

Brussels, July 7, 2017

NOTICE TO ALL ACCREDITED AUDITORS

NOTICE 2017-8

Dear members,

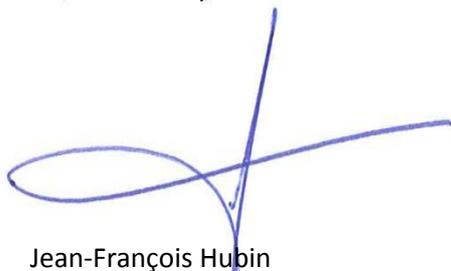
On a six-monthly basis, the Management Board of IRAIF/IREFI informs its members of main highlights or attention points which could impact your work.

The following overview is structured according to the relevant working groups of IRAIF/IREFI.

The FSMA and the NBB also provided their key attention points.

Should you have any questions regarding this document, please do not hesitate to contact me, any member of the Management Board of IRAIF/IREFI or Ingrid De Poorter.

Yours sincerely,



Jean-François Hubin
President IRAIF/IREFI

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I. Circular NBB 2017 20 / Duty of cooperation of the accredited statutory auditors

On June 9, 2017, the NBB published a new circular on the Duty of cooperation of the accredited statutory auditors.

This circular replaces, with immediate effect, circular NBB_2012_16 of 21 December 2012 on the duty of cooperation of accredited statutory auditors, the structure of which has nevertheless largely been maintained.

This circular first of all takes into account the new legislation since the publication of the aforementioned circular, applicable to credit institutions, stockbroking firms and insurance or reinsurance companies. This new circular also now includes the methods for the duty of cooperation of accredited statutory auditors at electronic money institutions.

Alongside the necessary regulatory updates, a number of amendments have also been introduced to increase the value of the role of the accredited statutory auditor as part of periodic financial reporting. This is why accredited statutory auditors are asked to pay particular attention, as part of their work, to a number of sector-specific prudential points. The importance of the role of the accredited statutory auditor in overseeing the quality of the figures ('data quality') is also highlighted. Accredited statutory auditors must additionally report, in the case of public-interest entities (credit institutions, insurance or reinsurance companies, settlement institutions and institutions equivalent to settlement institutions) on, *inter alia*, important matters that have come to their attention in the performance of their work.

It is also specified that accredited statutory auditors may not develop or validate internal models in light of the independence required in the performance of their statutory tasks.

Attention must also be paid to the amendments following the entry into force of Solvency II. Given that the legal framework of Solvency II is no longer based on the accounting framework (BGAAP/IFRS), the role of the accredited statutory auditor as regards periodic statements has become more complex. As a general principle, the aim is for the approach to be consistent with the working methods during the Solvency I regime. The components of the reporting that provide details on the financial situation of the institution form part of the external audit, whereas the components of the reporting that serve more for statistical purposes do not.

As regards the assessment of internal control measures, the accredited statutory auditor must, from now on, take into account the reporting introduced by Solvency II.

The deadline for delivery of accredited statutory auditors' reports has also been amended; from now on this will be six weeks after the deadline for insurance companies and groups to deliver their reports to the Bank.

Finally, this circular is in line with the EBA Guidelines of 7 November 2016 on communication between competent authorities supervising credit institutions and the statutory auditor(s) and the audit firm(s) carrying out the statutory audit of credit institutions. Account has also been taken of the EIOPA Final Report on the Proposal for Guidelines on facilitating an effective dialogue between competent authorities supervising insurance undertakings and statutory auditor(s) and the audit firm(s) carrying out the statutory audit of those undertakings, published on 12 December 2016.¹

¹ Circular NBB_2017_20 - Duty of cooperation of the accredited statutory auditors, p. 3; French version: <https://www.nbb.be/fr/articles/circulaire-nbb201720-mission-de-collaboration-des-commissaires-agrees>; Dutch version:

The new circular will be discussed more in detail in the next *capita selecta* on June 29, 2017.

II. Degree of preparedness of the banks (and some insurance companies) in respect of IFRS 9

As from January 2018, the banks reporting under IFRS (and some insurance companies) will have to prepare their IFRS accounts by making use of IFRS 9. Within the framework of the mid-year review, the NBB and the IRAIF/IREFI discussed the importance for these institutions to prepare themselves well in advance.

Accordingly, the NBB expects that the auditors will assess to which extent the institutions prepare themselves, and will report in their half-yearly report any attention points, concerns or occurrences where an institution appears to be late. Where relevant, the auditor may mention technical issues for which uncertainty or difficulties arise in the application of the standard. Below a number of elements have been listed which are relevant in this context and which the National Bank expects to be considered in this assessment.

