



Business Planning: Banking

ICAEW TUTOR CONFERENCE FEBRUARY 2019

Overview of BPB workshop

- Outline of the BPB paper
- Exam setting process
- 2019 syllabus changes
- 2019 learning materials
- Recent exams
- December 2018 paper – candidate performance
- Key messages for 2019
- Marking

Business Planning: Banking (BPB)

- Professional Level module
- 2.5 hour computer-based exam since 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, credit analyst, 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
- Need to know key industry terminology, operations and procedures.

Exam setting process

- Examining team consists of question writers, moderators 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:



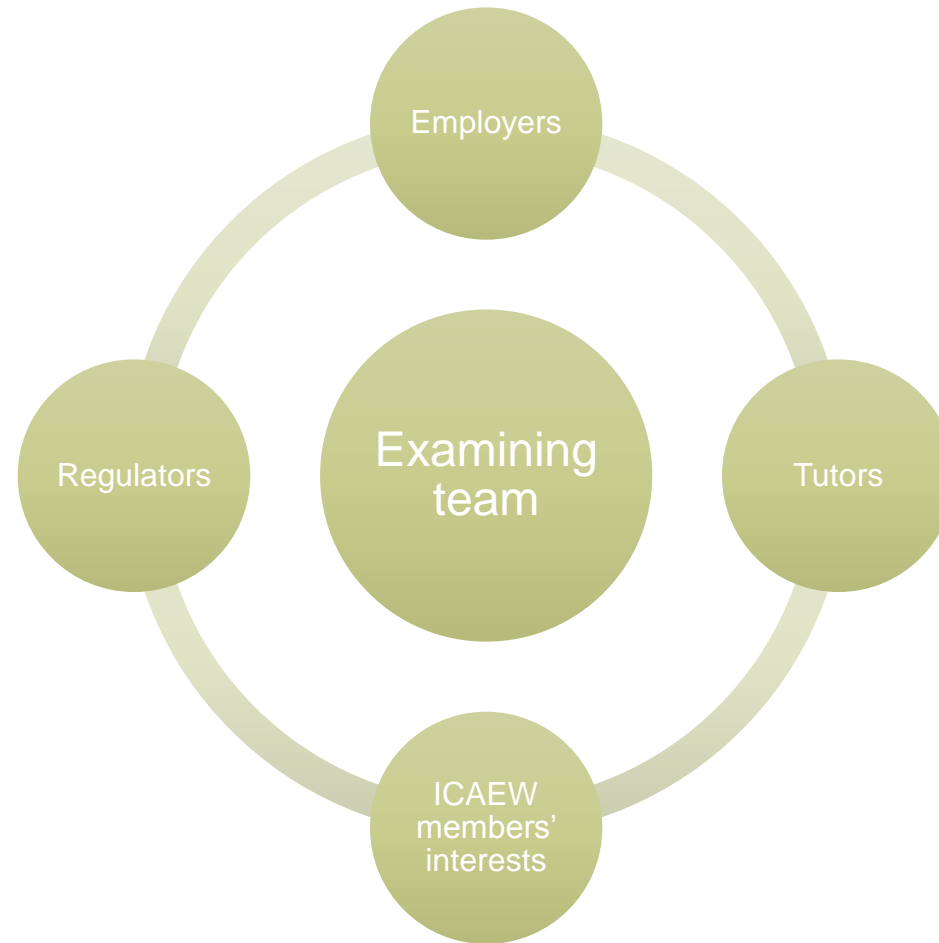
2019 syllabus changes

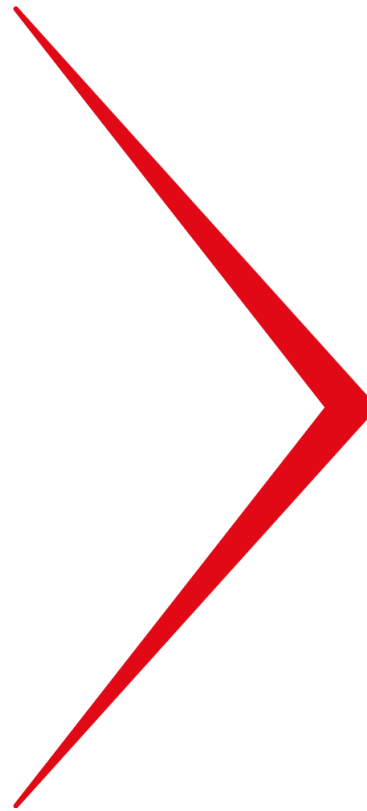
- New risk management learning objectives
 - explain how a bank might manage risks arising from automated data processing
 - explain in outline how the increased awareness and use of cryptocurrencies and blockchain affects banks
- Financial and regulatory reporting
 - IFRS 9 replaces IAS 39 (only IAS 39 hedging rules remain)

2019 learning materials

- Learning materials have been fully updated for IFRS 9.
- There are a number of amended questions in the 2019 question bank.
- The 2019 question bank contains eight past exams, the sample paper and 36 exam-standard questions (63 in total).
