External Audits of Banks; and Guidance on accounting for expected credit losses

Presentation to IAASB
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- Guidance on External audits of banks
  - Background
  - Topics
    - Audit committees and external audit
    - Auditor-supervisor relationship
    - Expectations of bank audits/Letter to the IAASB

- Guidance on accounting for expected credit losses
  - Background
  - Topics
    - Principles for credit risk practices
    - IFRS appendix on robust implementation of IFRS 9
Basel Committee: External audits of banks

- Auditor-supervisor relationship
  - Objective of enhancing supervision of the banking sector; and
  - Also contribute to the quality of external audits
  - Covers appropriate communication at level of individual bank and collectively; areas for communication; and duty to report certain topics.
  - Safe harbour for statutory auditors in communicating with banking supervisors
Basel Committee: External audits of banks

- Topics continued/

  - Expectations of bank audits/letter to IAASB e.g.
    - Quality control
    - Auditor scepticism
    - Identifying and assessing risks
    - Significant risks
    - Audit of accounting estimates (fair value estimates, loan loss estimates and disclosures)
Basel Committee: Guidance on accounting for expected credit losses

Objectives

- To provide banks and supervisors with guidance on the supervisory requirements for sound credit risk practices affecting the assessment and measurement of allowances;
- To encourage a high quality, robust, and consistent implementation and on-going application of an ECL accounting model for lending exposures (loans, guarantees and commitments). The guidance will not deal with debt securities;
- To emphasize the need for timely and appropriate recognition of credit losses and that credit risk builds in a portfolio/pool and increases earlier than when cash shortfalls are experienced.
- It outlines what is a robust application of accounting standards
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<thead>
<tr>
<th>Basel Committee: Guidance on accounting for expected credit losses (ECL)</th>
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<tr>
<td>IFRS Appendix – supervisory requirements specific to key issues related to the implementation of IFRS 9 ECL model</td>
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<td>A1. Measurement of the allowance amount equal to 12-month ECL</td>
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<td>A2. Assessment of significant increases in credit risk</td>
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<td>A3. Use of practical expedients/simplifications</td>
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Basel Committee: expectations for external audit and IFRS 9

- Implementation of IFRS 9: implications for audits of banks
  - Adequate systems and controls for implementation of IFRS 9
  - Estimates under ECL will be based on more forward looking information
  - Significant risks
  - Range of estimation uncertainty
  - Use of experts - credit risk expertise
  - Role and integration of centralised data analytics
  - Are the numbers/disclosures reasonable overall?