Targeted consultation on artificial intelligence in the financial sector

A public consultation issued by European Commission

Comments from ACCA to Directorate-General for Financial Stability, Financial Services and Capital Markets Union

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About ACCA:

ACCA (the Association of Chartered Certified Accountants) is the global professional body for professional accountants.

We're a thriving global community of **247,000** members and **526,000** future members based in **181** countries and regions, who work across a wide range of sectors and industries. We uphold the highest professional and ethical values.

We offer everyone everywhere the opportunity to experience a rewarding career in Accountancy, finance, and management. Our qualifications and learning opportunities develop strategic business leaders, forward-thinking professionals with the financial, business, and digital expertise essential for the creation of sustainable organisations and flourishing societies.

Since 1904, being a force for public good has been embedded in our purpose. We believe that Accountancy is a cornerstone profession of society and is vital in helping economies, organisations, and individuals to grow and prosper. It does this by creating robust trusted financial and business management, combating corruption, ensuring organisations are managed ethically, driving sustainability, and providing rewarding career opportunities.

And through our cutting-edge research, we lead the profession by answering today's questions and preparing for the future. We're a not-for-profit organisation. Find out more at accaglobal.com

For further enquiries please contact:

Fiona Murray
Head of EU Public Affairs

Jessica Bingham ACA FRSA
Regional Lead, Policy and insights (UK, Europe, Eurasia, Middle East & Americas)

fiona.murray1@accaglobal.com

jessica.bingham@accaglobal.com

GENERAL COMMENTS

ACCA welcomes the opportunity to respond to this consultation. Our overall response to this consultation is informed by the fact that we are public interest body in the education sector with members and students in accountancy and finance. As such ACCA does not sell AI products in the market, though our members and students may use these in the course of their work and training. As a neutral party in relation to AI products in financial services, our overall view is that the use of AI in accountancy and finance related workflows is a work-in-progress, though there is a lot of activity and positive development. It will also be important to view AI very much as an assistant with clear oversight processes – the human-in-the-loop aspect is critical.

SPECIFIC COMMENTS

Question 2. What are the positive things you encounter when using AI?

A key differentiator and value proposition for AI is the ability for personalisation at scale. Historically, the choice has been high volume and standardised; or low volume and customised. AI allows for the ability to 'learn' about the characteristics of a customer over time and create solutions that will map specifically to their needs. In the education sector (ACCA is an accountancy and finance qualification provider) this can translate into creating individual and personalised learning journeys for different types of learners in large volumes.

Question 3. What are the negative things you encounter when using AI?

Quality and accuracy: there are many AI solutions with tremendously powerful value propositions. But the day-to-day performance and delivery, doesn't always match the expectations (perhaps even hype). This is often due to gaps in the training data, data quality not being maintained over time, or the model not being tuned/retuned as often as it needs to be. This is however mitigated by effective management of surround factors such as the human-in-the-loop touchpoints and organisational processes around the technology itself.

Question 8. What are the main benefits/advantages you see in the development of your AI applications?

- Greater alignment between solution and customer need, based on learning more about customer profiles over time and reflecting in product characteristics dynamically.

- AI solutions are not as heavy on upfront capex requirement. Opportunity for licence /subscription model based.

- With low code/no code platforms, the barrier to entry for those who are not expert programmers is lowered.

Question 13. Can AI help to reduce the reporting burden?

We see sustainability reporting as a potential area for AI to optimise. This pertains to non-financial reporting, and more so than financial reporting, there may be a greater reliance on source information that is nonnumerical. For instance, narrative reporting and analysis about the sustainability initiatives of an organisation, which has some metrics and data, but also a lot of nuance and context linked to the industry and region where the organisation is operating. LLMs and AI more generally is good at dealing with unstructured data and can play a key role in extracting this type of information, analysing it, and structuring it into reporting templates for compliance.

Question 14. Do you think AI can facilitate compliance with multiple regulatory standards across the EU and thus facilitate market integration or regulatory compliance? For example, would you consider it feasible to use AI for converting accounting and financial statements developed under one standard (e. g. local GAAP) to another standard (e.g. IFRS)?

This question's response is informed by views from three market participants alongside ACCA's ongoing exploration and views on this and related areas. Views have been segmented based on High, Medium, Low as per the below key:

High: there are products that do this; Low/Med: AI can do in principle, but early stages as product

1. Managing/updating general ledger (GL) – High AI can assist in automating certain aspects of maintaining and updating the GL, such as categorising transactions, flagging anomalies, and automating data entry processes. These capabilities are currently incorporated into some products. Updating of GLs are already automated within the Big 4, utilizing regex and rules-based models. We are not privy to their internal discussions, but it would seem likely some form of proprietary LLM based solutions are being experimented/perfected now as the next step.

