

V Q F

Audit Concept

of the

Industry Organisation for Asset Management

of the

**VQF Financial Services
Standards Association**

regarding

**Rules of Conduct for the
Practice of Asset Management**

Following the official approval by the Federal Financial Market Supervisory Authority (hereinafter: "FINMA") of its "Rules of Conduct for the Practice of Asset Management" (hereinafter: rules of conduct" as a minimum standard under the terms of FINMA Circular 2009/1 as well as official approval by FINMA of the "Regulations regarding the Practice of Asset Management" (hereinafter "regulations") of the Industry Organisation for Asset Management of the VQF Financial Standards Services Association (hereinafter "VQF BOVV"), the VQF BOVV as an officially recognised industry organisation for asset management is responsible for supervising and controlling the implementation of the rules of conduct and ensuring compliance therewith. In accordance with recital 32 of FINMA Circular 2009/1, the VQF BOVV is obliged to make provision for its members (hereinafter: "VQF BOVV members) for audits on compliance with the regulations and rules of conduct of the VQF BOVV as well as for sanctions in the event of the violation thereof. According to FAQ (No. 14) published by FINMA with regard to Circular 2009/1, the VQF BOVV is obliged, in particular, to guarantee that contracts – including contracts with high net-worth individuals – and the information supplied to customers are in accordance with the rules of conduct and to guarantee compulsory intervention in the event of a complaint.

The Supervisory Commission issues the present Audit Concept¹ (hereinafter: "Audit Concept") regarding rules of conduct for the practice of asset management on the basis of Art. 22 of the VQF by-laws (hereinafter: "by-laws") and Art. 5 of the regulations for the present Audit Concept² (hereinafter: "Audit Concept"):

1. General

Art. 1 Audit goal and scope of this Audit Concept

¹ The goal of the audit is to verify present and past compliance by VQF BOVV members with the by-laws, regulations and rules of conduct.

² The present audit concept is suitable for verifying compliance with the by-laws, regulations and rules of conduct in the case of those VQF BOVV members pursuant to Art. 3 Para. 1 of the by-laws who have subjected themselves to the rules of conduct (Art. 2 and 3 of the regulations).

³ The term "member" as used in the other provisions of this VQF BOVV Audit Concept refers exclusively to VQF BOVV members.

¹ Note with regard to the use of the masculine form: the masculine form used in this Audit Concept incorporates the feminine form.

2. Audits

Art. 2 Auditor

¹ Member audits are carried out by an internal or external auditor appointed by the Supervisory Commission (hereinafter: "auditor"). Members of the Supervisory Commission may also carry out their own audits.

² Auditors must meet the following requirements:

- a. They must be able to demonstrate their specialist knowledge and experience in asset management matters.
- b. They must have a good reputation and offer a guarantee of efficient auditing activity.
- c. They must comply with the pertinent "Directives on Independence of the Swiss Trust Chamber of Auditors and Tax Experts" with regard to the members to be audited. Reciprocal controls are not permissible.
- d. They must commit to keeping secret all confidential facts which come to their knowledge in the context of their activity on behalf of the VQF BOVV.
- e. They must attend the basic and advanced training course for auditors carried out by the VQF BOVV.
- f. They must submit an application to the Supervisory Commission of the VQF (application for accreditation) for approval as auditors of the VQF BOVV (VQF doc. no. 500.29), including the following documents:
 - i. For natural persons applying to become accredited auditors of the VQF BOVV:
 1. Authenticated copy of a valid passport or identity document.
 2. Extract from Central Criminal Records (original or authenticated copy not more than 3 months old).
 3. Current extract from the Debt Enforcement Office (original or authenticated copy not more than 3 months old).
 4. Current extract from the Commercial Register on the auditor (if registered in the Commercial Register) and/or on the employer (if registered in the Commercial Register) and employer's certificate (original or copy, not more than 3 months old).
 5. Signed and dated curriculum vitae (minimum contents: personal data, education and professional training, experience in the field of asset management, auditing or auditing pursuant to the Anti-Money Laundering Act).
 6. Brochures and company profile (if available).

