Secretariat of the Basel Committee on Banking Supervision,

c/o Bank for International Settlements

Re: Consultative Document “External audits of banks”

18th June, 2013

Dear Sir/Madam

I highly appreciate having an opportunity to comment on Basel Committee’s Consultative Document “External audits of banks”. It is very appropriate to revise, update and enhance Basel Committee’s documents related to banks’ external audit. The documents present us well balanced discussions on importance related parties’ responsibility of external audit for banks from supervisors’ point of view in accordance with broad stakeholders’ view.

I would like to add just a few points for some possible further clarification and discussion.

① Proportionality and handling of SIB’s external audit

As your paper states (paragraph 4), SIBs are one of most concerned entities for supervisors and also financial market participants.

4. The banking sector is unique among sectors of the economy because it plays a central role in contributing to the financial stability of and the provision of financial resources to the economy. This sector includes major global banks that are systemically important banks (SIBs), the failure of one or more of which could trigger a global financial crisis. In addition, banks have a unique operating model.

However, it seems your paper discusses explicitly on SIBs in paragraph 153 and 158, only related to communication matters. It might be useful to add some discussions; how the SIB’s complicated activities and global presences could bring additional challenge to external auditors who are doing the audit work on SIBs. Also, if possible and necessary you may make some reference to D-SIBs. I understand that the paper aims to cover banks in general, but with limitation of available resources of external auditors and supervisors, using explicit “risk based approach” may be appropriate for bank’s audit.

② SIB’s auditor and its relation with supervisory college

As the paper point out, supervisors and external auditors’ communications are very important. In this regard, it might be useful to discuss on information exchange with supervisory college (who take care G-SIBs) and responsible audit company (if necessary, global group firm basis) on general and/or specific topic. For example, “public lessons learned from any recent external audit failures associated with the bank’s audit firm and how the firm has dealt with them so that similar deficiencies do not occur” if that is appropriate for the bank being audited. Home supervisor and host supervisor may bring their specific concern on the G-SIB. Needless to say, information exchange and confidentiality arrangements should be

prepared by supervisors.

③ Going concern assessment and related supervisory issues

As the paper describes at paragraph 91 to 95, going concern assessments are very important and difficult in some cases.

In some cases, supervisory stress tests and capital planning, also discussions on RRPs make some ground for understanding on a bank to be audited. External auditors must not solely rely on supervisors activities, but at least they need to understand and judge such information, and may provide their opinion on such supervisory information if necessary (for example, if supervisor's (proposed) early warning indicator suggests caution to the bank).

④ External auditor's resource and bank audit committee'

With increasing responsibility and needed expertise, it is very important for external auditors having enough resources on side. As the paper point out at paragraph109 it is bank audit committee's responsibility to ensure keeping appropriate resources.

109. The audit committee should also satisfy itself that the level of the audit fees is commensurate with the scope of work undertaken. Where fee reductions are offered and accepted, the audit committee should seek assurance that these reductions do not imply an inappropriate increase in the materiality level to be applied by the external auditor, or a narrowing of the external auditor's proposed scope of the audit, or a reduction in the attention which will be given to each business component and the significant audit risks identified.

As bank supervisors are responsible for supervising the bank including its audit committee, I think it is useful to clarify "supervisor's expectation" on bank audit resource. For example, if external auditors are expected to attend audit committee to understand bank's business and risks, minimum attendance could be suggested, and possibly added to audit related activity. If appropriate, meeting and communications with supervisors and/or three party meetings are also be under consideration for resource requirement.

Bank supervisors may request bank audit committee to report on audit resource and disclose it if necessary.

⑤ Macro-prudential related and other information to be provided to external auditor.

As the paper discusses in paragraph 168, to identify system-wide risk and vulnerable area is very important. Also annex 2 provides very useful guidance for topics for discussion.

However, auditors are more capable on accounting standard and rather micro-prudential issues, particularly, those who are responsible for mid to small sized banks' audit.

It might be supervisors' expertise to provide "macro-prudential picture" to external auditors. Of course, much have been done, by issuing financial stability reports and/or issuing annual examination guidance, also in some countries regulatory based stress tests scenarios are reasonably informative source of

considering potential risk area.
Supervisors may bring some specific macro-prudential concern for discussion with auditors.

168. To assist in effective supervision of banks, it is important to identify system-wide, macroprudential risks which may have an impact on banks. In the course of their work, the banking supervisory authority and external audit firms obtain information which, when reviewed in its entirety, can assist in identifying changing and emerging key trends and developments that may be indicative of emerging systemic risk.

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