitalised world, cyber security is of key importance for businesses.

#### **EUROPEAN PARLIAMENT COMMENTS ON FINTECH**

On 17 May, the European Parliament adopted a <u>report</u> on *FinTech: the influence of technology on the future of the financial sector*. Overall, the Members of the European Parliament (MEPs) take a positive approach towards FinTech. The report is non-binding. However, it gives an indication of how the Parliament might react to potential future legislative proposals in this area. Moreover, the Commission sometimes picks up the suggestions of the Parliament.

Among other things, Parliament called on the Commission to develop a FinTech Action Plan. The number one priority of this Action Plan should be cybersecurity. Besides, MEPs stress that financial services legislation should be sufficiently innovation-friendly and that RegTech (Regulatory Technology) has the potential to improve compliance processes.

The report acknowledges the role of data in FinTech. Parliament stresses therefore the need for a free flow of data within the Union. Similarly, Accountancy Europe has also called on the Commission to take measures to address unjustified data restrictions.

Moreover, MEPs highlight the benefits of cloud computing and call for comprehensive European guidelines for outsourcing data to the cloud, which should include standards of data security and consumer protection. Accountancy Europe previously published guidelines to help accountancy professionals make the decision on whether to move to the cloud<sup>1</sup>.

While the report acknowledges the potential of blockchain applications, it expresses concern about the increased use of 'unpermissioned blockchain networks' for criminal activities, tax evasion, tax avoidance and money laundering. MEPs call therefore on the Commission to closely monitor these issues, including the role of mixers/tumblers in this process. The latter are services to aim to anonymize virtual currency transactions. It is not the first time that virtual currencies are in the regulatory spotlight. For example, the ongoing revision of the 4th Anti-Money Laundering Directive includes proposals to extend the scope of the Directive to virtual currency actors, such as virtual wallet providers and virtual currency exchange platforms.

#### **NO MORE RANSOM!**

The National High Tech Crime Unit of the Dutch police, Europol's European Cybercrime Centre and two cyber security companies – Kaspersky Lab and Intel Security – have set up the <u>No More Ransom website</u>. This initiative aims to educate users about prevention and to help victims of ransomware retrieve their encrypted data without having to pay the criminals.

The worldwide WannaCry ransomware attack that started on 12 May and infected hundreds of thousands computers is a strong reminder that cyber security is a serious issue. Besides, as reported in our <u>Technology Update of 14 March</u>, the European Union Agency for Network and Information Security (ENISA) recently highlighted that everybody is exposed to cyber-threats and that cyber-crime is increasing. ENISA recommended therefore that businesses take precautionary measures. More recently, the Justice and Home Affairs Council of 18 May <u>included</u> cybercrime as one of the EU's priorities for the fight against serious and organised crime for 2018-2021.

Accountancy professionals will thus benefit from looking at whether the "No More Ransom" initiative can be a useful tool for them to beef up their cybersecurity.

#### **EPRIVACY: GUARANTEEING CONFIDENTIALITY IN COMMUNICATIONS**

The European Commission <u>proposed</u> on 10 January 2017 a Regulation to enhance the protection of confidentiality of electronic communications (the Proposal). The aim is to update the ePrivacy Directive (2009) in line with the latest technological developments. This means the Proposal seeks to extend the scope to new electronic communications services such as web-based email, Skype for Business, WhatsApp, or iMessage.

The Proposal complements the General Data Protection Regulation (GDPR). The ePrivacy Regulation would complement the GDPR in situations outside the scope of the GDPR. For example, when a company emails non-personal information, such as trade secrets or bookkeeping figures. The Proposal is therefore important to guarantee the confidentiality of companies' electronic communications.

<sup>&</sup>lt;sup>1</sup> Accountancy Europe (previously FEE), 2016, *Moving to the cloud*, [online] Available at: <a href="https://www.accountancyeurope.eu/publications/moving-to-the-cloud">https://www.accountancyeurope.eu/publications/moving-to-the-cloud</a>.

<sup>&</sup>lt;sup>2</sup> This are blockchain networks which everybody can join without the networks participants' permission (which is granted by a consensus mechanism), e.g. Bitcoin.

Furthermore, the ePrivacy Regulation would particularise the GDPR (as a *lex specialist*) in situations where both instruments would apply. E.g. texting your partner that you are sick.

The Proposal will become law once the European Parliament and the Council agree on a common text. Both institutions have started their internal deliberations to determine their respective positions.

### **ACCOUNTANCY EUROPE (MEMBER) INITIATIVES**

If you would like to share your latest technology-related initiative, please e-mail Willem or Robin.

#### WHAT DO THE NEW EU DATA PROTECTION RULES MEAN FOR YOU?

Accountancy Europe has published a <u>factsheet</u> on the General Data Protection Regulation. These new EU data protection rules enter into force on 25 May 2018 and will apply to everyone dealing with personal data information, whether this is stored online or on paper.

Professional accountants are directly impacted by these requirements as they deal with collecting, storing and processing personal data in relation to their clients, employees, and subcontractors. These data protection requirements need to be seriously considered as fines could go up to tens of millions of Euro.

The purpose of this factsheet is to help accountants understand how the new legislation impacts their work. We explain the legislative changes and provide examples of what these mean in practice, among others: to inform the client on their data rights, ensure proper cybersecurity, and better and timely respond to data breaches.

