



# *Business Planning: Banking*

ACA TUTOR CONFERENCE 2018

# *Overview of BPB workshop*

- Outline of the BPB paper
- Exam setting process
- BPB question styles
- 2018 syllabus changes
- 2018 learning materials
- Recent exams
- December 2017 paper – candidate performance
- Key messages for 2018
- Marking

# ***Business Planning: Banking (BPB)***

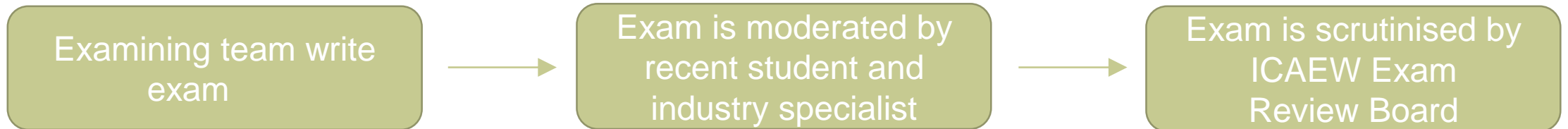
- Professional Level module
- 2.5 hour computer-based exam from June 2018
- 3 written test questions (question 1 approximately 40 marks)
- 55% pass mark
- Open book
- Students are strongly advised to complete FAR and AA before attempting BPB

# ***Business Planning: Banking (BPB) (cont)***

- Not a banking exam per se
- Focus on the role of an ICAEW Chartered Accountant in the banking industry
- Role may be external (eg audit or assurance) or working within a bank (eg risk management, financial accounting role or internal audit)
- Key areas in the syllabus provide focus for questions (eg FR, audit & assurance, risk management, financial services products, ethics)
- Scenario based questions
- Banking industry, markets and products set the context for questions
- Know key industry terminology, operations and procedures.

# *Exam setting process*

- Examining team consists of question writers, moderator and reviewers
- Questions in an exam paper may be written by different members of the team
- Background of examining team includes:
  - Industry practitioners
  - Trainers
  - Academics
  - Members of regulatory bodies (Bank of England, PRA)
- Question setting process:



# ***BPB question styles – examples***

- External audit context
- Analysis for decision making e.g. candidate works in loans department of the bank or bank is analysing potential acquisition target
- Risk management and compliance
- Bank acting as an intermediary or advisor
- Strategic or business planning
- Regulatory reporting

# *2018 syllabus changes*

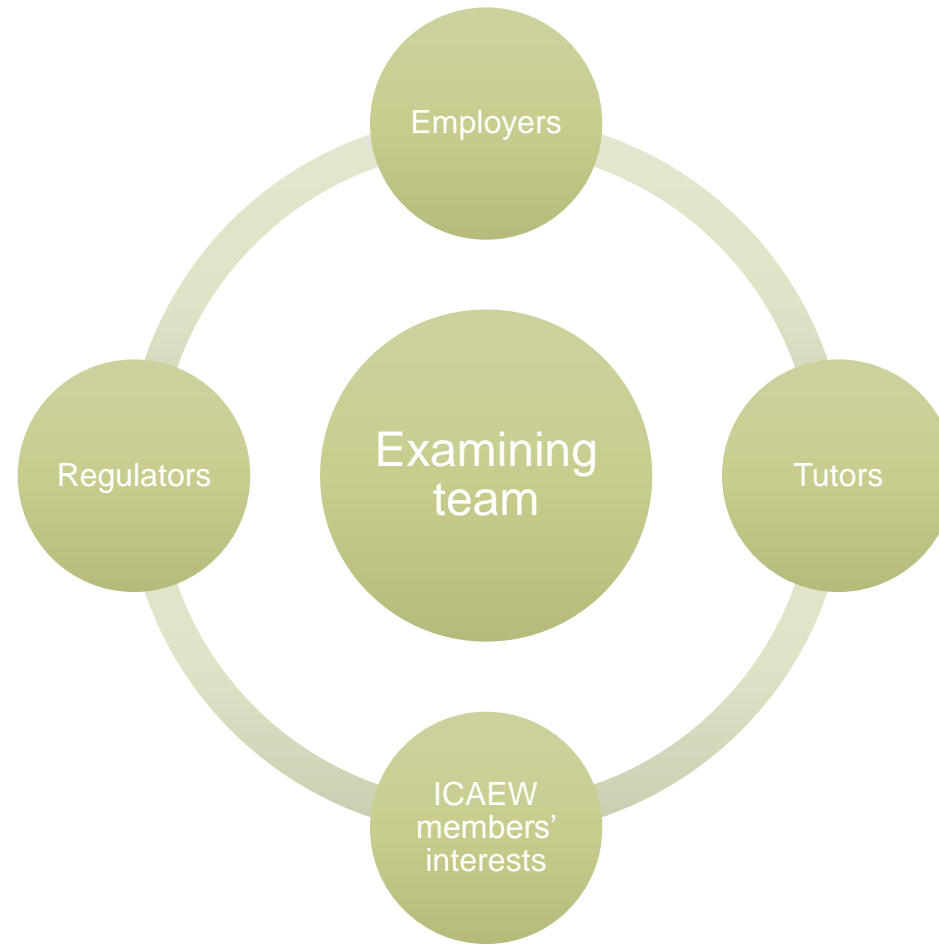
- Wording tidied up over impairments
- Financial and regulatory reporting learning objective 3i
  - perform financial statement analysis to appraise the potential credit risk from a company seeking finance, to identify risks facing a financial institution or to evaluate a potential acquisition target
- New learning objective within 3m (regulatory reporting)
  - Bank of England/ PRA structural reform regarding ring-fencing core UK financial services and activities

