

Zaventem, 24 June 2019

**NOTICE TO THE ACCREDITED AUDITORS**  
**NOTICE 2019/06**

Dear Members,

On a six-month basis, the Management Board of the IRAIF/IREFI informs the accredited auditors of main highlights or attention points to take into consideration in the context of their review or audit.

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

In addition, the FSMA and the NBB also provided their key attention points. The attention points are without prejudice to the ongoing discussion on the evolution of the collaboration of accredited auditors to the FSMA supervisory missions.

On 14 June 2019, a “*Capita Selecta*” training session has been held at the IBR/IRE in cooperation with the NBB and the FSMA explaining some of the main topics mentioned in this document.

The templates of the accredited auditors’ reports for prudential reporting towards the NBB and the FSMA are currently being reviewed and will be released during the summer of 2019.

Finally, as the IREFI is committed to process personal data of its members and external partners carefully, we would like you to pay attention at and comply with the privacy statement of IRAIF/IREFI, published on the website of IBR/IRE: <https://www.ibr-ire.be/nl/actueel/berichten-irefi>

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

Yours sincerely,



Olivier Macq  
President

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## I. MAIN ATTENTION POINTS FOR ALL REGULATED ENTITIES

### 1. Data Quality

The circular NBB\_2017\_27 on the NBB's expectations as regards to quality of reported prudential and financial data contains also the NBB's expectations to the accredited auditor concerning data quality. Data quality remains an important attention point for the NBB.

In a communication dated 11 April 2019, *IREFI – IRAIF 2019/03 : Data Quality Reporting – Suggested Approach*, the IRAIF/IREFI clarifies the suggested approach (for banks and insurers) to the accredited auditors regarding the regulatory reporting over Data Quality. The IRAIF/IREFI strongly recommends using the review / audit programs included in this communication.

#### Procedures to be performed on data quality in the context of the accredited auditor's reporting on the prudential reporting

It is expected for *review* purposes at half-year that the auditor perform inquiries in order to assess whether the self-assessment of the financial institutions is further completed with additional controls resulting from the implementation of the remediation plan and/or due to new reporting tables. In case of changes, it is important that the auditor verify whether the add-ons are indeed controls that are expected to prevent/detect errors in the prudential reporting. Based on professional judgment and depending on the nature of the audit approach and where considered relevant, the auditor decides whether for selected key controls operating effectiveness is tested as part of limited review procedures.

### 2. Brexit

The deadline for the UK to leave the European Union has been postponed until 31 October 2019 and the risks associated with Brexit remain at the center of attention. The preparatory work carried out by both the financial sector and the relevant supervisory authorities has provided measures and contingency plans to protect the financial sector in many possible exit scenarios.

However, It cannot be excluded that Brexit could ultimately lead to a disorderly outcome that could have an impact on the Belgian financial sector. As the EC and the UK continue to negotiate the terms of the exit, businesses should be considering how this new political landscape will affect their organizations and should be considering the impact on accounting and reporting. In particular, this can include, amongst others: the impact on the disclosures of the Brexit-related risks and impacts on impairments and valuations.

### 3. Materiality & Signal Function

Upon request of the NBB, the IRAIF/IREFI prepared a note explaining the basic principles regarding the calculation of materiality applied to credit institutions and insurance companies.

In order to manage the expectation gap, the IRAIF/IREFI has also written a general memorandum regarding the signal function.

Both notes will be distributed to the members of IRAIF/IREFI, after final review by the Board of the IRAIF/IREFI.

#### **4. Detailed report (“rapport circonstancié / omstandige verslag”)**

In a communication dated 3 April 2019, the NBB clarifies its expectations towards the accredited auditors regarding the audit plan and the detailed report (“rapport circonstancié / omstandig verslag”). In a communication dated 16 April 2019, the IREFI - IRAIF recommends to the accredited auditors to take into consideration the NBB expectations regarding the audit plan and to use the detailed report as a reading grid by referring to other relevant reports (e.g. reports to the Audit Committee).

The IREFI – IRAIF highlights that this detailed report is applicable for credit institutions, insurance undertakings and settlement institutions.

## **II. MAIN ATTENTION POINTS FOR THE CREDIT INSTITUTIONS**

### **1. Topics covered in previous communications that remain valid**

#### **1. Accounting for the Irrevocable Payment Commitment (IPC) to the SRB**

The Irrevocable Payment Commitments (IPC) represent an alternative to cash payments in the context of the ex-ante funding for the Single Resolution Fund (SRF). The IPC can be defined as an obligation taken by the credit institutions towards SRB to pay their contributions in the future for which a cash collateral is provided. The SRB has previously published their view on the accounting considerations with respect to the IPC, the SRB is currently discussing with certain banks on the ability to return the cash collateral upon the rendering of their banking license, the position of the SRB is that the cash collateral should not be returned. Entities should consider the status of the ongoing discussions to determine whether their current policy with respect to the accounting for the IPC remains valid.