7. Diplomas and/or Certificates of Qualification (original or copy).
 8. Evidence of knowledge of the issues related to asset management: training events attended and activity as auditor (if available).
 9. Written confirmation – if available – from the responsible authorities regarding:
 - Accreditation as auditor from another industry organisation for asset managers.
 - Accreditation as auditor from a self-regulatory organisation pursuant to the Anti-Money Laundering Act (AMLA).
 - Accreditation as auditor from the Federal Financial Market Supervisory Authority (FINMA).
 - Authorisation of the Federal Audit Inspection Authority as audit expert or auditor.
 10. License to practice law (if available).
 11. Two references (can also be replaced by two certificates of employment).
- ii. For legal entities applying to become accredited auditors of the VQF BOVV:
1. Current extract from the Commercial Register (original or authenticated copy, not more than 3 months old).
 2. Current extract from the Debt Enforcement Office (original or authenticated copy, not more than 3 months old).
 3. Brochures and company profile (if available).
 4. Written confirmation – if available – from the responsible authorities regarding:
 - Accreditation as auditor from another industry organisation for asset managers.
 - Accreditation as auditor from a self-regulatory organisation pursuant to the Anti-Money Laundering Act (AMLA).
 - Accreditation as auditor from the Federal Financial Market Supervisory Authority (FINMA).
 - Authorisation of the Federal Audit Inspection Authority as audit expert or auditor.
 5. Disclosure of the natural persons who will carry out the audits on the legal entity in accordance with this audit concept, including submission of complete applications for authorisation (Art. 2 Para. 2 letter f Section i of the Audit Concept) for these natural persons.

³ Audit mandates awarded by the Supervisory Commission to legal entities (of VQF BOVV approved audit companies) (Art. 4 of the Audit Concept) must only be carried out by natural persons likewise approved by the VQF BOVV as auditors for validating compliance with the rules of conduct. The Supervisory Commission can bindingly specify in the audit mandate (Art. 4 of the Audit Concept) which natural person (VQF BOVV approved auditor) must carry out the audit on behalf of the legal entity (VQF BOVV approved audit companies).

⁴ Audits on lawyers and notaries are carried out by VQF BOVV accredited lawyers and notaries.

Art. 3 Audits (under the terms of Art. 1 Para. 2 of the Audit Concept) and frequency of audits

¹ For new members:

- a. The first audit of the new member takes place within no more than twelve months after admission to the VQF BOVV (subject to letter b below).
- b. Exceptions to the provisions of letter a above are as follows:
 - i. For VQF SRO members who by submitting a simple declaration on admission or a declaration of change (VQF doc. no. 500.11; see Art. 3 Para. 1 of the VQF BOVV regulations) in 2009/2010 additionally became subject to supervision by the VQF BOVV, the first audits take place in 2011.
 - ii. The first BOVV audit within twelve months can be waived if the member (cumulatively):
 - Terminates BOVV membership by changing to SRO membership only with immediate effect or leaves the VQF altogether at the end of a calendar year; and
 - Confirms to the VQF BOVV in writing that he has informed his customers in writing that he was not supervised in respect of BOVV-related matters (due to termination of BOVV membership and failure to realise a first VQF BOVV audit); and
 - Confirms to the VQF BOVV in writing that in his asset management contracts and promotional literature (including website) he has removed all references (including links or similar) to the terminated BOVV membership and / or the rules of conduct of the VQF BOVV.
 - iii. If a former member of the VQF BOVV transfers his asset management business to an applicant for admission (e.g. by means of investment in kind, transfer of assets in accordance with the Mergers Act and the like) and if the same natural persons of the former member of the VQF BOVV – and with the same organisational structure – are responsible for asset management on behalf of the applicant for admission, the Supervisory Commission can waive the performance of a first audit within twelve months of admission of the applicant into the VQF BOVV and can transfer the audit frequency (Art. 3 Para. 2

of the Audit Concept) of the former member transferring its business, organisation and personnel to the corresponding new member of the industry organisation (i.e. the first audit on the new member takes place in the same calendar year as the next periodic audit on the former member transferring its business), provided that the new member demonstrates that all afore mentioned prerequisites for the waiver of the requirement to perform the first audit within twelve months of admission (Art. 3 Para. 1 letter a of the Audit Concept) are met. The new member has no legal claim to the waiver by the Supervisory Commission of the performance of the first audit within twelve months of admission.