General considerations

- Is the governance in place surrounding the IFRS 9 project appropriate (all stakeholders involved: Board, Audit and Risk Committee, Risk Management, Internal Audit..., clear and formalised description of responsibilities, specifically for the ECL measurement ?
- Has the institution allocated sufficient resources in the project (IT, HRM) so as to ensure a qualitative and timely implementation of IFRS 9?
- Is the institution considering the IFRS 9 impact on financial, risk and solvency metrics in the budget and the capital planning ?
- For subsidiaries with an IFRS 9 project centralised at group level : is the local team implied in the project ? Has the local team the possibility to tailor the assumptions/options taken at group level to their own perimeter/portfolio's characteristics ? Are there materiality thresholds defined at local level or are they defined at group level only?
- Has the institution identified the impacts of IFRS 9 to its systems and IT architecture?
- Has the institution addressed the IFRS 9 impact on its internal control framework?
- Are the accounting schemes for the restatement of IAS 39 into IFRS 9 available for development? If not, why and when is it planned ?

Business Model Assessment

- What is the current status of the definition and allocation of assets to the different Business Models? Has the justification been documented in a satisfactory way? Has the business model allocation been reviewed and approved by the appropriate levels or committees? If not, when is it planned and what is the impact for the elaboration of the budget/capital plan?
- What are the key judgemental areas, have these judgements been substantiated and documented in a satisfactory way?
- Has the institution implemented processes for periodically reviewing the business model documentation of existing business models?

- Has the institutions decided how to account for its investments in shares which are not held for trading?

Solely Payment of Principal and Interest (SPPI)

- What is the current status of the analysis of the SPPI characteristics? Has the analysis been documented in a satisfactory way? Has the SPPI analysis been reviewed and approved by the appropriate levels or committees?
- What are the key judgemental areas, have these judgements been substantiated and documented in a satisfactory way?
- Are there significant positions which fail the SPPI test or that are still under analysis? If so which ones and why? What is the target date for the completion of the analysis?
- Did the institution consider the following areas (among others):
 - a. Prepayment penalties, how does the institution define 'reasonable' compensation for early termination?
 - b. Guidance on contractually linked assets (look through analysis)?
 - c. Effects of a modified time value of money element in certain instruments?
 Update of the SPPI analysis based on the evolution of the portfolios

Modified loans

- Has the institution assessed the impact of IFRS 9 on the treatment of modifications or renegotiations of existing loans?

Other Classification and Measurement points

- Has the institution assessed the Own credit risk adjustment for liabilities held under the FV option (note that the institution may have decided to early adopt this under IAS 39)?

Impairment & ECL modelling

- Has the institution assessed the scope of off balance sheet items for ECL calculation (i.e. financial guarantees and loan commitments)?
- Has the institution defined the staging approach and indicators for a significant deterioration in credit risk (primary / secondary drivers / backstops)?
- Is the institution's definition of default in line with the EBA guideline 2017/06 on credit risk management practices and accounting for expected credit losses and the CRR ?
- Has the institution documented the assumptions taken and the input data used for estimating ECL ?
- Has the institution assessed the data quality for the ECL models ? Is there an inventory of necessary manual interventions available ? Has the institution set-up a remedial action plan for data quality issues ?
- Is the Point-in Time and forward looking aspect considered in the models?
- Are the key elements of the models being developed for the measurement of lifetime Point In Time ECL documented (assumptions taken, input data, manual overlays...)
- Are the macro economic factors and forward looking scenarios (expectation : more than 1) consistent with those taken into account for the business & capital planning ?
- Has the institution considered a timely validation process (to verify that the EL models are mathematically correct, and compliant with IFRS 9) and parallel runs for the majority of the portfolio's?
- Is a reconciliation process between accounting and regulatory provisions planned ?

- Has the institution already a reliable quantitative assessment of the IFRS 9 impact on provisions or a rough estimate based on assumptions?

Hedge Accounting

- Will the institution keep applying IAS 39 for hedge accounting (until the completion of the IASB project for dynamic risk hedging)?
- If applying IAS 39 for hedge accounting, has the institution addressed the additional related disclosure requirements mandated by IFRS 7 / IFRS 9?

