Reflections from the March 2015 IAASB Meeting

- Support, in principle, for the development of IAPN on the relationship with supervisors
- More research, information gathering needed before deciding on whether or not other aspects of the project should proceed via an IAPN or through changes in ISAs
  - Are extant ISAs sufficient?
  - Open to the possibility of industry/activity-specific ISAs or industry/activity-specific requirements within individual ISAs
Reflections from the March 2015 IAASB Meeting (cont.)

• Specific issues mentioned
  – Guidance to help auditors with the implementation of IFRS 9
    ▪ Also supported by some CAG Representatives
  – New regulations that have been put into place since the global financial crisis
  – Liquidity/Going Concern issues for banks, noting that the specific characteristics of banks may warrant a unique approach to these topics
  – Need for consideration of audit issues of particular relevance to insurers, given the accounting developments in this area

Working Group Outreach Since IAASB Meeting: A Shift in Focus

• Financial Stability Board (Roundtable and meetings)
  – Strong pressure to refocus the Working Group’s efforts on considering the implications of IFRS 9 – particularly regarding the Expected Credit Loss (ECL) provisions
    ▪ Echoes comments by the Basel Committee in February
    ▪ Perception that IAASB needs to be ahead of the change to strengthen audits as the entities adopt the new rules
• Other outreach: IASB Staff (re: IFRS 9, Insurance), Indian Central Bank
Working Group Outreach Since IAASB Meeting: A Shift in Focus (cont.)

- Initial reactions
  - Is existing ISA 540 sufficient?
    - Gap analysis
  - Firms have not yet considered the audit implications in detail
  - Effective date for IFRS 9: January 1, 2018 with early adoption permitted
    - Comparatives
    - System modifications

IFRS 9 – Key Audit Challenges

- Estimates under ECL model will be based on more forward-looking information
- Range of estimation uncertainty: multiples of materiality?
- Adequacy of systems and controls for implementation of IFRS 9
  - Governance over models, data (e.g. macroeconomic/forecast data)
- Identification of significant risks
- Use of experts – credit risk expertise
- Are the numbers/disclosures reasonable overall?
IFRS 9 – Information Gathering on Audit Issues: A Work in Progress

• Initial information gathering on the audit implications
  – IASB Staff (May 2015)
    ▪ Audit issues from comment letters on IFRS 9
    ▪ ECL similar to modelling Level 3 financial instruments?
  – GAP analysis
  – WG to consider audit issues related to IFRS 9 as a whole and assess in which area(s) action is needed
    ▪ ECL expected to be the initial area of focus

IFRS 9 – Input Received So Far on Auditability of ECL

• What have we heard so far on ECL?
  – Common refrain (large audit firms, large FIs) is that there are many estimates already in financial statements that are addressed by ISA 540
  – Are there aspects of accounting estimates that ISA 540 does not address, or areas where ISA 540 could be strengthened? Working Group to look at ISA 540/IAPN 1000 initially and complete gap analysis
  – How much work to do on forward-looking data?
IFRS 9 – Future Outreach on Audit Issues

• How to collect more information?
  – Regular meetings and teleconferences with GPPC specialists
    ▪ Involvement of firms’ senior leadership from the banking practices
    ▪ Technical experts to contribute from a practical implementation perspective
  – Liaison with PCAOB on auditing accounting estimates and fair values
  – Outreach to audit teams involved with early adoption of IFRS 9
  – Other opportunities: British Bankers Association, Bank of England, EBA, BCBS, IAIS, IFIAR, FRC, FASB, CFA Institute, FDIC/OCC, Financial Stability Board

Working Group Recommendation

• Need to change focus to IFRS 9, particularly ECL
  – Recognize importance of regulatory concerns about the implications
  – Need more evidence about whether existing ISAs address the issues adequately
  – Outreach/information gathering: urgent need
  – Other aspects of the FI project (Relationship with supervisors, other banking/insurance issues) on a slower track
Question

What views do IAASB members have of the need to undertake work on the audit implications of IFRS 9, particularly around ECL, ahead of other FI work?

What other information gathering should the Working Group undertake?
Way Forward

- Early stage so many possible paths to a solution
  - All options to address are on the table: standard-setting, guidance
  - Urgency and requirements of due process may limit options
- Next few months will be critical
- Results of outreach will be influential in finding a way forward
- Other FI work will continue but on a slower track
- Expected timing: Discussion at IAASB and CAG September meetings, including gap analysis of ISA 540/IAPN 1000

Question

What other considerations should the Working Group consider in reflecting on the way forward?
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