² Periodic audits:

- a. Members are subject to periodic audits.
- b. The frequency of the periodic audits is between one and three years and is redefined by the Supervisory Commission after each audit, on an individual basis for each member on the basis of a (confidential) risk assessment and in accordance with the terms of this Audit Concept. The list of criteria produced by the Supervisory Commission for the assessment of the member's risk profile forms the basis for the periodic definition of the audit frequency.

³ Irrespective of the audit frequency determined in accordance with Art. 3 Para. 2 of the Audit Concept or other audits referred to therein, the Supervisory Commission may order an (extraordinary) audit at any time during VQF BOVV membership, especially on suspicion of serious violation of duties pursuant to the regulations, rules of conduct or by-laws.

⁴ The member is obliged at any time to undergo the audits referred to in Art. 3 of the Audit Concept, to collaborate with such audits and – also outside of these audits – to present all documents and to truthfully and completely give all information as may be requested from him by the auditor on the occasion of such audit or – outside of the (local) audits on the member's premises – by the Supervisory Commission directly.

Art. 4 Audit mandate, verifying the independence of the auditor and the principle of rotation

¹ The Supervisory Commission can award (individual) mandates for the performance of audits in accordance with this Audit Concept to auditors or audit companies accredited by the VQF BOVV based on the by-laws, regulations, rules of conduct and audit concept and any general agreement between the VQF BOVV and auditors or audit companies. Auditors and audit companies accredited by the VQF BOVV have no legal claim to the allocation of audits by the VQF or to the assignment of the performance of audits on behalf of the VQF BOVV.

² The (individual) mandate of the Supervisory Commission for the performance of an audit in accordance with this Audit Concept is awarded to the auditor in writing (signed by a member of the Supervisory Commission) stating the name or company name of the member to be audited including details of the period of time for the performance of the mandate.

³ The instructed auditor and – in the case of audit companies – the auditor performing the audit (and also the instructed audit company) are obliged to verify their in-

dependence for each (individual) mandate in accordance with the relevant "Guidelines on Independence of the Swiss TRUST CHAMBER of Auditors and Tax Experts". Facts which might influence the independence of the auditor (or instructed audit company where appropriate) must be reported to the Supervisory Commission immediately in writing. The mandate must be returned or revoked in the event of reasonable doubt as to the independence of the auditor (or audit company).

⁴ When awarding audit mandates with regard to a specific member, the Supervisory Commission pays attention to the reasonable rotation of auditors (rotation among the natural persons accredited as auditors of the VQF BOVV. In general, after the same auditor (natural person) was assigned to the same member twice in succession, a different auditor (other natural person) must be given the mandate to perform the (third) audit on the member in question.

Art. 5 Notification and place of audit

¹ Audits pursuant to Art. 3 of the Audit Concept are usually pre-announced. However, they may also be carried out unannounced.

² Audits pursuant to Art. 3 of the Audit Concept take place on the member's premises (subject to Art. 9 Para. 6 of the Audit Concept). Audits pursuant to Art. 3 of the Audit Concept may also be extended to other premises accessible to the member.

Art. 6 Commencement of the audit, natural (auxiliary) persons of the member present during the audit (persons entrusted with the management and administration of the member's affairs) and member's duty to guarantee the feasibility of the audit

¹ The auditors charged with carrying out the audit identify themselves to the member subject to auditing by means of an identification document (passport/ID card) and the written order from the Supervisory Commission.

² The contact person for the BOVV area (see VQF doc. no. 500.13) must be present during the local audit and the member must guarantee the presence of an informed person with regard to the member's asset management activities and corresponding contracts during the audit or at least the availability of this person to the auditor during the audit. If this is not guaranteed, the auditor would not be able to carry out the audit and would be required to forward the audit report (including a written statement on the infeasibility of the audit and the reason for same) to the Supervisory Commission for a decision on further proceedings.

³ The member subject to the audit must guarantee that a complete audit can be carried out by granting the auditor access to all requested documents (especially concerning the information supplied by the member to customers) and providing all requested information truthfully and completely. In addition to the asset management contracts and other relevant documents, the member's documents to be presented to the auditor also include the following, in particular:

a. The member's own (financial) accounts and (audited) annual financial statements.