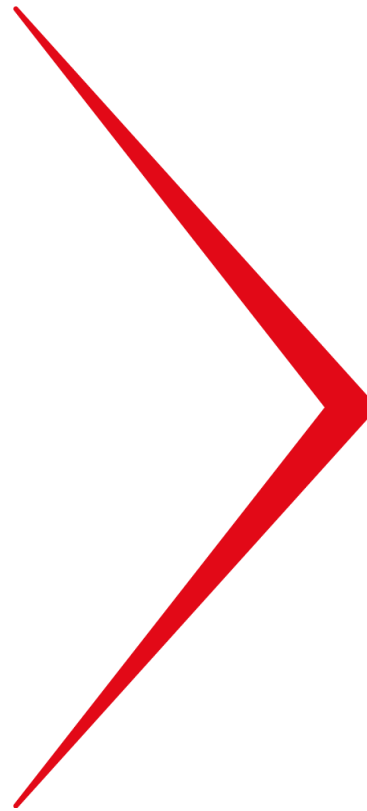
# *2018 learning materials*

- Learning materials have been incrementally improved since the first edition in 2016.
- The 2018 question bank contains five past exams, the sample paper and 24 exam-standard questions (42 in total).
- Please feedback any comments from June tuition to be incorporated into the 2019 learning materials.
- Note: IFRS 9 is effective for 31 December 2018 reporting dates onwards
  - IFRS 9 coverage has been extended in the 2018 learning materials (especially chs 6,7,9)
  - Planning for IFRS 9 implementation is a huge issue for banks
  - 2019 learning materials will contain only IFRS 9 rules