III. Main attention points regarding Rules of Conduct

a) MiFID II

MiFID II is composed of Level 1 texts (Directive 2014/65/EU), Level 2 texts (Commission Delegated Regulation and Commission Delegated Directive) and Level 3 texts (mainly ESMA guidelines). This regulation will enter into force on January 3, 2018 and its application is limited to the financial sector (not applicable to the insurance sector). The transposition in Belgian legislation is to be expected by July 2017 taking into account a reasonable transposition of the European texts (not gold plating). MiFID II entails new requirements that come on top of the existing MiFID I regulation. MiFID II introduces one important "new" topic beside the existing topics of MiFID I: product governance and the obligation to have a policy regarding the products that are in the investment universe of the financial institutions. Product governance requires the definition of the target market of each instrument and the justification that it is compatible with the needs, characteristics and objectives of the identified target market.

Other significant provisions of MiFID II are:

- inducements: specific requirements regarding provision of research by third parties is submitted to very strict rules; inducements are banned for asset management and independent advisory services; there is the necessity to perform an enhancement test;
- suitability: new focus on the client's ability to bear losses and the client's risk tolerance; performance of a periodic evaluation test; necessity to define and disclose whether the advice given is independent or non-independent; if the advice is independent it is required to assess a sufficient range of financial instruments; if the advice is non-independent, there is an obligation to issue a suitability report before each recommendation;
- execution only: definition of complex products has been reviewed: less categories of non-complex instruments;
- best execution: enhanced disclosures required (eg. top five venues);
- information to client : enhanced disclosures about instruments and strategies, the nature and risks of financial instruments, significant evolutions of portfolio under asset management, costs and charges, ...;
- knowledge and training of staff;
- record keeping and obligation to record all contacts with clients about investments.

b) Insurance Distribution Directive

The Insurance Distribution Directive will be applicable as of February 2018. Its objective is to reinforce the protection of the clients. The requirements for the distribution of saving insurance products and of other investment products (MiFID) have been harmonized through this new Directive. The main topics of the directive are the following : governance and monitoring of the products; information and transparency; obligation to give advice; professional capacity and training; compensation and conflict of interests. Many issues of the directive are similar the those of MiFID II (eg. product governance).

IV. Main attention points regarding REITs and UCI

The Royal Decree of 25 February 2017 on certain alternative investment funds and their management companies and containing various provisions bundles the specific product rules for alternative investment funds, contrary to those for UCITS funds which are still regulated by the Royal Decree of 12 November 2012. The new Royal Decree of 2017 also integrates some stipulations of the UCITS V directive.

The FSMA has indicated that they are reassessing some of the accounting choices and IFRS interpretations currently applied by (some of) the REITs: It concerns more particularly the treatment of the hypothetical mutation rights, the application of IFRS3, the look through method and other matters. They have committed that such would be disclosed at the next training session for the auditors organised in October. In the meantime, the REITs most concerned by this change should have been informed, and discussions at company level started. The auditor might consider obtaining a summary of such discussions in the context of his/her mid year review procedures. In addition, the matter whether this is a change in accounting estimate or a correction of an error should be assessed.

The FSMA has communicated to the REITs willing to register their year-end financial statements as a registration document that, from now on, the sequence would be that the Board of Directors approves the financial statements and the auditor would issue its formal audit opinion prior to the FSMA reviewing these. This entails that the planning of the year-end audits will most probably be tightened. Here again, the expectations vis-à-vis the auditors will be clarified at the training session of the FSMA in October.

V. Main attention points for the Insurance Sector

a) Permanent inventory

The NBB issued the Circular NBB_2017_10 on the permanent inventory and privileges of the policyholders, insured persons and beneficiaries. This Circular provides guidelines on the following topics:

- the privileges of the policyholders, insured persons and beneficiaries on the dedicated funds and other assets of the company in case of liquidation of the company;
- the composition and valuation of the privileged liabilities and the dedicated funds;
- the requirement to have a permanent inventory available on a continuous basis and its format;
- the requirement to be able to report at any time the status of the permanent inventory;
- the requirement to report to the NBB a summarized overview of the content of the permanent inventory on an annual basis together with annual quantitative reporting.

Please note that the provisions of article 10 of the Royal Decree of 22 February 1991 on the limits of the covering assets, congruence rules, etc. are no longer applicable as these have been replaced by the “Prudent person” principle in the Solvency II legislation of 13 March 2016.

It's expected that the accredited auditors verify that the permanent inventory is prepared in accordance with the provisions of this Circular. In addition we want to draw your attention to the fact that the annual summarized overview of the content of the permanent inventory is in the scope of the year-end audit procedures of the accredited auditors and in the light of their reporting to the NBB.

b) Reporting on interest rate risk

The NBB issued the Circular NBB_2017_02 including the requirements for reporting to the NBB on the interest rate risk. Except for the format of the reporting, the Circular does not include any substantive changes compared to the prior reporting requirements.