- September and December 2019 mocks will be new material.
- Please continue to feedback any comments about the learning materials.

Responding to feedback





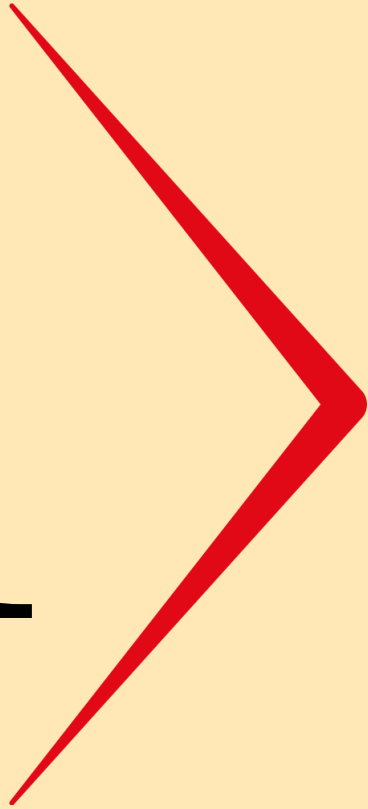
2018 exams

2018 exam summary

- June 2018 (167 candidates)
 - Pass rate of 73.1%. Mean average 59.6%.
 - Q1 external audit in the context of IFRS 9 implementation, Q2 analysis of potential counterparty, Q3 controls testing over outsourced processing and settlement of trades
- September 2018 (104 candidates)
 - Pass rate of 74.0%. Mean average 60.0%.
 - Q1 external audit focus on credit card revenue including some data analytics, Q2 equity research analysis for potential investment, Q3 capital and liquidity impacts of a change of strategic direction
- December 2018 (397 candidates)
 - Pass rate of 67.5%. Mean average 58.3%.
 - Q1 risks and impact of new trading strategy and divestment, Q2 credit assessment, Q3 external audit of liabilities

December 2018 exam

1



Q1

SUMMARY OF QUESTION

CANDIDATE STRENGTHS AND WEAKNESSES

December 2018 – Question 1

- Candidate works in strategic planning for Bonelli Bank.
- Focus is on two key issues:
 - The fixed income, currency and commodity (FICC) trading desk is changing strategy to adopt automated trading and to target more straightforward products
 - The divestment of the structured products desk to reduce capital requirements
- Bonelli is subject to ring-fencing rules with effect from 1 January 2019.

