

EBA guidelines on supervisor - auditor communication

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Disclaimer

This presentation is intended for discussion purposes only during the workshop held by the CFRR, World Bank on 7 September 2016 and it does not aim at replacing by any means the applicable EU Regulation for institutions and in particular, the EBA Guidelines on the communication between the competent authorities supervising credit institutions and the statutory auditor(s) and the audit firm(s) carrying out the statutory audit of those credit institutions in accordance with the EBA's mandate in article 12(2) of the EU Audit Regulation on specific requirements regarding the statutory audit of Public Interest Entities (PIE).

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EBA mission, structure and auditing

EBA mission, structure and auditing

Mission

- Contributing to the creation of the **European Single Rulebook in banking**
- Through the adoption of binding Technical Standards and **Guidelines**
- Helping create a **level playing field**

Structure

- 28 national supervisory authorities + observers (EC, ESRB, ECB, ESMA, EIOPA)
- **Board of Supervisors** lead by EBA Chairperson is the main decision-making body
- **Technical working groups and standing committees**

Auditing

- Permanent technical working group from EU national supervisory authorities
- EBA shall act on **auditing matters**, if necessary to ensure effective and consistent application of acts related to credit institutions (CRD, CRR)
- Contribution to **international standards setting on auditing**
- **EBA role in Audit Regulation for PIEs**

Background

Background: legal basis

- **Article 12 (2) of the EU Audit Regulation** on specific requirements regarding the statutory audit of Public Interest Entities (PIE) requires that
 - An **effective dialogue shall be established** between
 - ▶ **Competent authorities supervising credit institutions** and
 - ▶ **Statutory auditor(s) and the audit firm(s)** carrying out the statutory audit of those
 - The **responsibility for compliance** with this requirement **shall rest with both parties**
 - In order **to facilitate the exercise of the tasks referred above**, EBA shall:
 - ▶ **Issue guidelines**
 - ▶ Addressed to the **competent authorities supervising credit institutions**
 - ▶ Taking **current supervisory practices** into account

Background: rationale

Supervisory tool for financial stability

- Audit Regulation for PIE
 - EBA guidelines **do not address the existing 'duty to report'**
 - **supervisory tasks would be facilitated** through effective communication with auditors
- EU Impact assessment on EU Audit Reform
 - Auditor's work can be used as a tool for **financial stability**
 - Specific reference to the benefits of communication for **systemic financial institutions**
- BCBS guidance on external audit
 - Quality bank audits contribute to **financial stability** and are valuable input in **supervision**

Background: objectives of guidelines

Facilitate the task of supervision

**Foster financial stability,
safety and soundness of
banking system**

**Further convergence of
existing practices across
Member States**

**Greater supervisory
effort (e.g. SIIIs)**

**Less developed
practices**

Key features of communication

Adaptable

Understand the role of each party

Benefits both parties in their tasks

**Each party retains ultimate
responsibility for individual tasks**

Background: scope and addressees

■ Scope

- **Statutory audits of annual and consolidated** financial statements of **credit institutions**
 - ▶ Article 2(1), (13) EU Audit Directive
- **Supervisory tasks of competent authorities**
 - ▶ Article 4(1)(40) CRR

■ Addressees

- **Competent authorities supervising credit institutions**
 - ▶ Articles 4(2)(i) and 16(1) of EBA Regulation (including the SSM)
 - ▶ Competent authorities must make **every effort to comply with the guidelines** (Article 16(3) of EBA Regulation)

Background: basis for policy making

- **Stock-take survey on current supervisory practices:** 31 Member States
- **Outreach to auditors** of large audit firms practicing in EU
- Existing international guidance and practices
 - **BCBS guidance** on external audit of banks
 - **CFRR report**
- **Collaboration with EIOPA:** similar mandate
- **Public consultation** on draft guidelines: supportive subject to clarifications