- b. Customer accounts including corresponding receipts, correspondence, memoranda etc. on the customer relationships.
- c. Documents on business relationships which the member may not consider relevant to asset management activity.
- d. Other contracts with third parties relevant to the industry (e.g. contracts with banks regarding retrocessions) and other relevant documents (e.g. tax declarations).

⁴ The regulatory duty to cooperate also includes the requirement for the member subject to the audit to sign the audit report and any supplementary report (see Art. 8 Para. 1 and Art. 9 Para. 3 of this Audit Concept) and hence to confirm among other aspects the completeness and correctness of the statements made by the member and / or the information recorded by the auditor in his report. If the member is not in agreement with certain statements by the auditor in the audit report or any supplementary report, he is nonetheless obliged to sign the audit report and any supplementary report. In this case, however, alongside his signature the member may state on the report (or by reference alongside his signature to an accompanying letter by the member in the appendix to the audit report or supplementary report), specifying the statements made by the auditor with which he is not in agreement. Other statements made by the auditor which are not disputed by the member at the time of signing the audit report or supplementary report are considered to be accepted by the member.

Art. 7 Auditor's activity

¹ General: The auditor inspects all documents which he or the Supervisory Commission considers to be necessary or appropriate (Art. 6 Para. 3 of the Audit Concept). Insofar as is necessary, appropriate or on suitable order by the Supervisory Commission, the auditor can enclose relevant documents with the audit report. Additional audit activities to those referred to in Art. 7 of the Audit Concept can also take place on the Supervisory Commission's specific instructions (in particular: cases pursuant to Art. 7 Para. 7 of the Audit Concept).

² In a first step, general information is recorded on the member, especially information on the member's activity in general, his structure and organisation and the stock (quantity) and volume (value of managed assets) of his asset management contracts.

³ In a second step, (detailed) examination of the asset management contracts takes place with regard to the formal compliance of (the content of) contracts – including contracts with high net-worth individuals. During the audit and in accordance with the encountered situation, the auditor decides on the quantity of asset management contracts to be audited, whereby the selected quantity of audited contracts must guarantee a representative overview of the member's customer base as well as the formal compliance of contracts - including contracts with high net-worth individuals – with the rules of conduct.

⁴ In a third step, an audit takes place on compliance with the member's duties of investigation, clarification, accountability and other duties of information towards his customers in accordance with the rules of conduct (by means of appropriate records as proof of compliance with these duties). During the audit and in accordance with the encountered situation, the auditor decides in each individual case on the number of customer relationships to be audited in this regard, whereby the se-

lected quantity of audited customer relationships must guarantee a representative overview of the member's customer base as well as compliance with the duties referred to above – also with regard to customer relationships with high net-worth individuals.

⁵ In a fourth step, the auditor carries out the following audit activities:

- a. The auditor checks whether there are any complaints against the member from customers (or other third parties) about which the VQF BOVV was not informed in advance of the audit. The following procedure must be followed if it is established that such complaints do exist:
 - i. Provided that the auditor is an audit expert pursuant to Art. 4 of the Audit Supervision Act with relevant experience: The auditor decides which additional auditing actions are necessary and appropriate for the purpose of verifying the facts and allegations referred to in the complaints, which documents are to be inspected and audited etc., and performs the necessary auditing actions without delay. The auditor then immediately informs the VQF BOVV (Supervisory Commission) that there are complaints against the member not previously known to the VQF BOVV (including description of complaints, the auditor's findings in this regard and submission of the relevant documents on the complaint to the Supervisory Commission).
 - ii. Provided that the auditor is an audit expert pursuant to Art. 4 of the Audit Supervision Act with relevant experience: The auditor immediately informs the VQF BOVV (Supervisory Commission) that there are complaints against the member not previously known to the VQF BOVV (including description of complaints, the auditor's findings in this regard and submission of the relevant documents on the complaint to the Supervisory Commission). The Supervisory Commission then appoints an auditor who meets the above mentioned personal requirements (audit expert with relevant experience) to perform the material (supplementary) audit on the complaints against the member and/or decides on any other proceedings.
- b. In the case of complaints made against the member by customers (or other third parties) which were not reported to the VQF BOVV prior to the audit, the Supervisory Commission can instruct the auditor to perform all necessary and appropriate special auditing actions in order to clarify the justification and material circumstances etc. relating to these complaints (in this case the auditor must be an audit expert pursuant to Art. 4 of the Audit Supervision Act with relevant experience). In the absence of specific instructions from the VQF BOVV to the auditor, (provided that he is an audit expert pursuant to Art. 4 of the Audit Supervision Act with relevant experience) the auditor decides which additional auditing actions are necessary and appropriate for the purpose of verifying the facts and allegations referred to in the complaints, which documents are to be inspected and audited etc., and performs the necessary auditing actions without delay.

