



EUROPEAN CONFEDERATION OF INSTITUTES OF INTERNAL AUDITING (IVZW)

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Brussels, June 13th, 2013

Dear Sir,

The ECIIA (the European Confederation of Institutes of Internal Auditing) would like to thank you for offering the opportunity to comment on your Consultation Paper “Draft Regulatory Technical Standards On the content of recovery plans under the draft directive establishing a framework for the recovery and resolution of credit institutions and investment firms”.

The ECIIA is a confederation of national associations of internal audit speaking for the Internal Audit profession in the wider geographic area of Europe and the Mediterranean basin, representing a membership base of over 40,000 internal audit professionals. As such, the ECIIA is an Associated Organisation of the global Institute of Internal Auditing (the IIA), a professional organisation of more than 181,000 members in some 190 countries. Throughout the world, the Global IIA is recognised as the internal audit profession's leader in certification, education and research regarding internal auditing. The Global IIA also maintains the International Professional Practices Framework (IPPF) which includes the *International Standards for the Professional Practice of Internal Auditing*, the definition of internal auditing, the code of ethics, practice advisories and other guidance.

([http://www.theiia.org/guidance/standards-and-guidance/interactive-ippf/.](http://www.theiia.org/guidance/standards-and-guidance/interactive-ippf/))

We understand that the goal of this directive is to establish a framework for the recovery and resolution of credit institutions and investment firms, setting out a Union-wide framework for crisis prevention, management and resolution. Therefore the technical standards in question only touch the internal audit function to a minor extent.

The core task of the internal audit function is not being part of risk management itself, but, through a risk based approach, providing assurance to the organisation's governing body and senior management on how effectively the organization assesses and manages its risks, including the manner in which the first and second lines of defence operate. This assurance task covers all elements of an institution's risk management framework, i.e. from risk identification, risk assessment and response to communication of risk-related information (throughout the institution and to senior management and the governing body). As such, internal audit acts as third and last line of defence of an organisation. All other operational functions of an organisation - such as risk management or risk control - act as the first resp. second lines of control and have clear roles and responsibilities within the operating model of a bank. Having said this, the involvement of internal audit in the process of establishing a recovery plan necessarily needs to be limited.

In your paper we identified two aspects where we deem adjustments necessary, as the chosen wording or suggestions endanger the independence of internal audit and do not meet international standards:

Firstly, Article 5 seems to regard the function of a risk committee and the internal audit function as being alternatives in the process of approving the recovery plan. So, according to your suggested standards, internal audit may or may not be involved, and if it is, it should be as part of the approval process.

As internal audit should be involved in all important new product processes or processes influencing risks and the internal control system, it is necessary to involve internal audit in developing a recovery plan. But this must be on a consultative basis. But its role must at no point in time be any part of the approval process. Moreover, internal audit must not officially “review” any plan which later it has to audit and on which it must give judgement otherwise its objectivity and independence might be compromised.

Secondly, internal audit’s role to review the recovery plan should not be during the process of establishing it, but at a later stage in the course of its normal audit activities. Hence, we believe it necessary to clarify that internal audit has to review the recovery plan as part of it’s audit activities.

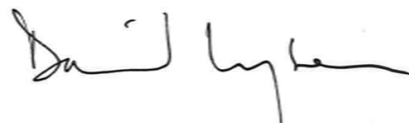
The attached suggested amendments reflect these considerations. We are convinced that their implementation will contribute to clarifying and improving the success of the Technical Standard as well as the process of establishing and implementing a recovery plan.

The ECIIA would like to thank you for offering the opportunity to participate in this consultation. We are always interested and willing to take part in future considerations of topics dealing with discussions how to improve stability of individual banks and the banking sector in general.

Sincerely,



H Stein
ECIIA PA Committee Member



D Lyscom
ECIIA PA Committee Member

Encl. ; One appendix

Page	Text	Suggested Addendum
11/12	<p>Whereas ...</p> <p>(10) The recovery plan should also contain a communication and disclosure plan to address both internal communication, to relevant internal bodies and staff within the firm, and external communication.</p> <p>(11) The recovery plan may require changes in the organisation either to facilitate the update of the plan and its implementation in the future, to monitor indicators, or because the process has identified some impediments complicating the implementation of recovery options. These preparatory and follow-up actions taken by the institutions should be described in the recovery plan.</p> <p>...</p>	<p>Whereas ...</p> <p>(10) The recovery plan should also contain a communication and disclosure plan to address both internal communication, to relevant internal bodies and staff within the firm, and external communication.</p> <p>(11) The recovery plan should be part of the audit universe of the internal audit function.</p> <p>(12) The recovery plan may require changes in the organisation either to facilitate the update of the plan and its implementation in the future, to monitor indicators, or because the process has identified some impediments complicating the implementation of recovery options. These preparatory and follow-up actions taken by the institutions should be described in the recovery plan.</p> <p>...</p>
14 Article 5	<p>...</p> <p>(b) the policies and procedures governing the approval of the recovery plan, including:</p> <p style="padding-left: 40px;">(1) whether the recovery plan has been reviewed by an internal audit function, or external auditor or risk committee;</p> <p style="padding-left: 40px;">(2) confirmation that the recovery plan ...</p> <p>Comment: We understand that part of the approval process of the recovery plan is the review by someone considered as being independent. Even though the internal audit function has to be consulted in any important risk-related change or matter (and as such will play a role as consultant within the project team), audit must not become any part of the approval process except on a consultative basis. Any other involvement would impair internal audit's objectivity in its audit function.</p>	<p>...</p> <p>(b) the policies and procedures governing the approval of the recovery plan, including:</p> <p style="padding-left: 40px;">(1) whether the recovery plan has been reviewed by a risk committee or external auditor;</p> <p style="padding-left: 40px;">(2) whether the internal audit function has been consulted within the process;</p> <p style="padding-left: 40px;">(3) Confirmation that the recovery plan...</p>