We want to draw your attention to the fact that the reporting on interest rate risk is in the scope of year-end audit procedures of the accredited auditors and in the light of their reporting to the NBB.

c) Low interest rate environment

Market interest rates remain extremely low. As a consequence the attention points reported in earlier communications remain valid.

We expect that accredited auditors assess the impact of the continued low interest rate environment on the strategic asset allocation (market risk), the potential duration / yield gap between assets and liabilities and its effect on the liability adequacy test to be executed for BGAAP and IFRS reporting purposes.

d) Indicative tables for bodily injury claims

The indicative tables provide guidance to the judges on the indemnifications in the case of bodily injuries or death. The indicative tables are established by a group of judges and are updated approximately every 4 years. During Q1 2017 the updated indicative tables for bodily injuries have been published. Following the update, some lump sum allowances have been increased. In addition capitalization is now possible as from a disability percentage of 1% while in the past this was only recommended as of a disability percentage of 15%. Note that the capitalization rate has been retained at 1%.

We recommend the accredited auditors to follow up if the update of the indicative tables is properly reflected in the technical reserves.

e) Treatment of investments in infrastructure project entities for Solvency II reporting

The Circular NBB_2017_04 provides additional guidance on the definition and criteria for the treatment under Solvency II of investments in infrastructure project entities. Also the requirements for risk management are discussed in detail. The circular describes the criteria to take into consideration in the following areas:

- stress testing;
- predictability of the cash flows;

- contractual framework;
- ability to hold the investment to maturity;
- requirements for investments in bonds, equities and loans without credit rating.

We recommend the accredited auditors to verify if entities have infrastructure loans in their portfolio and if the provisions of this circular are properly applied in the light of the Solvency II reporting.

f) Loss absorbing capacity of deferred taxes

The Circular NBB_2017_14 on the loss absorbing capacity of the deferred taxes further completes the guidelines of the circular NBB_2016_21. This circular introduces a maximum limit for the loss absorbing capacity of deferred taxes in the case that the loss absorbing capacity of deferred taxes is larger than the deferred tax liabilities in the Solvency II balance sheet.

It's expected that the insurance companies perform an internal recoverability test after the shocks. For these recoverability tests it's expected that the going concern business plans are adjusted for the impact of the stress scenarios.

We recommend the accredited auditors to verify if the maximum limit for the loss absorbing capacity of deferred taxes as defined in this circular is not exceeded. As the recoverability test is highly subjective we expect that the NBB will analyze this matter critically.

VI. Main attention points of the FSMA related to the June 30, 2017 audit

a) ESMA Statement on Common Enforcement Priorities

The ESMA has published on October 28 its annual Public Statement on European Common Enforcement Priorities, which identifies enforcement priorities for listed companies' 2016 financial statements and highlights the need for transparency in disclosing the potential impact of Brexit on issuers' financial statements. The Statement, directed at listed companies and their auditors, sets out the areas ESMA and national enforcers will focus on in particular when they examine listed companies' 2016 financial statements in order to promote a consistent application of IFRS across the EU. The common priorities for 2016 financial statements encompass:

- (1) presentation of financial performance;
- (2) financial instruments: distinction between equity instruments and financial liabilities; and
- (3) disclosures of the impact of the new standards on IFRS financial statement.

In the context of the information provided on the impact of the UK leaving the EU and the assessment of this impact, consideration should also be given to the (potential) impact on deferred taxes of the triggering of Article 50 of the Treaty on European Union by the UK Government.

b) ESMA consideration in implementing IFRS 9 / EBA report on the result of its impact assessment of IFRS 9

The ESMA has published on November 10, 2016, a Public Statement on Issues for consideration in implementing IFRS 9: financial Instruments, which highlights both the need for consistent, high-quality implementation of IFRS 9 and the need for transparency on its impact to users of financial statements. ESMA notes that paragraph 30 of IAS 8 Accounting Policies, Changes in Accounting Estimates and Errors requires disclosure of an impending change in accounting policies when an issuer has yet to implement a new IFRS Standard that has been issued but did not yet come into effect. We refer to the ESMA publication for further information.

For the 2017 interim financial statements, it is expected that the information on the impact of the application of IFRS 9², IFRS 15³ and IFRS 16, for issuers where those standards have a significant impact, will need updating as indicated in the ESMA's latest Common Enforcement Priorities 4 and ESMA's statements on IFRS 9 and 15.

Financial institutions need to consider the IAS 8 requirement for new standards in particular with respect to IFRS 15 and IFRS 9. We refer to the relevant ESMA statements and the guidance issued in this respect.