2. Preparation under a given standard eg US GAAP or IFRS - Medium AI has potential in automating the preparation of financial statements under specific standards by analysing transaction data, applying the relevant rules, and generating statements accordingly. Report generation or segmented report generation under accounting standards should be trainable with older statistical models with a finance/accounting corpus. With LLMs, basic output could even be achieved with minimal training. The main issue here would in fact be on the actual report generation/formatting - especially if the output required is non-standard/needs customization. But this can be orchestrated outside of the AI component.

3. Taking statements prepared under one standard eg US GAAP and converting to another eg IFRS - Medium This task involves a nuanced understanding of accounting standards, industries, and the data structure of companies' accounting records. It is feasible that AI can assist by identifying key differences between the standards, suggesting necessary adjustments, and preparing the statement. One of the big 4 may have a tool /manual that lists the differences between the two standards, but as pdf; not aware if any software currently offers this. In theory, it's a feasible use-case for textual 'transformer' type models to take an input and create a desired output. As the accounting standards are quite similar, it should not be impossibly difficult to configure the AI model that does the transformation. Tricky part again is the components around the transformer, ie. input extraction and output generated in a certain format. This may seem simple to do with ChatGPT, however assumption would be that the tooling will be built separately from scratch and then trained independently as well, so as not to incur sensitive data sharing/leakage. There are also risks which have been anecdotally mentioned of Chat GPT generating a non-existent IFRS standard, so hallucinations cannot be ruled out at this stage. To add more perspective in terms of status quo for most accounting teams (as a reality check) – their main exposure at present may be to simply rely on standard rules-based accounting software applications to prepare some automated financials.

Question 21. Which parts of the value chain are being improved with AI?

The ACCA Qualification provides ACCA students and members with the opportunity to upskill in advancements in technology including AI, to enhance their professional skill set. A future integrated AI driven learning and exam experience will enable ACCA to deliver personalised and tailored education support to help each and every learner through the ACCA journey. ACCA's current (and planned) use of AI across learning and assessment will have a profound impact on our partner network; improving the ability to do business with ACCA, improving partner learner outcomes by working closer with ACCA, and delivering finance professionals with the optimal experience and skill set for the modern workplace.

Question 26. Compared to traditional AI systems such as supervised machine learning systems, what additional opportunities and risks are brought by general purpose AI models?

Concentration risk: A small number of general purpose models sit behind many front-end AI applications. So, a hacker with specialist expertise and insider access, who has spotted an emerging bug in one of these models could affect an inordinately high number of front-end applications.

Alongside concentration risk, GPAI models are currently limited in terms of their geographic availability as limited numbers of data centres around the world support training and inference of such models. This means that, for many countries, current use of GPAI models inevitably means

the transfer of user data and inputs outside of their local jurisdiction. This raises potential legal risks, challenges to access, and security /confidentiality of data and creates additional due diligence, procurement and risk management considerations.

Question BANKING 1. For which use case(s) are you using/considering using AI?

Regulatory compliance, fraud detection, AML.

Question BANKING 2. What are the opportunities that AI brings to your use case?

Anomaly detection in a more dynamic, less templatised and more intelligent manner that can understand 'context' to a greater extent rather than applying set rules as part of a fixed template.

Question BANKING 3. What are the main challenges and risks that AI brings to your use case (eg discrimination, opacity of the AI application developed, difficult to control/supervise it, etc.)?

Getting the balance between performance and false positives (ie in the fear of missing fraud transactions, tuning the model to such an extent that it wastes a lot of time/money highlighting anomalies which are in fact valid transactions).

Question OTHER 1. For which use case(s) are you using/considering using AI?

Accounting related use cases:

- Contract analysis

- Fraud detection

- Invoice coding and bookkeeping

- Forecasting and predictive analysis

- Narrative analysis of financial results.

Question OTHER 2. What are the opportunities that AI brings to your use case?

Re: the order above:

- Quickly find and interpret key elements within contract in the context of risks to the organisation, eg termination clauses

- Dynamic view to assess new types of frauds rather than based on upfront rule-based check

- Intelligent mapping of codes to cost/invoice categories (eg sofa as part of 'furniture') rather than excel/vlookup based template that rejects even a minor deviation.

- Cash flow forecasts and valuation informed by wider set of inputs

- First version of narrative for quarterly results which can be curated and finalised by human accountant

Question OTHER 3. What are the main challenges and risks that AI brings to your use case (eg discrimination, opacity of the AI application developed, difficult to control/supervise it, etc.)?

- Gap between expected level of performance and actual performance

- Level of human support and intervention is higher than expected

- Organisational structures and processes for effective AI governance

Question OTHER 4. What is the main barrier to developing AI in your use case (e.g. lack of skills and resources, readiness of the technology, high regulatory costs for compliance with the relevant frameworks, etc.)?

- Lack of skills

- Lack of training data of sufficient quality

- Fear of new technologies

Question OTHER 6. Has general purpose AI opened new possibilities or risks in your use case?

For contract analysis and text based natural language processing, the latest generation LLMs and the general-purpose models that provide them are very useful. However, there are heightened risks around model toxicity and hallucinations.