Risks and opportunities of Blockchain and Distributed Ledgers Technologies (BDLTs)

EU experts and decision-makers discussed the complicated, controversial and fast-moving area of BDL technologies at a joint ACCA-EY conference in Brussels, which revealed that the EU is of the view that it is too early to regulate, with more experimentation and a proportionate, risk-based approach needed to avoid stifling innovation.

BDLTs – by their de-centralised or distributed nature – have the potential to transform the current architecture or design of areas of the financial system. They present several potential benefits for citizens, such as a more accessible and innovative financial system and improved security, as well as reduced back-office costs for businesses. But they also entail several legal and regulatory challenges, ranging from consumer protection mechanisms, to enforcement methods and possibilities of tax evasion, money laundering and the sale of unlawful goods.

On 25 April, ACCA and EY organised a lively debate with EU decision-makers and experts to shed some light on the risks and opportunities of BDLTs, a few hours ahead of the adoption by the European Parliament’s Economic and Monetary Affairs (ECON) Committee of the draft report on "FinTech: the influence of technology on the future of the financial services".

MEP Cora van Nieuwenhuizen, who led ECON’s report on FinTech said:

‘Europe doesn’t have the best starting position or the best legislation. We need to look forward and past the financial crisis because the rest of the world is moving on. When it comes to the global race to FinTech, it is important to remember that if we are not at the table, we will be on the menu. While it is still too early to take targeted policy actions, it is now up to the markets to identify how blockchain technologies can be used.

The European Parliament’s report on FinTech emphasises that this technology is still at the early phase. It calls for increased experimentation with blockchain technology by entrepreneurs and supervisors together, to create a mental shift from supervisors, often focussed on rule-based and ticking-box exercises, and move towards supervisors with more positive and innovative thinking’.

The debate revealed that while it is too early to contemplate regulatory solutions, there was a general agreement that future EU legislation and supervision for FinTech should be risk-based and proportionate to avoid hampering the emergence of this new sector with rules that are too rigid and which would punish innovators.

On the contrary, the focus should be on creating an enabling regulatory environment. All the speakers agreed that it is now time for testing potential applications for blockchain, both from a public and private sector perspective, in a collaborative -and inclusive way. The critical issue of improving financial literacy, and the financial and accounting skills of individuals, as well as the current skills gap were also raised.

MEP Eva Kaili, Chair of Scientific Foresight Unit (STOA) at the European Parliament said:
'Blockchain reflects the characteristics of the New Economy and the new way of thinking, moving away from traditional banks. The New Economy is not an abstract notion anymore and offers solutions that are cheaper and easier to access. Blockchain is not a pioneering technology: it is the infrastructure of the New Economy that will enable the exchanges of the Value Web. Blockchain gives the control back to the citizens, and changes the understanding of distances - as the new transactions have no borders, or restrictions as banks do. Blockchain can also achieve lowest transaction fees in an “open banking” mentality (currently its 130 bn euros in the EU only). This way we can regain trust from our citizens.'

'Future regulations should be technology neutral and business model neutral. The priority of the Scientific Foresight Unit (STOA) is to put blockchain at the core of the works of the ITRE Committee of the European Parliament in the next 2-5 years.'

On 11 May STOA and DG CONNECT will host a joint event on blockchain in the European Parliament. More info and registration here.

Elizabeth Krahulecz, Director - Head of EMEIA Regulatory & Public Policy of the EY Brussels Office added:

'For the technology to progress, broad industry collaboration and regulatory certainty are critical. It is also critical that standard setters keep pace with innovative technologies – without rushing to rule making – while technologies are still moving. We are in a fast moving car. The aim is to support collaboration between industry and regulators to formulate the right approach of regulation and solutions to develop with an adequate risk framework in mind.

'Blockchain technology has the potential to revolutionise the profitability of capital markets: delivering operational efficiency, freeing up capital and reducing risk. EY is keen to facilitate that technology leaders and regulators work together to ask better questions and create better solutions.'

Narayanan Vaidyanathan, head of Technology Insight and lead author of the ACCA’s professional accountant’s guide to distributed ledgers and blockchain - which was launched during the conference - said:

'For the accountancy profession, distributed ledgers might help with tasks particularly linked to recording and tracking of information. In audit, for example, this might open up the possibility of basing the opinion on the entire data-set rather than a sample. Also, rather than relying on an annual snap-shot, a more on-going view of business performance might become possible. Like any technology, however, it is important to know where not to use them, as much as where to do so. If you want to interpret a standard taking into account a particular business context, figure out fair values of assets, or deal with an issue requiring ethical judgment – these tools seem less likely to provide the definitive answer.

Perhaps the lesson of history is that technology works best when combined with human judgement. Just as online learning co-exists with classroom teaching to create blended
learning solutions these tools may be at their best when combined alongside human expertise’, he concluded.

The European Commission published on 23 March a public consultation entitled “FinTech: a more competitive and innovative European Financial Sector” and set up a cross-DG Financial Technology Task Force. Once the results of the consultation are digested, the EU executive could come forward with a broad strategy on FinTech which is expected before the end of 2017. The idea of regulatory ‘sandboxes’ applied in an EU context – among others ideas – has also been floated.

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Note to Editors

About ACCA

Contact: Cecile Bonino, Head of EU Affairs, tel: +32 (0) 2 286 11 37 or cecile.bonino@accaglobal.com

ACCA (the Association of Chartered Certified Accountants) is the global body for professional accountants. It offers business-relevant, first-choice qualifications to people of application, ability and ambition around the world who seek a rewarding career in accountancy, finance and management.

ACCA supports its 188,000 members and 480,000 students in 181 countries, helping them to develop successful careers in accounting and business, with the skills required by employers. ACCA works through a network of 95 offices and centres and more than 7,110 Approved Employers worldwide, who provide high standards of employee learning and development. Through its public interest remit, ACCA promotes appropriate regulation of accounting and conducts relevant research to ensure accountancy continues to grow in reputation and influence.

Founded in 1904, ACCA has consistently held unique core values: opportunity, diversity, innovation, integrity and accountability. It believes that accountants bring value to economies in all stages of development and seek to develop capacity in the profession and encourage the adoption of global standards. ACCA’s core values are aligned to the needs of employers in all sectors and it ensures that through its range of qualifications, it prepares accountants for business. ACCA seeks to open up the profession to people of all backgrounds and remove artificial barriers, innovating its qualifications and delivery to meet the diverse needs of trainee professionals and their employers. More information is here: www.accaglobal.com

About EY

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