World Council

June 21, 2013

Sent via email

Wayne Byers
General Secretary
Basel Committee on Banking Supervision
Bank for International Settlements
CH-4002
Basel, Switzerland
baselcommittee@bis.org

Re: Consultative Document: *External audits of banks* (bcbs 244)

Dear Mr. Byers:

The World Council of Credit Unions (World Council) appreciates the opportunity to comment on the Basel Committee's *External audits of banks* consultative document. World Council is the leading trade association and development organization for the international credit union movement. Worldwide, there are over 51,000 cooperatively owned not-for-profit credit unions in 100 countries with more than US$ 1.5 trillion in total assets. National and provincial credit union supervisors frequently apply the Basel Committee's international standards to credit unions even though the Committee develops these standards to apply to commercial banks and banking systems.

World Council supports the Committee's proposal in most respects, but urges the Committee to clarify that Principle 4's requirement for external bank auditors to comply with the audit standards applicable to publicly traded companies should depend on the size and complexity of the financial institution and applicable statutory and regulatory requirements. We believe that this clarification is consistent with the Committee's "proportionality concept" for supervision that focuses on an institution's risk profile and systemic importance, as expressed in the Committee's *Core Principles for Effective Banking Supervision* (2012).[1]

External audits are an important element of the safety and soundness regime for many banking institutions but can impose significant regulatory burdens on small and medium institutions including credit unions—thereby negatively impacting these institutions' ability to promote financial inclusion of unbanked persons—and would be inconsistent with regulatory requirements for smaller credit unions in some jurisdictions where credit unions are subject to on-site examinations by a governmental and/or self-regulatory supervisory agency.

For example, federally insured credit unions in the United States of America that are subject to examination by the National Credit Union Administration (and also in some cases examination by state banking supervisors) are not required under Section 202 of the Federal Credit Union Act to have an external audit unless they have more than US$ 500 million in assets, although state law can set a lower threshold and any federally insured credit union above US$ 10 million in assets that chooses or is required to have an external audit must have that audit conducted in accordance with Generally Accepted Auditing Standards. *See* 12 U.S.C. § 1782 (a)(6)(D), *available at* http://www.law.cornell.edu/uscode/text/12/1782. We believe that an

[1] http://www.bis.org/publ/bcbs230.htm

World Council of Credit Unions, Inc.
601 Pennsylvania Avenue NW, Washington, DC 20004-2601 • Phone: +1-202-638-0205 • Fax: +1-202-638-3410 • www.woccu.org

on-site examination of a small credit union by the supervisor can limit the need for an external audit in a safe and sound manner, as is the case with smaller federally insured credit unions in the United States.

In this connection we urge the Committee to clarify in Paragraph 53 that "the more stringent requirements on [audit] quality control applicable to listed entities in internationally accepted quality control standards" should apply in the case of internationally active banks, but are not mandatory for smaller institutions, especially those that are subject to on-site examinations by a governmental supervisor and/or a self-regulatory organization that regulates them comprehensively and on a consolidated basis.

Specifically, we urge the Committee to clarify this issue by inserting the words "internationally active" before "bank" in the second sentence of Paragraph 53 of the Consultative Document, as noted below:

> 53. Audit firms must comply with the applicable jurisdictional and internationally accepted standards on quality control. Furthermore, the Committee believes that the external auditor of <u>**an internationally active**</u> bank should comply with the more stringent requirements on quality control applicable to listed entities in internationally accepted quality control standards. To the extent that any of the rules within any one of these quality control standards is more restrictive than a corresponding rule in the other quality control standards, the external auditor must comply with the more restrictive rule. [Bolded and underlined text added.]

Thank you for the opportunity to comment on the Basel Committee's *External audits of banks* consultative document. As noted above, we support most aspects of the Basel Committee's revised *External audits* proposal.

We urge the Committee, however, to clarify that the requirement for public company audit standards should apply primarily in the case of internationally active banks and in any case consistently with the Committee's "proportionality concept" for supervision that focuses on an institution's risk profile and systemic importance, as expressed in the Committee's *Core Principles for Effective Banking Supervision*.

If you have questions about our comments, please feel free to contact me at medwards@woccu.org or +1-202-508-6755.

Sincerely,

Michael S. Edwards
World Council VP and Chief Counsel