AI Regulation: Global Perspectives for Professional Accountants

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AI Regulation: Defining AI

- There is currently no single definitive definition of Artificial Intelligence (AI), though the common characteristic across definitions is the replication of some aspect of human intelligence such as:

  - Reasoning
  - Decision making
  - Learning from mistakes
  - Solving problems

- Machine Learning (ML) is a sub-set of AI making use of computer algorithms that learn by finding patterns in sample data and then applying that learning to new data to make predictions. These tools are usually designed to perform a specific function for a specific type of dataset.

- Most tools that are currently deployed or in development for use by professional accountants are based on machine learning techniques.

AI Regulation: Key Tools

- When considering the potential impact of AI regulation, it is important to understand the types of tools that professional accountants are likely to encounter when undertaking their work:

  - Financial Reporting Tools: Includes ML tools that support the calculation of Expected Credit Losses (ECL) & the use of language models in the preparation of disclosure.

  - Assurance Tools: Includes tools to aid in anomaly detection and pattern recognition.

  - Practice Support Tools: Includes tools that support the PA in areas such as AML risk identification.

AI Regulation: Why is it important?

- AI has the potential to improve processes and create efficiencies. As described in the previous slide, there are many tools currently in development which can enhance the work of professional accountants.

- There are however significant potential risks, including:

  - Bias in AI systems
  - Concerns with output quality
  - Potential for over-reliance

- AI regulation is thus vital to ensure that the benefits of AI can be realised and that the greatest potential risks are appropriately mitigated.
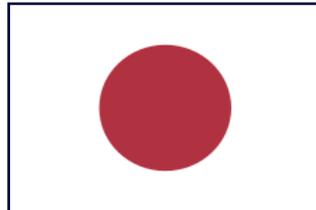
AI Regulation: Global Approaches

- AI Regulation approaches fall on a spectrum from higher level principles-focused to more detailed legislation-focused. The general approaches applied by several key jurisdictions are illustrated below:
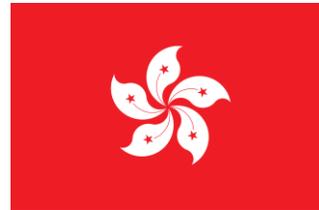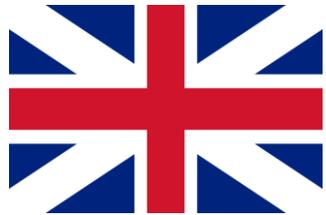
Principles Focused

Legislation Focused

- Appendix 1: Detailed Jurisdiction Overview contains additional detail on each jurisdictions approach to AI regulation.

AI Regulation: Benefits & Risks of Approaches

Principles Focused	Legislation Focused
• Often more responsive to rapidly evolving technology	• Can directly address specific risks
• Can lead to more proportionate outcomes	• Clearly defined rules and goals generally with less interpretation
• Less quickly outdated	
• Can better promote innovation	• Can be quickly outdated
	• Less responsive to a rapidly evolving technology
• May not fully mitigate significant risks	• Often a time-consuming process
• Can lead to differing interpretations within the same sector	• Potential to hinder innovation

AI Regulation: Key Messages for PAs

- In any jurisdiction, compliance with the Code is vital, with particular emphasis placed on:

  - Professional Competence & Due Care

  - Confidentiality

- Even when operating in a jurisdiction with a legislation focused approach, **most** of the tools PAs will encounter are lower risk and are thus unlikely to be subject to the same stringent rules as tools used to aid in medical decisions for example.

- In the absence of specific rules governing how AI is used in, the proper exercise of professional judgement is key to ensuring that tools are deployed in a way that is compliant with ethical, reporting and assurance standards.

AI Regulation: Key Messages for Standard Setters & Regulators

- The IESBA Technology Related Revisions to the Code strike a good balance between prohibiting certain activities and strengthening the Code in guiding the mindset of PAs when making use of technology.

- This principles-based approach to standard setting aligns with the approach taken by many jurisdictions and allows for the setting of standards which are adaptable but also capable of mitigating the most significant risks.

- It also permits jurisdictions to set more specific prohibitions in addition to the principles where local legislation or business needs require it.

- The key to success for standard setters and regulators is **collaboration**, with each other and with experts in the AI field. Though jurisdictions may have their own legislation and approaches, the challenges faced are global.

Thank you

Appendix 1: Detailed Jurisdiction Overview

Hong Kong SAR

- Some existing legislation is relevant, such as anti-discrimination laws which offer protection from bias in relation to protected characteristics.

- The Hong Kong Monetary Authority (HKMA) published "High-level Principles on Artificial Intelligence" which includes overarching principles that are to be applied in a proportionate, risk-focused manner.

Appendix 1: Detailed Jurisdiction Overview

China

- Rather than creating a single set of AI regulation proposals, individual legislative pieces are released for different technologies.

- For example, foundational models must be registered with the government before they are released to the public with 22 companies having registered by the end of 2023.

- Allows for a quick response, with targeted legislation designed to focus on emerging tools as they appear.

- In June 2023, China's state council announced that a wider AI law is on the legislative agenda, with an expected draft sometime in 2024.

Appendix 1: Detailed Jurisdiction Overview

The United Kingdom

- Current proposal is for no additional legislation, but to empower existing regulators to ensure core principles are followed by those within their regulatory remit.

- The five core principles are:
    - Safety, security and robustness
    - Appropriate transparency and explainability
    - Fairness
    - Accountability and governance
    - Contestability and redress

- The UK Government will provide some central resource, but most of the work will be down to individual regulators to map these principles to their standards and work with their regulated communities.

Appendix 1: Detailed Jurisdiction Overview

Japan

- Approach is focused on principles, with the governments Social Principles for Human-Centric AI including the following seven core principles:
    - Human-centric
    - Education
    - Privacy Protection
    - Security
    - Fair Competition
    - Fairness, Accountability and Transparency
    - Innovation

- Similar to the UK, with a principles focused approach which does not rely on specific legislation.

Appendix 1: Detailed Jurisdiction Overview

The European Union

- In December 2023, the EU approved The AI Act, the first sweeping AI law which is designed to mitigate harm and protect fundamental rights in key areas such as health care and public services.

- "High Risk" systems will need to adhere to strict rules require risk-mitigation controls and human oversights. These are currently the most stringent rules in place for AI anywhere in the world.

- Most of the tools that we see in the accountancy profession will not fall into this bracket and will be subject to far less stringent rules and regulations.

Appendix 1: Detailed Jurisdiction Overview

The United States of America

- Substantial debate throughout 2023, which culminated in the publication of an executive order on AI at the end of October 2023.

- General approach is supportive of AI, with an emphasis on best practice and ensuring that potential economic benefits are realised.

- Likely to share some similarities with the UK approach in asking individual agencies and regulators to craft their own rules rather than having

- Also likely to mirror elements of the EU Act with a potential for risk grading of AI system and an associated variation in the extent of regulatory intervention.

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