Auditors can also read the EBA report dated November 10, 2016 on the results of the EBA impact assessment of IFRS 9.⁵

c) CIS-reporting

The FSMA has announced to amend statistical reporting requirements for certain public UCI's. As well as the form, the manner of reporting will change and be adapted to the reporting requirements for AICB's. The scope and timing of the statistical reporting requirements remain unchanged. The current tables of the CIS-reporting will be replaced by the tables of the AIFMD-reporting; two additional tables with a limited number of additional fields, will be added. The FiMiS-platform will be used for the new reporting requirements. The automatization of the process should minimize the workload for the entities. The regulation of September 11, 2011 (including the circular of the CBFA ICB 3/2006) will be repealed and circular CBFA_2011_6 related to the cooperation assignment of the accredited auditors, will be amended. The new regulation will come into force on October 1st, 2017. The first reporting deadline will be end October 2017 for money market funds and end December for other UCI's. Finally, it is important to note that the FSMA will now request the accredited auditors to submit their audit reports via the FiMiS-platform.

² https://www.esma.europa.eu/sites/default/files/library/2016-1563_public_statement-issues_on_implementation_of_ifrs_9.pdf

³ <https://www.esma.europa.eu/press-news/esma-news/esma-issues-public-statement-ifrs-15>

⁴ <https://www.esma.europa.eu/press-news/esma-news/esma-sets-enforcement-priorities-listed-companies%E2%80%99-2016-financial-statements>

⁵ EBA has launched a second impact assessment of IFRS 9 on EU banks on November 24, 2017. The second report will be published soon on the EBA-website: <https://www.eba.europa.eu/-/eba-launches-second-impact-assessment-of-ifrs-9-on-eu-banks>.

d) Royal Decree on alternative investment funds investing in non-listed companies and growth businesses

On August 4, 2016, the Royal Decree on alternative investment funds investing in non-listed companies and growth businesses was published in the Belgian Official Journal. Its main objective is a new start for investment companies with fixed capital investing in non-listed companies and growth businesses (Public Privaks) (*'Publieke Privak'/'Pricaf Publique'*).

The Royal Decree on alternative investment funds investing in non-listed companies and growth businesses (the Royal Decree) repeals the Royal Decree of April 18, 1997 on investment funds investing in non-listed companies and in growth businesses and attempts to adjust the legal and regulatory framework in order to meet the ongoing developments from the past years in the financial markets and regulations.

The Royal Decree has two main objectives:

- first, through the renewed legal framework, it aims at providing easier and new means of financing for alternative investment funds investing in non-listed companies and growth businesses;
- secondly, the provisions imposed intend to contribute to maintain and stimulate the creation of employment since it aims at improving the financing of an important sector of the 'real economy', while also still providing investors with the protection and information needed through the applicable legal framework.

This Royal Decree entered into force on August 14, 2016 and a transitional period is applicable for existing *privaks/pricafs*.

e) Securities and Financing Transaction Regulation (SFTR)

On January 13, 2017 the SFTR fund transparency requirements that concern the existing funds, will become applicable. ESMA, in its Q&A (section 13), gives some clarifications regarding the date of application of the disclosure in the annual report of the UCITS and AIF. The Luxembourg regulator (CSSF) confirmed that following discussions at the ESMA level, the disclosure will apply as strictly mentioned in the regulation for reports published as from January 13, 2017. This means that every report that is due to be published at the end of the year has to provide the relevant information by January 13, 2017. The FSMA wishes to call to mind that the relevant date is the date of publication (ESMA will publish a Q&A on this issue).

f) Delay PRIIP

The Commission published a press release on November 9, 2016, proposing an extension to the date of application of the Regulation on Key Information Documents for Packaged Retail and Insurance-based Investment Products (PRIIPs). The delay gives issuers and distributors of PRIIPs products until January 1st, 2018 to comply with the provisions. The Regulation provides for a transitional period until December 31, 2019, for UCI's with a variable number of units.

g) ESMA guidelines on sound remuneration

On October 14, 2016 ESMA issued two sets of Guidelines: Guidelines on sound remuneration under UCITS and Guidelines on sound remuneration under AIFMD. The UCITS Remuneration Guidelines provide clarity on the requirements under UCITS for management companies when establishing and applying a remuneration policy for key staff, whereas the AIFMD Remuneration Guidelines deal with the application of the remuneration rules in a group context. The Guidelines will apply as of January 1, 2017. The FSMA has included ESMA's guidelines on sound remuneration practices for UCITS and AIFM in its supervisory practice (Communications FSMA_2016_18 and FSMA_2016_19 of 23 December 2016). The FSMA wishes to call to mind that ESMA guidelines on sound remuneration also apply to self-managed UCIs.