Question 1 – candidate strengths and weaknesses

Requirement 1: Identify the key risks of the FICC strategy

Strengths

- Candidates used the question well
- Comprehensive answers
- Good use of headings which meant diverse risks were presented

Weaknesses

- Strategy does not increase market risk because of unhedged positions
- Weak candidates simply copied text from the question
- Weak candidates wrote out definitions of each risk
- Bullets were too brief to be well explained

Question 1 – candidate strengths and weaknesses

Requirement 2: Impact of divestment on profitability and regulatory capital

Strengths

- Good use of quantitative analysis
- Good demonstration of application skills from some candidates

Weaknesses

- Lack of workings and/ or labelling of figures
- Some candidates provided only very simple observations e.g. revenue will fall

Question 1 – candidate strengths and weaknesses

Requirement 3: How audit committee should address points arising in the skilled person report

Strengths

- Good answers to address fraud risk
- Some good examples of higher skills by using overall knowledge to answer how audit committee should manage its relationship with the external auditors

Weaknesses

- Requirement did not ask for a description of the skilled person report which many (weak) candidates provided

Question 1 – candidate strengths and weaknesses

Requirement 4: Ethical issues, actions and safeguards

Strengths

- Reasonably well answered

Weaknesses

- Ethical issues were sometimes not explained; candidates need to explain why there is a threat to independence and what this could mean
- Safeguards were sometimes missed

December 2018 exam



2



Q2

SUMMARY OF QUESTION

CANDIDATE STRENGTHS AND WEAKNESSES

December 2018 – Question 2

- Candidate is an internal auditor at Flatfive Bank
- A loan was made to Papsak in 2016 and the candidate had to assess whether the credit risk was still acceptable
- Another loan made to Lekker was offered forbearance
- Internal controls over the credit assessment procedures were tested

Question 2 – candidate strengths and weaknesses

Requirement 1: Identify and explain quantitative and qualitative issues which may indicate the credit risk of Papsak is no longer acceptable to Flatfive

Strengths

- Many candidates provided well explained and diverse points
- Full marks was not uncommon
- Candidates have clearly practised this style of question
- Standard headings were used

Weaknesses

- Requirement 2.3 was sometimes very brief because too much time was spent on 2.1
- More explanation is sometimes needed. The calculation of a ratio does not generate marks without an explanation
- Lack of workings

Question 2 – candidate strengths and weaknesses

Requirement 2: Loan to Lekker

- a) Appropriateness of offering forbearance; and
- b) Explain the financial reporting treatment

Strengths

- Part (b) was answered well
- Some scripts demonstrated strong application skills in (a)

Weaknesses

- The focus of the financial reporting treatment should be the impairment (not initial recognition)

Question 2 – candidate strengths and weaknesses

Requirement 3: Internal audit approach to suitability of credit assessment procedures

Strengths

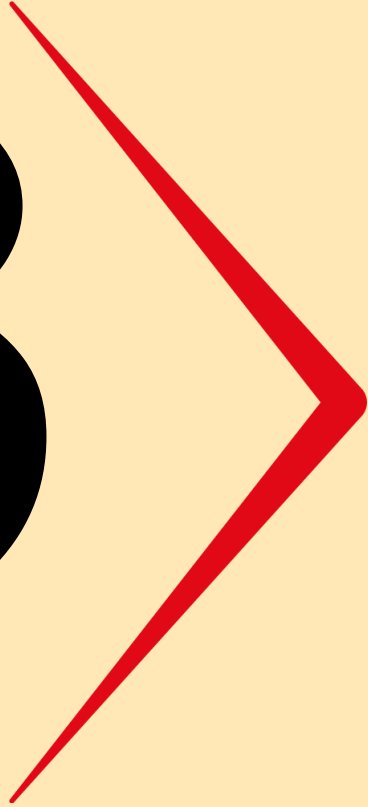
- Information from the question was used well in strong answers

Weaknesses

- Bullets were often too brief to generate marks
- Very brief answers in many cases which indicated poor time management

December 2018 exam

3



Q3

SUMMARY OF QUESTION

CANDIDATE STRENGTHS AND WEAKNESSES

December 2018 – Question 3

- Candidate works as an external auditor at Lavans, which is auditing liabilities at Mozza Bank
- Mozza Bank has pressure on liquidity because its deposits are reducing and the term funding scheme is being repaid
- Mozza's provision for misconduct has reduced significantly
- Three financial reporting issues were tested:
 - IFRS 9 treatment of own debt
 - Repurchase agreements
 - Euro denominated loan and currency swap

