

Secretariat of the Basel Committee on
Banking Supervision
Bank for International Settlements
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**Comments of DSGV and DGRV on the BCBS consultation
“External audits of banks” (BCBS No. 244)**

Dear Madam or Sir,

The German Savings Banks Association (DSGV) and the German Co-operative and Raiffeisen Confederation (DGRV) welcome the opportunity to comment on the BCBS consultation. DSGV, DGRV and their member organisations represent the auditing associations of co-operative banks and savings banks in Germany. These associations are appointed by law as statutory auditors of about 1.500 small and medium-sized domestic co-operative banks and savings banks.

General remarks

We fully support the intention of enhancing the quality of bank audits and prudential supervisory procedures in order to provide confidence in the banking sector and financial stability. With a focus on problems caused by ‘too big to fail’ international banking groups during the financial market turmoil we agree with the majority of the recommendations expressed. We explicitly support strengthening the role of the auditing committee and the communication between banking supervisors, auditors and those charged with governance.

Additionally we appreciate the specific role BCBS addresses to auditors of banks, nevertheless emphasising the increased responsibility of management and audit committees within the entire governance framework especially of systematically important banks.

Unfortunately, the committee’s recommendations lack clearness how regulatory bodies should address the scalability of these principles with respect to the different types of banks and differences in national regulatory frameworks for accounting,

auditing and governance structures. Just classifying all banks by their nature as systematically important does not reflect the variety of the banking sector.

We recommend distinguishing at least between listed banking groups applying complex international accounting standards (IFRS, US-GAAP) and the vast majority of smaller, unlisted banks like co-operative and savings banks which apply national GAAP (HGB, RechKredV). We think at the very beginning of the document the BCBS should introduce a sound risk analysis of different business models of banks, key drivers of complexity and of business risks directing to audit risks.

Comments on specific principles

The lack of size and risk based recommendations pertains to several of the sixteen principles. We would like to highlight a few of them:

Principle 4: BCBS recommends that in general each audit firm undertaking bank audits should comply with quality control standards applicable to listed entities (i.e. ISQC 1), thereby “having due regard to the complexity of a bank audit”. In our view this would place inadequate operational, financial and staffing burden to audits of small and medium sized savings banks and of co-operative credit institutions with a sound and non-complex business model in Germany. In general, quality control requirements for audit firms should be as far as possible scaled to the complexity and the risks of the audited entity. The ‘one size fits all’ approach proposed by BCBS leads to an undue regulatory and bureaucratic burden resulting in a downside of audit quality.

Principle 7: This principle emphasises the responsibility of the audit committee for approval, appointment, reappointment, removal and remuneration of the external auditor. According to the actual European auditing directive as well as to its proposed revisions we recommend to respect alternative systems of auditor appointment like the appointment by law for auditors of savings banks and of co-operative banks.

Conclusion

Research has highlighted the power of co-operative and savings banks, their resilience in the crisis, the central role of their steady and reliant customers and members, their stable credit offering to SMEs and households, and their growing client base. These banks have proven to be sound and reliable during the crisis and they have greatly contributed to the stability of the Eurozone. A consensus in Europe underlines the need to preserve business model diversity in the European banking sector. Intelligent auditing regulation and standards must be scaled to the specific risk profile of these banks and their auditing associations.

We regret that BCBS’s principles cover all credit institutions without further differentiation of their size or listing status. Small institutions, particularly the vast number of the medium-sized co-operative banks and savings banks, which operate only on a local market and do not issue securities on regulated markets, differ in their

business model seriously compared to publicly listed or even systematically important credit institutions.


Kind regards,

A handwritten signature in blue ink, appearing to be 'E. Ott'.

Dr. Eckhard Ott
DGRV – German Cooperative and
Raiffeisen Confederation – reg. assoc.

A handwritten signature in black ink, appearing to be 'Gahlen'.

p.p. Dieter Gahlen
DGRV – German Cooperative and
Raiffeisen Confederation – reg. assoc.

A handwritten signature in blue ink, appearing to be 'R. Goebel'.

Dr. Ralf Goebel
German Savings Banks Association

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Anna Maria Winter
German Savings Banks Association