h) Attention points for undertakings for collective investment

In addition to the attention points for management companies that are also relevant for undertakings for collective investment, the FSMA would like to reiterate the following attention point (given that the period for drawing up the annual reports is approaching): the FSMA asks auditors to examine whether the comments they made in the past regarding the (semi-)annual reports have been taken into consideration.

i) Attention points for regulated real estate companies (GVV/SIR)

The FSMA updated its circular on the Obligations of issuers listed on a regulated market⁶. The FSMA request issuers submitting a registration document for approval to the FSMA to include audited financial statements as well as a signed audit report for those financial statements in the first draft submitted to the FSMA.

The FSMA is paying particular attention to the accounting for transaction costs and the determination of and reporting on the distributable results and expects auditors to do the same.

In addition the FSMA wishes, furthermore, to recall to mind the following publications concerning financial reporting:

- the ESMA guidelines on Alternative Performance Measures⁷,
- the European common enforcement priorities published by ESMA⁸ and, finally,
- ESMA's Public Statements concerning the application of IFRS 9⁹ and IFRS 15¹⁰.

⁶ Dutch version: http://www.fsma.be/~media/Files/fsmafiles/circ/nl/2012/fsma_2012_01.ashx : French version: http://www.fsma.be/~media/Files/fsmafiles/circ/fr/2012/fsma_2012_01.ashx

⁷ ESMA Guidelines on Alternative Performance Measures, 05/10/2015/ESMA/2015/1415en, <https://www.esma.europa.eu/sites/default/files/library/2015/10/2015-esma-1415en.pdf>

⁸ ESMA Public Statement, European common enforcement priorities for 2016 financial statements, 28/10/2016/ESMA/2016/1528, <https://www.esma.europa.eu/press-news/esma-news/esma-sets-enforcement-priorities-listed-companies%E2%80%99-2016-financial-statements>.

⁹ ESMA Public Statement, Issues for consideration in implementing IFRS 9: Financial Instruments, 10/11/2016/ESMA/2016/1563, https://www.esma.europa.eu/sites/default/files/library/2016-1563_public_statement-issues_on_implementation_of_ifrs_9.pdf.

¹⁰ ESMA Public Statement, Issues for consideration in implementing IFRS 15: Revenue from Contracts with Customers, 20/07/2016/ESMA/2016/1148, <https://www.esma.europa.eu/press-news/esma-news/esma-issues-public-statement-ifrs-15>.

In its Circular FSMA_2015_17 of December 4, 2015, the FSMA informed issuers whose securities are admitted to trading on a regulated market and that are required to publish regulated information as defined by the Transparency Directive, as well as persons responsible for the prospectus under Article 6, first paragraph of the Prospectus Directive, of the publication of the ESMA Guidelines on Alternative Performance Measures (APMs).

These guidelines apply since July 3, 2016 to APMs disclosed by issuers when publishing regulated information and to persons responsible for the prospectus when one is being published. In accordance with Article 16(3) of the ESMA Regulation, issuers or persons responsible for the prospectus must make every effort to comply with the guidelines.

The guidelines are aimed at promoting the usefulness and transparency of the APMs included in prospectuses or regulated information. Adherence to the guidelines will improve the comparability, reliability and/or comprehensibility of APMs.

Compliance with these guidelines will provide a faithful representation of the financial information disclosed to the market.

ESMA issued a Public Statement on October 28, 2016 defining the European common enforcement priorities, in order to promote consistent application of International Financial Reporting Standards (IFRSs) as indicated in the ESMA Guidelines on enforcement of financial information. Listed companies and their auditors should in particular consider those priorities when preparing and auditing, respectively, the IFRS financial statements for the year ending December 31, 2016.

Furthermore, the FSMA expects issuers of securities admitted to trading on regulated markets and their auditors to take the Public Statements on IFRS 9 and IFRS 15 into consideration in their respective work when implementing those standards, notably when disclosing and auditing their [expected] effects in the IFRS financial statements.

j) Attention points for the audits of institutions of occupational retirement provision

The FSMA confirms that it expects accredited auditors to devote particular attention to the prudence with which the technical provisions are calculated, and especially to the discount rate(s) used.