## **III. MAIN ATTENTION POINTS FOR THE INSURANCE SECTOR**

### **1. NBB Stress Tests for 2019**

In 2019, a significant part of the Belgian insurance sector is subject to a stress test consisting of two scenarios.

The first scenario (Belgian Adverse) assesses the impact of a repricing of the Belgian sovereign debt on the insurers’ solvency positions. The Belgian adverse scenario consists of three parts

- 100 bps increase of the OLO spread
- 200 bps increase of the OLO spread
- Reverse stress, whereby the insurer has to determine the OLO spread increase at which its solvency ratio drops below 100%

The second scenario (Low Yield) assesses the impact of a continued decline in the risk-free rates on the insurer’s solvency positions.

The submission of the results to the NBB is expected by 21 June 2019.

The accredited auditors are expected to acquaint themselves with the results of the stress tests and to consider these in their risk assessment.

## **IV. MAIN ATTENTION POINTS FOR PAYMENT INSTITUTIONS AND E-MONEY INSTITUTIONS**

### **1. Circular NBB 2018 31 on the periodic reporting scheme for payment institutions**

Pursuant to the provisions of article 77 of the Law of 11 March 2018 on the statute and control on payment institutions and e-money institutions and pursuant to the new NBB regulation on own funds dated , the NBB issued on 27 November 2018 Circular NBB\_2018\_31 – Circular on the periodic reporting scheme for payment institutions.

The circular addresses the new periodical reporting of payment institutions covering the solvency and financial reporting. This circular became applicable as from 1 January 2019. Accredited auditors will report for the first time on this new reporting for the situation as of 30 June 2019. The IREFI-IRAIF Board draw the attention on the respect of this circular by institutions and pay a special attention to the organizational and internal control framework implemented by the payment institutions in order to reports their periodic returns and their compliance with data quality requirements. As there are new topics (statistics, geographical reporting...) to report, the IREFI - IRAIF recommends contacting upfront the payment institutions. The objective would be to assess the quality of the first reporting on the situation as of 31 March 2019 (except as differently instructed by the NBB) to identify any material issue and understand the corrective actions taken by the institution to remedy any issue identified by the NBB controls.

Finally, please note the circular also addresses the new reporting requirements for limited payment institutions (*établissements de paiement limités / beperkte betalingsinstellingen*) and account aggregating payment institutions (*établissements de paiement agrégateurs de compte / betalingsinstellingen die rekeningaggregatiediensten aanbieden*).

As the implementation of this circular will affect the text of the reports of the accredited auditors, the IREFI- IRAIF is currently reviewing and updating these texts in order to provide them within the best terms to the profession.

## V. MAIN ATTENTION POINTS REGARDING IFRS

### 1. First time application of IFRS 16

For most financial institutions, IFRS 16, the new accounting standard for leases and IFRIC 23, dealing with uncertainty over tax income, have become applicable as from 1 January 2019. As with other new accounting standards, particular attention should be given to the impact of the first time application of this new standard as well as the related disclosure requirements.

As the prudential reporting templates have not yet been adjusted for IFRS 16, financial institutions should determine how to best represent the changes from the standard in the existing prudential reporting templates.

### 2. Application of IFRS 17 and IFRS 9

Considering the impact of the introduction of IFRS 17 and IFRS 9, we recommend that the accredited auditor discuss the implementation of these IFRS standards to ensure that the deadlines will be met.

We also want to draw the attention of the accredited auditors on the fact that entities applying the deferral approach for IFRS 9 already have to prepare disclosures including the following information:

- Fair value information separately for:
  - financial assets that meet the SPPI test unless held for trading or managed on a fair value basis; and
  - all other financial assets; —
- Credit risk and quality information.

We recommend the accredited auditors to verify the appropriate disclosure of the information mentioned here above and to verify the results of the SPPI test.

The NBB refers to the attention points included in the notice 2018-12, which remain valid for this first half-year.