#### **ACCOUNTANCY EUROPE TECHNOLOGY BAROMETER**

The latest technological advances will undoubtedly have a significant impact on the accountancy profession. Therefore, Accountancy Europe organized a <u>Technology Barometer</u> to assess how our Member Bodies are preparing themselves for such change.

The survey results show that our Members have a clear positive outlook for the future and that technology plays an increasingly important role in their work. The institutes also expressed a need for Accountancy Europe to support them more in getting technology-ready.

Understanding our Members' views on technology – and its potential to improve accountancy services – will help us ensure that the accountancy profession makes the best use of technology in the public interest.

### COMMISSION ORGANIZES FINTECH CONSULTATION

Accountancy Europe responded to the European Commission <u>Public consultation on FinTech: a more competitive and innovative European financial sector</u>. The response provided comments 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

## ACCA: DIVIDED WE FALL, DISTRIBUTED WE STAND AND FINTECH - TRANSFORMING FINANCE

The Association of Chartered Certified Accountants (ACCA) published a report on <u>FinTech - transforming finance</u>, which explores the impact of financial technologies (FinTech) on the financial services landscape. According to ACCA, some of the main trends in FinTech include a strong growth of FinTech start-ups (and investment), as well as changing perceptions of what a bank can and should be. Finally, the report also notes that the FinTech surge provides professional accountants with the opportunity to help companies manage the regulatory, tax, and financial implications.

A second paper, <u>Divided we fall, distributed we stand</u>, is a recommended read for those that feel that one page articles on Bitcoin still leave you unsure about what to think about DLT, Blockchain, and smart contracts. ACCA not only explains the basic concepts, but also examines the technology's commercial potential and how this relates to the accountancy profession.

"For the accountancy profession, distributed ledgers might help with tasks particularly linked to recording and tracking of information". (Narayanan Vaidyanathan)

#### **ICAEW: DIGITALISATION OF TAX INTERNATIONAL PERSPECTIVES**

This <u>report</u> of the Institute of Chartered Accountants in England and Wales examines how tax administrations harnessed digital technology to reduce costs, as well as to improve compliance and tax yields. This has resulted in a 'channel shift'; instead of face-to-face and postal contact, administrations are using call centres and digital channels to interact with taxpayers. The report explores the most essential trends in digital tax administration and reviews seven case studies.

The study takes a nuanced approach by pointing out the benefits and pitfalls/ challenges related to the digitalisation of tax administrations. For example, digital methods are substantially cheaper: one Australian estimate showed that the provision of one service would cost AUD1 digitally, AUD16 over the phone, AUD32 by post, and AUD42 in person. Moreover, digitalisation can support reducing tax avoidance and evasion by providing tools for analysing tax data and catching omissions. On the other hand, ICAEW warns that digital exclusion must not be underestimated and that there is an increased risk of cyber security breaches.

The report also points out that digitalisation will reduce compliance work for tax advisors. They suggest that this changes the role of tax professionals from a primarily preparatory and compliance role to a confirmatory and advisory one.

#### ROBOTS ARE TAKING OVER

## EY: HOW CAN BLOCKCHAIN HELP BUILD FRICTIONLESS GOVERNMENT AND BETTER PUBLIC SERVICES?

Ernst & Young spoke to Brian Forde about how blockchain applications can make government operations more efficient and improve the delivery of public services. Brian Forde is the Senior Lecturer for Bitcoin and Blockchain at MIT and former White House senior advisor for mobile and data innovation during the Obama administration.

Forde explained how certain US states are working on blockchain. For example, Delaware is using the distributed ledger technology to facilitate company incorporation services. He also pointed out that it is important to educate the 'right' civil servants about blockchain and to find good partners in order for it to be leveraged by the public sector.

## THE WALL STREET JOURNAL: HOW ARTIFICIAL INTELLIGENCE WILL CHANGE EVERYTHING

The journal sat down with Andrew Ng, chief scientist of the Chinese internet giant Baidu, and Neil Jacobstein, chair of the artificial intelligence and robotics department at Silicon Valley. Together they discussed opportunities and challenges of artificial intelligence (AI) and whether the hype around technology is real. They also exchanged views on speech recognition, upcoming trends, and how fast machine learning is going to displace routine jobs. This is expected to happen in the next 15 years and lead to job displacement. Therefore, they stress the importance of affordable education to help retrain people whose job is taken over by robots.

"[...] one rule of thumb today is that almost anything that a typical person can do with less than one second of mental thought we can either now or in the very near future automate with AI." (Andrew Ng, Baidu)

# THE NEW YORK TIMES: AT BLACKROCK, MACHINES ARE RISING OVER MANAGERS TO PICK STOCKS

BlackRock laid out an <u>ambitious plan</u> to consolidate a large number of actively managed mutual funds with peers that rely more on algorithms and models to pick stocks. Being replaced by computer (models), at least 36 employees connected to the funds must leave the firm. BlackRock is the largest fund company in the world.

"We have to change the ecosystem — that means relying more on big data, artificial intelligence, factors and models within quant and traditional investment strategies."

(Laurence D. Fink, BlackRock)

#### **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)