The FSMA wishes, furthermore, to call to mind the following points:

- 1) generally speaking, greater clarity in the annual reports submitted to the FSMA as regard the aspects examined by the accredited auditor, in order to give assurance that the absence of a remark about a given point means that that point was indeed verified by the accredited auditor but that the latter had no particular remark to make;
- 2) 2. the information in the "P40" reporting (on the governance and on the activities and financial structure of the IORPs) presenting inconsistencies vis-à-vis the information at the disposal of the accredited auditor;
- 3) the valuation of the unlisted investments;
- 4) the codification of the investments in securities of the IORPs based on the FSMA circular on reporting (Circular FSMA_2016_01 of 26 January 2016 on the communication of annual accounts, statistics and related documents for the 2015 financial year);

- 5) the impact of the amendments to the Law of 28 April 2003 on Supplementary Pensions (LPC/WAP) introduced by the Law of 18 December 2015 to guarantee the sustainability and social nature of supplementary pensions and to reinforce their supplementary nature in comparison to occupational pensions; and
- 6) article 51 of the Law of 28 April 2003, pursuant to which accredited auditors “must bring to the FSMA’s attention any fact or decision they may have become aware of in the course of their audit mission and that constitutes an infringement of the provisions” of the LPC/WAP and its implementing decrees.

VII. Main attention points of the NBB related to the June 30, 2017 audit

The previous attention points per 30 December 2016 are still relevant for the audit per 30th of June 2017. Therefore they have been copied in in combination with some additional attention points of the NBB.

a) Compliance with EMIR obligations

EMIR sets obligations for all market participants w.r.t. amongst others

- Reporting obligation to recognized trade repositories
- Clearing obligation through a qualified CCP for certain standardized OTC contracts
- Risk mitigation techniques for bilateral contracts (timely confirmation, reconciliation, daily valuation, collateral (initial and variation margins), ...)

The NBB would like to draw the attention of the accredited auditors w.r.t these obligations.

b) Credit institutions

- ✓ Data quality of prudential reporting: especially the design and the controls within used to prepare the reporting.

The NBB expects of the auditors to analyse the process used by the institutions in order to prepare the periodic financial reporting (including FINREP and COREP) as well as to follow up the important attention points raised by the supervisors. To that respect it is recommended for the auditors to contact the contact person of the NBB in order to understand their main preoccupations. A working group of IRAIF/IREFI is currently reviewing this process and establish a common approach for the auditors of financial institutions (banks and insurance companies). As soon as the project is finalised, IRAIF/IREFI will inform its members.

- ✓ Preparation of IFRS 9: projects that the banks have set up in order to prepare for compliance (to what extent are they completed, what is the impact?). (See chapter II)
- ✓ Attention for the IT risks: in the broad sense, their significance is steadily increasing. The NBB expects of the auditors that they pay special attention to the risks related to Cyber Security and robustness of the IT systems of the banks. The findings of the auditors should be reflected in the critical analysis of the evaluation of internal control.

- ✓ Use of the signal function: The NBB expects of the auditors that they intensify their signal function or use a more pro-active communication on different domains. These domains are not limitative and could aim at:
 - Deterioration of the financial situation (including the solvability and liquidity);
 - Sustainability of certain business models. The NBB does not expect of the auditor to review the business plans in detail, but complex situation should be documented (e.g. credit easing in order to increase the amount of credit massively, an aggressing pricing strategy, etc.);
 - Expected tension points in the internal control or each point that could influence sufficiently the appropriate character of the organisation.
- ✓ Control on the use of internal accounts (LPF): In the past a series of lines of conduct (the so-called level playing fields) were agreed at the level of Febelfin a.o. on individual client accounts ('LPF-stelsel van individuele cliëntenrekeningen'). The position of the supervisor w.r.t. these lines of conduct has been discussed in the annual report of the CBF 2001 – 2002 (based on this initiative from Febelfin, the CBF withdrew a circular letter on the use of internal accounts because of this initiative taken by the sector). Basically this line of conduct prohibits the use of internal accounts for client transactions. Special attention is warranted for this particular topic as well as for the general control environment of internal accounts.

It is expected from the auditor to indicate: (a) the important cases of non-compliance with laws and regulations identified by the compliance officer, (b) the most important gaps related to internal control identified not only by the external auditor, but also those of the internal auditors as well.

- ✓ Monitoring of conditions regarding the derogation of art. 36bis: it is important for the NBB to ensure that the derogation conditions are being complied with in practice.
- ✓ Hedge effectiveness under IAS 39, taking into account the prepayment / renegotiation wave over the past two years.
- ✓ Even in this relatively uncertain and difficult economic environment, the NBB noticed that the cost of risk remains relatively low. In this context, the NBB expects that the auditors will investigate possible understatements of the impairments on loans.