### **3. IBOR – Benchmark Rate Reforms**

Following the financial crisis, the replacement of benchmark interest rates such as LIBOR, EURIBOR, EONIA and other interbank offered rates ( ‘IBORs’ ) has become a priority for global regulators. With regard to benchmark rate reforms causing the introduction of new benchmarks and/or the replacement of existing benchmarks in the short and mid-term, the NBB wants to raise awareness and ensure that Belgian banks are adequately prepared. Hence, banks are expected to analyze potential implications for their business practices and risk management. Therefore, in our capacity of accredited auditors, it is important to discuss the status of the projects and the preliminary outcome or conclusions drawn by the entities. In addition, IASB conclusions are not yet detailed to conclude on whether we speak about de-recognition or not of hedge accounting

Many uncertainties remain but the roadmap to replacement is becoming clearer. Given the pervasive nature of IBOR-based contracts amongst financial institutions, the potential impacts of these changes on financial reporting under IFRS should be considered on a timely basis. As new benchmarks could have an impact on the valuation of assets and derivatives -in particular, but not limited to, the valuation of derivatives and embedded derivatives- the NBB expects that auditors should consider the preparedness by banks as an attention point (provisioning ...).

The IASB has also added the matter to its agenda. Key areas of immediate focus include hedge accounting and disclosure, with longer-term considerations focused on how to account for replacement of IBORs when the changes take effect. More broadly, the implications of IBOR replacement are far-reaching, and consideration will need to be given to a wide range of commercial impacts, including contract amendments and fair value measurement.

#### **VI. MAIN ATTENTION POINTS REGARDING INSTITUTIONS OF OCCUPATIONAL RETIREMENT PROVISION**

No new attention points identified for this letter as of 30 June 2019

#### **VII. MAIN ATTENTION POINTS OF THE FSMA RELATED TO THE 30 JUNE 2018 REVIEW<sup>1</sup>**

No specific attention points identified by the FSMA for this letter as of 30 June 2019

#### **VIII. MAIN ATTENTION POINTS OF THE NBB RELATED TO THE 30 JUNE REVIEW<sup>2</sup>**

##### **1. Banks and Investment Firms**

PSD II - As of 14 September 2019 all requirements from PSD will enter into force. This entails numerous new requirements in terms of reporting, organization, operational and security practices as well as waivers to be obtained in certain cases. Accredited auditors should be aware of these new requirements and identify areas where, based on their audit work, they identify shortcoming in meeting these new requirements.

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<sup>1</sup> Attention points provided by the FSMA.

<sup>2</sup> Attention points provided by the NBB

## **2. Insurance Companies**

### **1. Workshops Best Estimate**

The Bank wishes to improve her cooperation with the accredited auditors with the aim to better align the duties of both parties and avoid as much as possible unnecessary overlaps. As a first step in this process and taking into account the importance and the complexity of valuation techniques of the technical liabilities, the Bank considers that a more focused dialog should take place on this caption of the market consistent balance sheet. In this context, the NBB organized workshops with certain audit firms in the beginning of 2019 in order to get a better view on the main audit procedures usually performed by the accredited auditors with respect to the Best Estimate Life and Non-Life under Solvency II.

In accordance with the oral feedback given to the representatives of IRAIF/IREFI during a meeting held on 7 May 2019, the Bank expects now to pursue this open dialog with the accredited auditors at the level of the supervised entities. This dialog on the main audit procedures performed on the technical liabilities per supervised entity will be organized in the course of 2019 as part of the periodic meetings with the NBB. The IRAIF/IREFI and the NBB are discussing the format of a support document to be completed by the accredited auditors in order to facilitate the dialog referred to above.

The Bank also believes that such dialog will allow her to have a better understanding and a better view on the eventual weakness (es) reported by the auditors and consequently, will allow her to better act in a complementary way.

A further feedback will be organized, either at the level of IRAIF/IREFI or per audit firm, when the individual dialogs have taken place, to share the learnings and the conclusions of this deeper cooperation between the Bank and the accredited auditors.

### **2. LAC DT**

Last year, the Bank collected information from insurance undertakings in order to challenge their utilization of the loss-absorbing capacity of deferred taxes. In her analysis, the Bank already considered the principles developed in the second set of advice to the European Commission regarding deferred taxes.

On top of the global message already given in the IREFI newsletter of December 2018, the NBB wishes now to stress the following elements:

- The reversal of the risk margin is not automatically accepted and is conditional to demonstration. Auditors are recommended to be prudent in the recognition of this element.
- EIOPA deemed appropriate to set post-shock assumptions on return on assets equal to the forward rates derived from the relevant interest rate term structure. However, the NBB recognizes that higher returns could be justifiable, conditional to providing credible evidence of this element. In accordance with EIOPA principles, this demonstration may not rely on the assumption of the reversion of (any part of) the shock (no pull-to-par and no shock reversion)
- The cap of the loss-absorbing capacity of deferred tax introduced by the Circular 2017\_14 is abolished. LAC DT should be determined in full compliance with the principles set in the Solvency II regime.