⁶ In a fifth step, the auditor checks whether other business relationships which the member described as not pertaining to asset management activity should, in fact, be qualified as such. If such business relationships are found, the auditor must record the background circumstances (information on the reasons for the incorrect qualification and description of the facts and enclosure of the member's corre-

sponding documents with the audit report) and - provided that he is an audit expert pursuant to Art. 4 of the Audit Supervision Act with relevant experience - extend his audit if necessary (especially if there is evidence of violation of the rules of conduct (see Art. 7 Para. 7 of the Audit Concept).

⁷ In the event that evidence is found during the audit of the violation of duties pursuant to the rules of conduct other than those referred to in Art. 7 Para. 3 and 4 of this Audit Concept, the auditor - provided that he is an audit expert pursuant to Art. 4 of the Audit Supervision Act with relevant experience – immediately performs the corresponding auditing actions for the clarification of this evidence including in this case inspection of relevant business transactions (e.g. auditing of transactions with regard to compliance with contractual agreements and the rules of conduct). Auditors who do not meet these above mentioned personal requirements (audit expert pursuant to Art. 4 of the Audit Supervision Act with relevant experience) immediately inform the Supervisory Commission about the questionable evidence obtained during the course of the audit (including a description of the facts and enclosure of the member's corresponding documents with the audit report), which decides on further proceedings (e.g. the appointment of another auditor who meets the personal requirements in question to perform the material audit on the evidence in the context of a supplementary audit).

Art. 8 Audit report

¹ The results of the audit are recorded in the Audit Report (VQF doc. nos. 500.21 and 500.22). The member must be informed of the result by means of a copy of the report, which must also be discussed with the member. By adding his signature, the member confirms receipt and discussion of the audit report as well as the completeness and correctness of the statements made by the member and the information recorded by the auditor (subject to the restriction set out in Art. 6 Para. 4 of this Audit Concept).

² As far as lawyers and notaries are concerned, in all cases the report must be compiled while observing professional secrecy.

³ The auditor must fill out the report correctly and truthfully and submit it to the VQF BOVV no later than two weeks after completing the audit. The contracted auditor must immediately inform the VQF BOVV of any serious violations of the by-laws, regulations or rules of conduct.

Art. 9 Approval of audit reports, supplementary audits and further procedures on completion of the audit

¹ The Supervisory Commission decides on formal approval of the submitted audit reports (VQF doc. nos. 500.21 und 500.22) and based on these reports (including any other audit documents and other documents obtained or submitted during the audit) on the ordering of the necessary actions and the opening of any sanctions proceedings. The formal approval (acceptance) of the submitted audit report (or written notification to the member regarding approval/acceptance of the audit report) contains no decision on any necessary further proceedings (measures and sanctions proceedings). The member is informed of decisions on any necessary further proceedings (measures and sanctions proceedings) by separate letter.

² A supplementary audit must usually be performed in the case of complaints relating to active asset management contracts. Supplementary audits may be performed by members of the Supervisory Commission or by an auditor. A decision is taken in each individual case with regard to the form and content of the supplementary audit. However, the Supervisory Commission may also open sanctions proceedings against VQF BOVV members directly without a supplementary audit.

³ After performing a supplementary audit, the auditor must again discuss the supplemented audit report with the member, which the member must again sign. By his signature, the member confirms receipt and discussion of the supplemented audit report as well as the completeness and accuracy of the statements made by the member and the information recorded by the auditor in the supplemented audit report (subject to the restriction set out in Art. 6 Para. 4 of this Audit Concept).