Key observations of stock-take

All Member States have some established practices

Different practices exist across EU

Communication is mostly **ad hoc (issues-driven)**

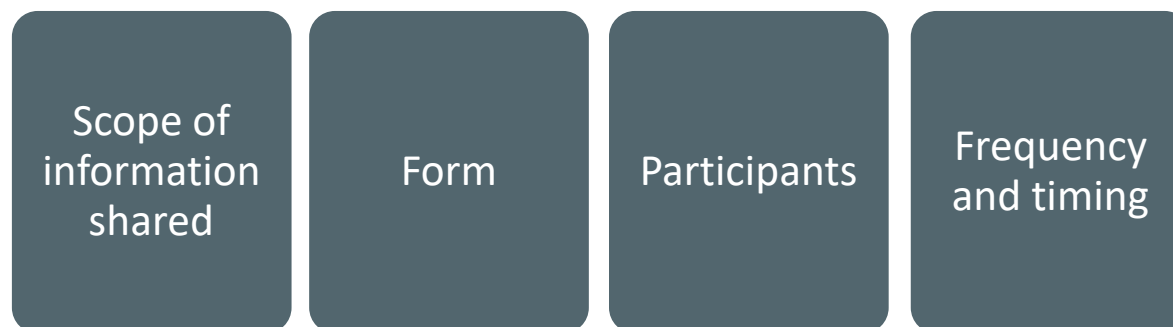
Application of **proportionate** approach by most Member States (SILs, ad hoc)

EBA final guidelines

EBA final guidelines: structure



Main elements of communication



EBA final guidelines: main elements of guidelines

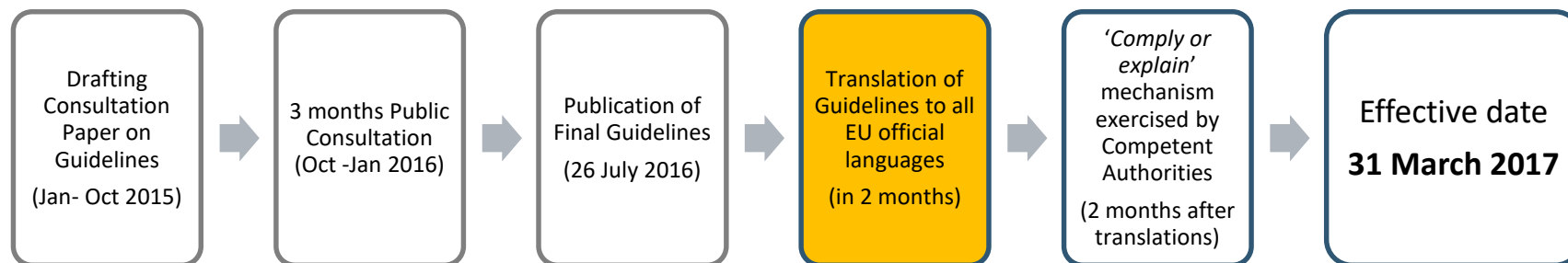
General framework	<ul style="list-style-type: none"> • Both supervisor and auditor responsible for effective communication • Communication should be open, constructive and adaptable • Retention of each party's individual responsibilities • Information shared subject to confidentiality requirements • Criteria to apply the guidelines proportionally • In-depth communication (G-SIIs, O-SIIs and others): more regular, formalised and documented
Principles 1- 3, Annex Scope of information shared	<ul style="list-style-type: none"> • Identified in collaboration with auditors • Material and relevant information to supervision and statutory audit: facilitates the task of supervision and potentially having an impact on the statutory audit • Annex with detailed examples of issues on which to information could be shared • In-depth communication: to discuss at least a) audit approach and b) communication of auditor on significant matters related to financial reporting and control functions
Principle 4 Form of communication	<ul style="list-style-type: none"> • Appropriate communication channels to use • Written communication be used to ensure clarity or for retaining a record of the communication • Circumstances to consider use of written communication: outcomes of audit and supervisory processes, complex technical matters, emerging issues, changes in regulation • In-depth communication: physical meetings may be more useful

EBA final guidelines: main elements of guidelines

<p>Principle 5</p> <p>Participants</p>	<ul style="list-style-type: none"> • Knowledgeable, informed and empowered individuals • Primarily supervisory team leader and key audit partner • To ensure own internal tracking of communication on each side • Competent authorities to assess need for trilateral meeting or invite/ inform others
<p>Principle 6</p> <p>Frequency and timing</p>	<ul style="list-style-type: none"> • As frequent as necessary to ensure timely sharing of relevant information • During any phase of the supervisory or the audit processes • Consult auditors and re-assess appropriateness of frequency and timing • In-depth communication: 1 bilateral meeting at least annually
<p>Principle 7</p> <p>Collective communication</p>	<ul style="list-style-type: none"> • Issues relevant to the statutory audit of more than one credit institution • Frequency and timing as in individual: as frequent as necessary, at any phase of the supervisory or the audit processes, consult auditors and re-assess appropriateness of frequency and timing • To meet with auditors collectively at least annually • Competent authorities to assess need to invite/ inform other relevant authorities and associations

Next steps

Next steps: due process – effective date



Thank you for your attention



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