Question 3 – candidate strengths and weaknesses

Requirement 1: Financial reporting treatment of three issues

Strengths

- Repurchase agreement was answered well
- Journal entries were attempted
- Euro loan and currency swap were answered at length
- Some candidates spotted the natural hedge

Weaknesses

- Issued debt was treated as a financial asset (time was wasted discussing impairments)

Question 3 – candidate strengths and weaknesses

Requirement 2: Calculate and evaluate the liquidity coverage ratio

Strengths

- Many full marks
- This is a well practised area

Weaknesses

- Workings were sometimes unclear

Question 3 – candidate strengths and weaknesses

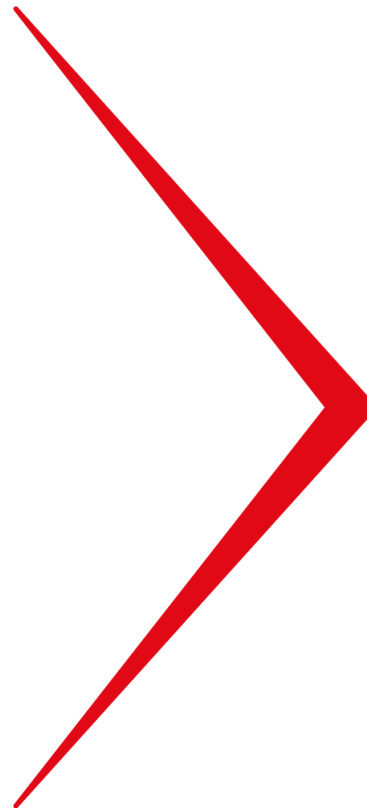
Requirement 3: Key audit risks and related audit procedures

Strengths

- Well answered in the majority of scripts
- Strong candidates used the information in the question about liquidity issues
- Almost all scripts mentioned the misconduct provision

Weaknesses

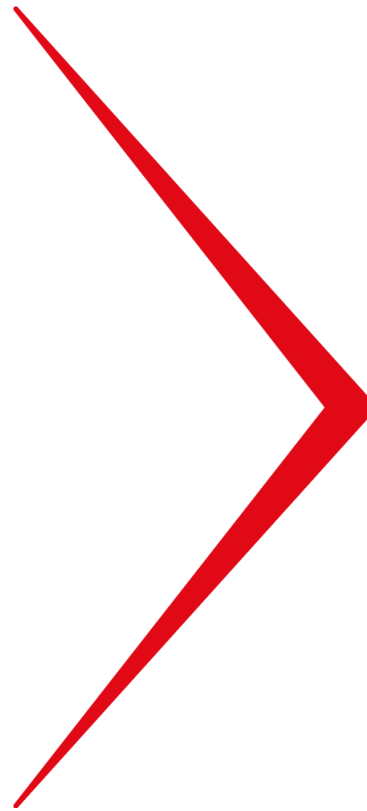
- Irrelevant material from the QB is still being reproduced (some scripts discussed impairments)
- Audit procedures need to be detailed enough
- Procedures detached from the audit risks



*Candidate
performance
in 2018*

Overall candidate performance in 2018

- 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 able to deal with these.



Key messages for 2019

Key messages for 2019

- IFRS 9 is now the extant standard (IAS 39 is still a choice for hedge accounting)
- Examination of IFRS 9 follows the same approach as before ie, writing down definitions and extracts from the standard generates limited marks
- Application of technical knowledge to the scenario provided accesses more marks
- Technology continues to increase in importance
- Knowledge of financial markets and instruments will be examined in the context of scenario-based questions.

Key messages for 2019 (cont)

- Professional skills:
 - More involved scenarios
 - Multiple information sources
 - Techniques inferred rather than specified
 - Question styles and content will vary to ensure syllabus coverage
- 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

- CBE is now business as usual
- Candidates appear to be comfortable using the software
- Candidates should practise producing answers using ICAEW resources
- Reminders:
 - 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