# *Responding to feedback*





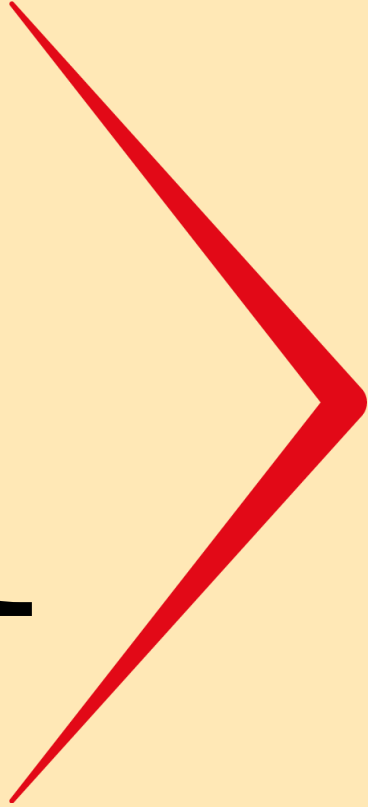
*2017 exams*

# *2017 exam summary*

- June 2017 (123 candidates)
  - Pass rate of 84.6%. Mean average 66.2%.
  - Q1 external audit of unsecured lending, Q2 credit analysis, Q3 interest rate risk management
- September 2017 (67 candidates)
  - Pass rate of 74.6%. Mean average 59.7%.
  - Q1 external audit focus on proprietary trading and associated risks, Q2 analysis of existing borrower, Q3 CASS audit
- December 2017 (362 candidates)
  - Pass rate of 70.2%. Mean average 56.1%.
  - Q1 strategic planning of regulatory position, Q2 external audit of UK subsidiary, Q3 hedging risk management

# *December 2017 exam*

**1**



***Q1: Robinson Bank***

*Summary of question*

*Candidates strengths and weaknesses*

# *December 2017 – Question 1*

- Candidate works in strategic planning for Robinson Bank.
- Focus is on the regulatory impact of a fine for mis-selling and credit rating downgrades of investments
- Candidates must evaluate a strategic plan with three suggestions to address capital adequacy
- Financial reporting treatment of fine and credit rating downgrades is required

# *Question 1 – candidate strengths and weaknesses*

Requirement 1:

- a) Calculate total and CET1 capital requirement
- b) Evaluate Robinson's total and CET1 capital adequacy

## Strengths

- Calculation of capital requirements often gained full marks
- Follow through marks were awarded for clear workings
- Adjustments for goodwill and DT asset
- Conclusions about adequacy

## Weaknesses

- EL-P adjustment (using provision for fine rather than impairment allowance)
- Market risk capital requirement needed to be multiplied by 12.5 to get risk-weighted assets
- Explanations provided where not required

# *Question 1 – candidate strengths and weaknesses*

Requirement 2: Impact of potential fine on capital adequacy

## Strengths

- Well explained impact of failing to meet minimum capital and/ or capital buffers

## Weaknesses

- Candidates ignored existing £1,200 provision
- Some failed to calculate the impact on both CET1 and total capital adequacy

# *Question 1 – candidate strengths and weaknesses*

Requirement 3: Impact of credit rating downgrades on credit risk and capital adequacy

## Strengths

- Methodical approaches often gained full marks (follow through marks awarded)

## Weaknesses

- Some answers were incomplete:
  - Only one type of lending mentioned
  - Only CET1 or total capital adequacy mentioned
- Incorrect risk weightings were used for corporate or sovereign lending



# *Question 1 – candidate strengths and weaknesses*

Requirement 4: Evaluate risk committee's suggestions to improve capital adequacy

## Strengths

- Differentiator on the paper between stronger and weaker candidates. Those who performed well on this requirement did well on the paper as a whole.

## Weaknesses

- Very brief answers which did not 'evaluate' the suggestions
- Misunderstanding of the issue of debt as an investment

# *Question 1 – candidate strengths and weaknesses*

Requirement 5: Financial reporting treatment of the fine and credit rating downgrades

## Strengths

- Safe ground for many candidates and well answered

## Weaknesses

- Events after the reporting period often missed
- Credit rating downgrades were dealt with as one issue but there were different circumstances to discuss for each type of lending

# *December 2017 exam*

2

*Q2: Mariko*

*Summary of question*

*Candidates strengths and weaknesses*

## *December 2017 – Question 2*

- Candidate is an audit senior working on the external audit of the UK subsidiary (Mariko) of a Japanese bank
- The candidate must assess Mariko as a whole to identify audit risks
- There are two specific issues regarding impairment
- Ethics is covered by the audit manager and the audit firm having mortgages with the audit client, Mariko.

