Meeting: IAASB
Meeting Location: New York, United States
Meeting Dates: June 15–19, 2015

Agenda Item

11

Special Audit Considerations Relevant to Financial Institutions

Objective of Agenda Item

1. The objectives of the IAASB discussion at its June 2015 meeting are:
   (a) To update the Board on the Financial Institutions Working Group’s (FIWG) activities to date; and
   (b) To obtain input on FIWG’s recommendation to focus its activities on the audit issues related to IFRS 9\(^1\) ahead of other aspects of the financial institutions project.

Financial Institutions Working Group

2. The FIWG is comprised of the following members:
   - Rich Sharko (WG Chair, IAASB Member) (supported by Jamie Shannon, IAASB Technical Advisor)
   - Marc Pickeur (WG Co-Chair, IAASB Member)
   - Ron Salole (IAASB Member, Non-Practitioner, Canada)
   - Abhijit Bandyopadhyay (National Standard Setter, India)
   - Emilio Pera (Practitioner, South Africa)
   - Pat Sucher (Regulator, UK)

   The WG expects to add a member from an insurance background in the future. Jamie Shannon

Activities since March 2015 IAASB Meeting

3. Since the March 2015 Board meeting, the FIWG met three times by teleconference to discuss various topics, including the relationship between the banking supervisors and the bank’s external auditor, the outreach activities by the FIWG’s leadership, and the way forward based on the March 2015 IAASB meeting.

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\(^1\) International Financial Reporting Standard (IFRS) 9, *Financial Instruments*

Prepared by: Brett James and Jasper van den Hout (June 2015)
4. Since the March 2015 IAASB meeting, FIWG and IAASB leadership engaged in several outreach activities, including:

- Roundtable on consistent accounting for financial instruments with the Financial Stability Board: (Sharko, Pickeur);
- Meeting with Representatives of the National Reserve Bank of India (Sharko);
- Forum by the Centre for Financial Reporting Reform Seminar on Supervisors and Auditors: Partnering for Financial Stability (Pickeur);
- Meetings with Staff of the International Accounting Standards Board (Sharko, Shannon, James);
- Meeting with the Global Public Policy Committee Banking Working Group IAASB Liaison Subgroup (Sharko, Pickeur, Shannon, James, van der Hout);
- Meetings with a variety of stakeholders in a country visit to South Africa (Schilder, Healy);
- Meeting with CFA Institute (Schilder, Landes, Healy);
- Meeting with representatives of the International Monetary Fund (Schilder, Landes, Healy); and
- Meetings with representatives of the US Federal Deposit Insurance Corporation (FDIC) (Schilder, Landes, Healy).

Through these outreach efforts, the FIWG has become more aware of regulatory concerns regarding the importance of, and urgent need for, the IAASB’s consideration of the implication of IFRS 9 for audits of financial statements, particularly around the expected credit loss model. Similar concerns were raised by members of the Accounting Experts Group of the Basel Committee on Banking Supervision when the FIWG leadership met with them in February 2015.

Proposed Change in Focus

5. At its March 2015 IAASB meeting, the IAASB supported in principle the proposed International Auditing Practice Note (IAPN) on the relationship between auditors and banking and insurance supervisors. The IAASB also noted that more research and information gathering could assist in finding a way forward for the project and highlighted areas for possible investigation, including liquidity issues for banks, new regulations that have been put into place since the global financial crisis; and guidance to help auditors with the implementation of IFRS 9.

6. The FIWG discussed the IAASB’s views and also noted that the Financial Stability Board Roundtable identified a clear and pressing need for guidance on aspects of IFRS 9, particularly the shift to an expected credit loss model. The FIWG’s deliberations since the March 2015 IAASB meeting focused on where the WG’s focus should be in 2015, and concluded that the need for urgent guidance on aspects of IFRS 9 should be prioritized over the planned work on an IAPN on the relationship between auditors and banking and insurance supervisors and general information gathering on areas of guidance and requirements needed in the Financial Institutions area. In coming to this view, the FIWG noted that while there was benefits in progressing the IAPN first, the clear need for guidance on IFRS 9 – ahead of its implementation by audit firms – was a matter of public interest.
7. Accordingly, the FIWG recommends to change the focus of its work in 2015 to the audit implications of IFRS 9, particularly the impact of the shift to an expected credit loss model. Other aspects of the project would not be ceased, but would progress more slowly. The manner in which this work will interface with the planned December 2015 Discussion Paper on “Enhancing Audit Quality” is further explained in Agenda Item 8.

Action Requested

8. The IAASB is asked to provide views on the proposals presented in Agenda Item 11-A, particularly the proposed change in focus.

Material Presented

Agenda Item 11-A  Presentation of Financial Institutions Working Group