The NBB also expects the accredited auditors to review the methodologies and documentation developed by the insurance undertakings and to report any relevant issue.

## **3. Payment Institutions and Electronic Money Institutions**

### **1. General**

The NBB would like to emphasize the importance of the reporting medium with regard to the signal function of the auditors. In order to be able to take appropriate prudential measures, it is important that all communication with the NBB is confirmed in writing (letter or e-mail) to the NBB.

## 2. Financial Situation

The NBB stresses the importance for monitoring the strict adherence to the legal stipulations with regards to the prudential own funds requirements as set out respectively in Articles 33 and 182 of the Law of 11 March 2018.

To that end the NBB expects to be kept proactively and timely informed of situations in which compliance with these prudential own funds requirements by payment and electronic money institutions may come under pressure.

## 3. Safeguarding Requirements

The NBB also stresses the importance of strict adherence to the legal stipulations aimed at protecting the moneys of payment service users received for the execution of payment transactions or the issuance of electronic money on as set out respectively in Articles 41 - 42 and 193 - 194 of the Law of 11 March 2018. To that end, the NBB expects particular attention to be paid to examining the completeness and compliance of the safeguarding measures taken by payment and electronic money institutions with the legal stipulations referred to above.

## 4. Reporting

In case reporting deadlines are not kept, NBB expects information and request with reasons for delay. The NBB attaches importance that, if the delay for instance is due to a late transfer of documents to the accredited auditor, this is reported to the NBB. The NBB can take the necessary measures with regard to the institution under supervision, so that such delays no longer happen in the future.



## Acronyms

|             |  |
|-------------|--|
| AICB        | Alternative Undertakings for Collective Investments  |
| AIFMD       | Alternative Investment Fund Managers Directive   |
| AML/CTF     | Anti-Money Laundering Legislation  |
| APM         | Alternative Performance Measures   |
| CIS         | Collective Investment Schemes  |
| CIU         | Collective Investment Undertakings   |
| COREP       | Common Reporting   |
| CRD         | Capital Requirements Directive   |
| DTA         | Deferred Tax Assets  |
| DTL         | Deferred Tax Liabilities   |
| EAD         | Exposure at Default  |
| EBA         | European Banking Authority   |
| ECB         | European Central Bank  |
| ECL         | Expected Credit Loss   |
| EIOPA       | European Insurance and Occupational Pensions Authority   |
| ESG         | Economic Scenario Generator  |
| FSMA        | Financial Services and Markets Authority   |
| GDPR        | General Data Protection Regulation   |
| ICAAP       | Internal Capital Adequacy Assessment Processes   |
| ICB         | <b>NL:</b> Instelling voor Collectieve Belegging Undertakings for Collective Investment (UCI)  |
| IFRIC       | IFRS Interpretation Committee  |
| IFRS        | International Financial Reporting Standards  |
| ILAAP       | Internal Liquidity Adequacy Assessment Processes   |
| IORP        | Institutions for Occupational Retirement Provision   |
| IPC         | Irrevocable Payment Committee  |
| IRAIF/IREFI | <b>FR:</b> Institut des Réviseurs Agréés pour les Institutions Financières<br><b>NL:</b> Instituut van de Revisoren Erkend voor de Financiële Instellingen |
| IRB         | Internal Ratings Based   |
| LAC DT      | Loss Absorbing Capacity and Deferred Tax   |
| LGD         | Loss Given Default   |
| LPC/WAP     | Law of 28 April 2003 on Supplementary Pensions   |
| MiFID       | Markets in Financial Instruments Directive (2014/65/EU)  |
| MMF         | Money Market Funds   |
| NBB         | National Bank of Belgium   |
| NPL         | Non-Performing Loans   |
| OPC         | <b>FR:</b> Organisme de Placement Collectif Undertakings for Collective Investment (UCI)   |
| ORA         | Own-Risk Assessment  |
| PD          | Probability of Default   |
| PSD         | Payment Services Directive   |
| QRT         | Quantitative Reporting Templates   |
| RWA         | Risk Weighted Asset  |
| SPPI        | Solely Payment of Principal and Interest   |
| SRB         | Single Resolution Board  |

|       |   |
|-------|---|
| SREP  | Supervisory Review and Evaluation Process                         |
| SRF   | Single Resolution Fund  |
| SSM   | Single Supervisory Mechanism                                      |
| TRIM  | Targeted Review of Internal Models                                |
| UCI   | Undertakings for Collective Investment                            |
| UCITS | Undertakings for Collective Investment in Transferable Securities |