# *Question 2 – candidate strengths and weaknesses*

Requirement 1: Identify and explain audit risks using analytical procedures and the information in Exhibit 2 (impairments)

## Strengths

- Well explained, relevant audit risks identified using the information provided

## Weaknesses

- Candidates mistook analytical procedures for audit procedures
- Analysis provided without identifying appropriate risks

# *Question 2 – candidate strengths and weaknesses*

Requirement 2: Financial reporting treatment of impairment issues and relevant audit procedures

## Strengths

- A well answered requirement on the paper
- Generally well structured audit procedures

## Weaknesses

- Focus of financial reporting treatment should be impairments (not initial recognition)

# *Question 2 – candidate strengths and weaknesses*

Requirement 3: Identify any ethical issues and actions audit manager and audit firm should take

## Strengths

- Issues identified and reasonable actions suggested

## Weaknesses

- Some candidates omitted to mention section 2 of the FRC's Revised Ethical Standard to discuss whether the mortgages were in the ordinary course of business and on normal business terms

# *December 2017 exam*



*Q3: Peel Bank*

*Summary of question*

*Candidates strengths and weaknesses*



# *December 2017 – Question 3*

- Candidate works in internal audit at Peel Bank, a relatively new bank
- Peel has experienced volatile profits and wishes to hedge its currency exposures
- Candidates are asked to:
  - analyse Peel's performance;
  - describe the correct financial reporting treatment of the suggested hedge strategy under IAS 39;
  - identify any changes under IFRS 9; and
  - suggest internal controls to monitor hedge effectiveness.

# *Question 3 – candidate strengths and weaknesses*

Requirement 1: Analyse Peel's performance

## Strengths

- Candidates calculated relevant ratios and discussed year-on-year movements
- Sensible comments were made

## Weaknesses

- Candidates sometimes ignored analysis of net interest income
- Ratios calculated without analysis thereof
- Occasionally scripts began to discuss audit procedures but generally stuck to the requirement

# *Question 3 – candidate strengths and weaknesses*

Requirement 2: Financial reporting treatment of hedge strategy under IAS 39

## Strengths

- Most candidates explained hedge accounting rules
- Fewer candidates then tried to apply to rules to the scenario

## Weaknesses

- Some candidates did not address the risk committee chairman's concerns about effectiveness and only explained hedging in general terms

# *Question 3 – candidate strengths and weaknesses*

Requirement 3: Changes to hedging financial reporting treatment under IFRS 9

## Strengths

- Well answered in the majority of scripts

## Weaknesses

- Sometimes too much detail was provided for a requirement asking for candidates to ‘outline’ the changes

# *Question 3 – candidate strengths and weaknesses*

Requirement 4: Suggest internal controls to monitor hedge effectiveness

## Strengths

- Good internal controls suggested
- Well explained controls gained more marks (rather than simply stating ‘segregation of duties’)
- Final requirement on the paper was generally attempted indicating good time management

## Weaknesses

- Answers appeared to include audit procedures which was not required



*Candidate performance  
in 2017*

*Key messages for 2018*

# *Overall candidate performance in 2017*

- Better time management is being demonstrated
- Open books are still heavily relied upon but there is less duplication of question bank answers where they are not relevant to the scenario
- Alternative question formats and scenarios have been examined and candidates appear to be able to deal with these.

# *Key messages for 2018*

- Please encourage candidates to read the requirement carefully!!
- IFRS 9 is an important current issue for banks
- Exam questions will continue to change in style and scenario to test candidates' ability to assimilate the information provided – exam questions will not be carbon copies of question bank questions but will use the same skills and the same approach.
- Technology has increased in importance



# *Key messages for 2018 (cont)*

- Professional skills:
  - More involved scenarios
  - Multiple information sources
  - Techniques inferred rather than specified
- Business planning papers develop skills used at Advanced Level:
  - Understand the situation and requirements
  - Identify and use key information
- Candidates must be fully prepared before sitting the exam

# ***BPB and CBE***

- All computer based exams (CBE) from 2018
- Style/ structure of exam not affected
- Follow advice in most recent ICAEW CBE Guide on website
- **CANDIDATES SHOULD PRACTISE PRODUCING ANSWERS USING ICAEW RESOURCES**

## ***BPB and CBE (cont)***

- All narrative must be visible – markers can not interrogate cells
- Quality of typing/ proofing: text must be understandable
- If using formulae in cells, consider using workings
- Clarity of tables – rows should be labelled

# *Marking*

- Markers' meeting is held a few days after the exam date – the mark plan is scrutinised and refined
- Standardisation scripts are completed by markers before live marking starts
- Seeding scripts are completed throughout the marking process
- Second marking of 53%, 54%, 55% scripts
- Tutor mark plan (not for distribution to students) indicates how marks are allocated for each question
- Example scripts