⁴ The right to the subsequent imposition of any sanction based on the results of the audit or supplementary audit is not waived by the ordering and performance of a supplementary audit. Only after a supplementary audit has been performed and on the basis of the determinations of the supplemented audit report (including the list of audited asset management files, appendices thereto and other enclosures) does the Supervisory Commission decide on further proceedings, which may also include the opening of sanctions proceedings and subsequent sanctioning or the ordering of additional measures.

⁵ In the event of minor complaints (Bagatelle Ordinance pursuant to Art. 10 of the regulations), the auditor can, on his own authority, order a supplementary audit and perform such a supplementary audit within a period of two months following the audit. He must inform the VQF Secretariat of this circumstance without delay (including summary information on the complaints made and the deficiencies recorded on the member). If in the event of minor complaints the auditor is unable to agree a date for a supplementary audit to be performed within a period of two months following the audit, he is obliged to obtain the approval of the Supervisory Commission for the performance of a supplementary audit after expiry of the two month period following the performance of the audit.

⁶ Supplementary audits by way of correspondence whereby the member provides the auditor with outstanding or revised documents within an agreed period of time are only possible:

- a. In the case of minor complaints (e.g. individual outstanding documents), and if in addition (cumulative)
- b. It is guaranteed that the auditor requires no further documents in addition to those to be sent to him in order to audit the member's compliance with duties (or the rectification of deficiencies) pursuant to the rules of conduct, regulations and by-laws. The auditor must ensure that the documents to be submitted subsequently can be assigned without equivocation to the respective audited asset management contracts or specific complaints. The supplementary audit takes place on the member's premises if there is doubt as to the feasibility of performing it by way of correspondence.

The auditor must confirm that the supplementary audit took place by way of correspondence and state the reason for this in the audit report.

⁷ In the event of significant complaints which can no longer be classified as minor, after performing the audit the auditor, stating this reason, immediately forwards the

audit report (including enclosures) to the Supervisory Commission. The Supervisory Commission then decides on the performance of the supplementary audit (time limit, content, form etc.). A period of grace for the correction of the complaints found during the audit is set simultaneously on notification of the ordering of a supplementary audit. The supplementary audit usually takes place within one month following expiry of the period of grace for the correction of complaints.

3. Final Provisions

Art. 10 Other provisions

¹ The respective, up-to-date standard templates approved by the Supervisory Commission (for the performance of the audits referred to in this Audit Concept), which are sent to the auditor and which he must use, are integral components of this Audit Concept. These standard templates are as follows:

- a. Report on audit on compliance with rules of conduct by the BOVV member (VQF doc. no. 500.21);
- b. List of audited file of asset management customers (VQF doc. no. 500.22) including appendix to the list of audited customer files – list of deficiencies (VQF doc. no. 500.23);
- c. Report on supplementary audit to the audit on compliance with rules of conduct (VQF doc. no. 500.24);
- d. Declaration of completeness concerning the audit on compliance with the rules of conduct of the VQF BOVV (VQF doc. no. 500.25);
- e. Internal risk assessment of the member by the auditor and Supervisory Commission (VQF doc. no. 500.26);
- f. Mandate to audit VQF BOVV members (VQF doc. no. 500.27);
- g. Guidelines, checklists, manuals etc. for auditors for implementing the audit;
- h. Application for approval (accreditation) for VQF BOVV auditors (VQF doc. no. 500.29).

Art. 11 Entry into force and publication

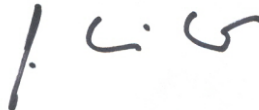
¹ Following inspection by the VQF Management Board and the Federal Financial Market Supervisory Authority (FINMA), this Audit Concept comes into force on 1 January 2012. It also applies to currently ongoing proceedings of the Supervisory Commission.

² This Audit Concept was published on the VQF website (www.vqf.ch) on 1 December 2011.

Zug, 15 December 2011



Hugo Brücker
Chairman
Supervisory Commission



Alfred Widmer
Vice Chairman
Supervisory Commission