



Public hearing
EBA draft guidelines on
Communication between competent authority and auditor

London, 5 January 2016

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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: objectives of guidelines

Facilitate 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)**

**More harmonisation
of practices in EU**

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
 - ▶ 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:** audit firms practicing in EU
- Existing international guidance and practices
 - **BCBS guidance** on external audit of banks
 - **CFRR report**
 - Existing literature
- **Collaboration with EIOPA:** similar mandate

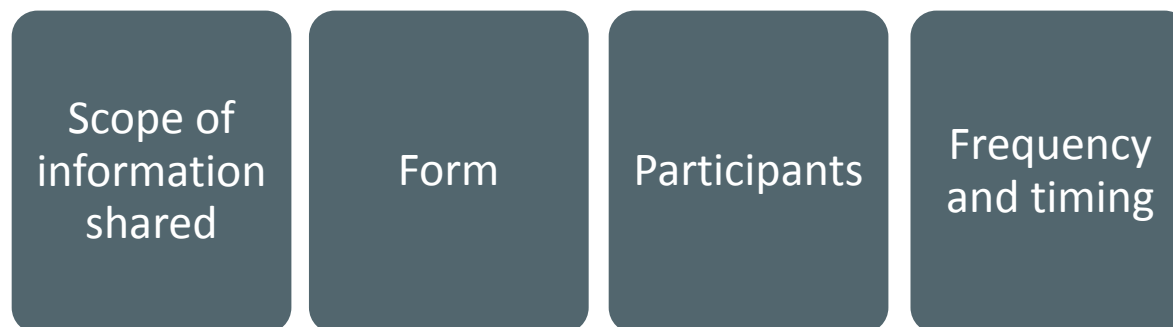


EBA draft guidelines

EBA draft guidelines: structure



Main elements of communication



EBA draft guidelines: key provisions

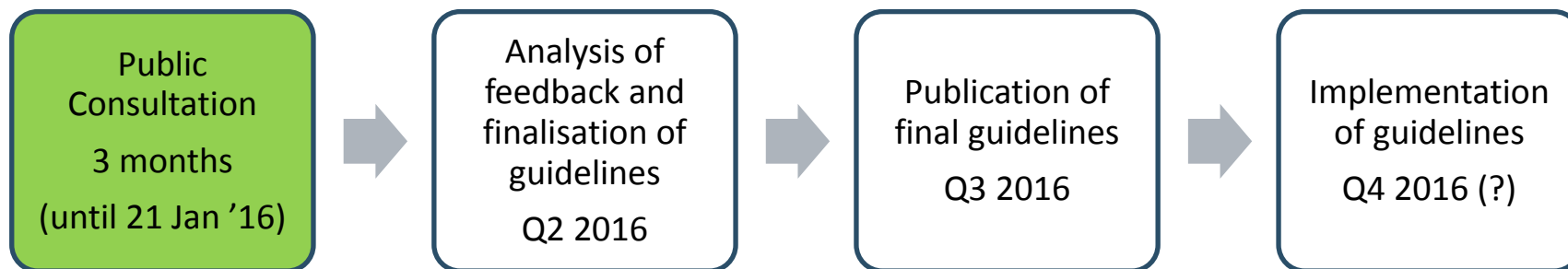
General framework	<ul style="list-style-type: none"> • Both supervisor and auditor responsible • Criteria to apply the guidelines proportionally • In-depth communication (G-SIIs, O-SIIs and others): more regular, formalised and documented
Principles 1- 3 and Annex I Scope of information shared	<ul style="list-style-type: none"> • Identified in collaboration with auditors • Material and relevant information to supervision and statutory audit • 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"> • Circumstances to use written communication: clarity, recording, auditors’ reports • In-depth communication: physical meetings may be more useful
Principle 5 Participants	<ul style="list-style-type: none"> • Primarily supervisory team leader and key audit partner • To ensure internal tracking of communication on both sides • Competent authorities to assess need for trilateral meeting or invite/ inform others
Principle 6 Frequency and timing	<ul style="list-style-type: none"> • As frequent as necessary • During any phase of the supervisory or the audit processes • In-depth communication: 1 bilateral meeting at least annually
Principle 7 Collective communication	<ul style="list-style-type: none"> • Issues relevant to the statutory audit of more than one credit institution • 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: Questions to constituents

Input on appropriateness and clarity of provisions	Date of application	Last quarter of 2016?
	Proportionality approach	Criteria to apply?
	Information to be shared	Additional issues to share information?
	Form of communication	Circumstances to use a particular form of communication?
	Participants	Circumstances to include other participants?
	Frequency and timing	Circumstances to necessitate a particular frequency/ timing?
	Communication collectively	Additional issues to share information collectively?
	Impact assessment	Additional information on costs and benefits?

Next steps: Timeline





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