



Global Public Policy Committee of the large accounting networks¹

Announcement

28 July 2017

The auditor's response to the risks of material misstatement posed by estimates of expected credit losses under IFRS 9

The world's six largest accounting networks under the auspices of the Global Public Policy Committee (GPPC) are issuing a paper today to promote high quality audits of the accounting for expected credit losses by globally systemically important banks.

The introduction of new requirements for the accounting of expected credit losses in IFRS 9 *Financial Instruments*² will be a significant change to the financial reporting of banks when required in 2018, and auditors will be challenged to apply ISA 540³ to estimates of expected credit losses. The work of auditors surrounding banks' accounting for expected credit losses will be of interest to many stakeholders, including investors, regulators and analysts. Given the importance of banks in the global capital markets and the wider economy, high quality audits of banks' estimates of expected credit losses have the potential to benefit many.

Given the introduction of potentially new risks of material misstatement, the GPPC hopes the paper will help those charged with governance to effectively evaluate the quality of the auditor's response to the risks of material misstatement posed by estimates of expected credit losses.

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NOTES FOR EDITORS

1. The Global Public Policy Committee (GPPC) of the six largest international accounting networks comprises representatives of BDO, Deloitte, EY, Grant Thornton, KPMG and PwC, and focuses on public policy issues for the profession. Copies of the paper issued today will be available on the networks' global websites.
2. IFRS 9 *Financial Instruments*, issued by the *International Accounting Standards Board* (IASB), is a new accounting standard effective for annual reporting periods beginning on or after 1 January 2018. A significant part of this new accounting standard is the introduction of measuring loan loss allowances based on expected credit losses for banks, and other entities, that apply International Financial Reporting Standards (IFRSs). For the avoidance of doubt, this paper does not purport to in any way amend or interpret the requirements of IFRSs. The GPPC fully acknowledges that this is reserved to the IASB and the IFRS Interpretations Committee.
3. International Standards on Auditing (ISA) 540 *Estimates*, issued by the International Auditing and Assurance Standards Board (IAASB), is the authoritative guidance for auditors regarding the auditing of estimates. This paper was prepared at the same time as the IAASB was revising ISA 540 which has resulted in the issuance of an exposure draft (ED). There are some potentially significant changes proposed in the ISA 540 ED, and this paper has to the extent possible reflected the proposed changes with that ED given the parallel drafting of the two documents and the fact that the consultation process to revise ISA 540 is incomplete. For the avoidance of doubt, this paper does not purport to in anyway amend or interpret the requirements of ISAs. The GPPC fully acknowledges that this is reserved to the IAASB.