In addition to the attention point related to FINREP reporting on a statutory level as stated in II, d) of the previous IREFI-Notice: *the NBB therefore created in E-corporate additional lines for the report of the licensed auditor on the FINREP solo level for the Financial and Mixed Financial Holdings.*

- ✓ As a result of the implementation of IFRS 9, the FINREP templates will be updated. Currently the new FINREP templates are under consideration by the European Commission for approval. As, according to the ECB regulation (EU) 2015/534, the FINREP Solo templates are based on the FINREP templates; the ECB will publish an updated version of their FINREP regulation (regulation (EU) 2015/534). Therefore the National Bank of Belgium will publish a new draft mapping and Circular letter for BGAAP reporters.

c) Insurance companies

- Data quality is essential and remains a major challenge, as it appears from the QRTs for Q1.
- Best estimate (BE): how is this defined, in particular regarding the Life branch:
 - i. Respect of the rules on contract boundaries: these are often incorrectly applied; it is the auditors' responsibility to draw attention to problems in this context.
 - ii. Pertinence and back testing of hypotheses relating to costs, lapses, etc. This is not about the opportuneness of scenarios, but rather whether appropriate hypotheses have been used.
 - iii. Use of the Economic Scenario Generator (ESG): this is an essential dimension in the perspective of ensuring the proper character of the BE, especially related to the dimensions PB, LAC TP, RM, etc.
- SCR: Limits with regard to LAC DT: The LAC DT remains an important topic, given its impact on the capacity of the companies to satisfy the coverage ratio of the SCR. The attention of the NBB teams will take into account any evolutions of the Belgian position on that point.
- Chapter D.II.A.1.a of the new NBB circular of 9 June 2017 on the duty of cooperation of accredited statutory auditors sets the reporting deadline for the half year reports for all insurance and reinsurance companies on 15 September. However, in light of the fact that the reporting deadline in 2017 for insurance and reinsurance groups is 29 September (see circular NBB_2016_10), the NBB will modify the deadline for the half year auditor's report to 'at the latest 4 weeks after the deadline for the insurance or reinsurance companies to provide the report to the NBB'.

<u>Acronyms</u>	
AICB	Alternative Undertakings for Collective Investments
AIFMD	Alternative Investment Fund Managers Directive
APM	Alternative Performance Measures
BE	Best Estimate
BGAAP	Belgian Generally Accepted Accounting Principles
CBF(A)	NL: Commissie voor het Bank-, Financie- en Assurantiewezen Banking, Finance and Insurance Commission
CCP	Central counterparty
CIS	Collective Investment Schemes
COREP	Common Reporting
CSSF	Commission for the Supervision of the Financial Sector
EBA	European Banking Authority
ECB	European Central Bank
ECL	Expected Credit Loss
EIOPA	European Insurance and Occupational Pensions Authority
EL	Expected Losses
EMIR	European Market Infrastructure Regulation
ESG	Economic Scenario Generator
ESMA	European Securities and Markets Authority
FiMiS	Financial Institutions and Markets Information System
FINREP	Financial Reporting
FSMA	Financial Services and Markets Authority
GVV/SIR	NL: Gereguleerde Vastgoed Vennootschap FR: Société Immobilière Réglementée Regulated Real Estate Company
IAS	International Accounting Standards
IBNR	Incurred But Not Reported
IBR-IRE	Institute of Registered Auditors Institut van de Bedrijfsrevisoren - L'Institut des Réviseurs d'Entreprises
ICB	NL: Instelling voor Collectieve Belegging Undertakings for Collective Investment (UCI)
IFRS	International Financial Reporting Standards
IORP	Institutions for Occupational Retirement Provision
IRAIF/IREFI	FR: Institut des Réviseurs Agréés pour les Institutions Financières NL: Instituut van de Revisoren Erkend voor de Financiële Instellingen
LAC DT	Loss Absorbing Capacity and Deferred Tax
LAC TP	Loss Absorbing Capacity of Technical Provisions
LPC/WAP	Law of 28 April 2003 on Supplementary Pensions
LPF	Level Playing Fields
MiFID	Markets in Financial Instruments Directive
NBB	National Bank of Belgium
OTC	Over The Counter
PB	Participation bénéficiaire
PIE	Public Interest Entity
PRIIP	Packaged Retail and Insurance-based Investment Products
QRT	Quantitative Reporting Templates
REIT	Real Estate Investment Trust (GVV/SIR - NL: Gereguleerde Vastgoed Vennootschap; FR: Société Immobilière Réglementée)
SFTR	Securities and Financing Transactions Regulation
SII	Solvency II

SPPI	Solely Payment of Principal and Interest
UCI	Undertakings for Collective Investment
UCITS	Undertakings for Collective Investment in Transferable Securities