
Audit Concept

of

Industry Organization for Asset Management

of

**VQF Financial Services
Standards Association**

regarding

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

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The Supervisory Commission of VQF Financial Services Standards Association (VQF) on the basis of Art. 22 of the VQF By-laws and Art. 8 of the BOVV Regulations¹ (Regulations) issues the present Audit Concept² (Audit Concept) regarding the Rules of Conduct for the Practice of Asset Management:

I. General

Art. 1 Principles and Goals

¹ The goal of the audit by VQF Industry Organization for Asset Management (BOVV) is to verify present and past compliance by VQF BOVV members with their duties under the by-laws, regulations and rules of conduct.

² The present Audit Concept is suitable for verifying compliance with the regulations and rules of conduct (BOVV audit) in the case of those members pursuant to Art. 3 Para. 1 of the VQF 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 Audit Concept refers exclusively to BOVV members.

II. BOVV Audits

Art. 2 Auditor

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

² The Supervisory Commission is responsible for the assignation of audits.

Art. 2a Requirements for the Approval of External Auditors

¹ An external auditor which is approved by the VQF BOVV for BOVV audits must hold VQF SRO authorisation as an auditor for AMLA audits.

² In addition, they must have expertise in the field of asset management, the rules of conduct for asset managers and the legislation on collective investment schemes.

³ The Supervisory Commission can require the auditors to attend special basic and advanced training in the field of asset management, the rules of conduct for asset managers and the legislation on collective investment schemes, in particular to take part in events conducted by the VQF.

Art. 3 Audits and Audit Frequency

¹ For new members:

- a. The first audit takes place within no more than twelve months after admission to the VQF BOVV. Subject to letter b below.

¹ Regulations of the VQF Industry Organisation for Asset Management regarding the practice of asset management (VQF doc. no. 500.01).

² Note with regard to the use of the masculine form: the masculine form used in this Audit Concept incorporates the feminine form.

- b. If a former member transfers his asset management business and financial intermediary activities 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, with the same organisational structure, are responsible for financial intermediary activities on behalf of the applicant for admission, the Supervisory Commission may waive the conducting of a first audit within twelve months of admission of the applicant and may transfer the audit frequency of the former member to the new member (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), provided that the new member demonstrates that all aforementioned prerequisites for the waiver of the requirement to perform the first audit within twelve months of admission are met. There is no entitlement of the new member to such a waiver of the conducting of the first audit within twelve months of admission by the Supervisory Commission. A negative decision is not contestable.

² Periodic audits:

- a. All members are subject to inspection in the context of periodic (BOVV) audits.
- b. The audit frequency of periodic audits is 12, 24 or 36 months and is calculated from the first audit day of the preceding audit.
- c. The frequency of the periodic audit is redefined by the Supervisory Commission after each BOVV audit on an individual basis for each member based on a (confidential) risk assessment. The list of criteria produced by the Supervisory Commission for the assessment of the member's risk forms the basis for the definition of the audit frequency.

³ Irrespective of the determined audit frequency, the Supervisory Commission may at any time order an audit or special audit at any time and in particular on suspicion of serious violation of duties pursuant to the regulations, rules of conduct or by-laws of VQF.

Art. 4 Audit Mandate, Verifying the Independence of the Auditor and the Principle of Rotation

¹ Based on the by-laws, regulations, rules of conduct, audit concept and any general agreement between the VQF BOVV and the auditor, the Supervisory Commission may assign (individual) mandates to auditors approved by the VQF BOVV for the conducting of BOVV audits in accordance with this Audit Concept. Auditors approved by the VQF BOVV have no legal claim to the allocation of BOVV audits or to the assignment of the conducting of audits on behalf of the VQF BOVV.

² The assigned auditor is obliged to verify his independence for each (individual) mandate in accordance with the relevant "Guidelines on Independence" of EXPERTsuisse. Facts which might influence the independence of the auditor 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.

³ When assigning audit mandates with regard to a specific member, the Supervisory Commission pays attention to the reasonable rotation of auditors. In general, after the same auditor was assigned to the same member three times in succession, a different auditor must be assigned to conduct the fourth audit on the member in question. The Supervisory Commission can permit exceptions.

Art. 5 Notification and Place of Audit

¹ BOVV audits are usually pre-announced. However, they may also be carried out unannounced.

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

Art. 6 Commencement of the BOVV Audit, Persons of the Member present during the BOVV Audit and Member's Duty to guarantee the Feasibility of the Audit

¹ The auditors charged with carrying out the BOVV audit identify themselves to the member to be audited by means of an identification document (passport/ID card).

² The contact person for the BOVV area must be present at the BOVV audit and the presence of an informed person with regard to the member's asset management activities and corresponding contracts - or at least the availability of this person to the auditor during the audit - must be guaranteed. If this is not guaranteed, the auditor cannot carry out the audit and is 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 to be audited must guarantee that a complete BOVV 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 documents associated with asset management activity, the documents to be presented to the auditor also include the following, in particular:

- a. The member's (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 does 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 audited member to sign the audit report and any supplementary report (see Art. 8 Para. 1 and Art. 9 Para. 3 of the Audit Concept), hence confirming in particular, the completeness and correctness of the statements made by the member and the data recorded by the auditor in his report. If the member does not agree with any of the auditor's findings in the audit report or supplementary audit report, he is nonetheless obliged to sign the audit report and any audit supplementary report. In this case, however, next to his signature on the report (or by reference next to his signature to an accompanying letter in which he specifies the disputed issues) he may indicate the auditor's finding with which he is not in agreement. All other findings of the auditor which the member does not dispute at the time of signing the audit report or supplementary audit report are deemed 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 against corresponding order by the Supervisory Commission, the auditor may enclose relevant documents with the audit report. On the Supervisory Commission's specific instructions to the auditor, additional audit activities to those referred to in Art. 7 of the Audit Concept can also take place (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 with the rules of conduct of the contracts (terms of contract) – including contracts with qualified investors. During the audit and in accordance with the encountered situation, the auditor in each individual case 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 of the formal compliance of contracts - including contracts with qualified investors – 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 selected 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 qualified investors.

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:
 1. 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 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).
 2. The Supervisory Commission then decides on the further procedure. The Supervisory Commission can specifically order the engagement of an audit expert with relevant experience in accordance with Art. 4 of the Audit Supervision Act (RAG).
- 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 the absence of specific instructions from the VQF BOVV to the auditor, 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, 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 corresponding documents with the audit report) and 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 during the audit evidence is found 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 immediately performs the corresponding auditing actions for the clarification of this evidence and in this case may also inspect the business transactions (e.g. auditing of transactions with regard to compliance with contractual agreements and the rules of conduct). The auditor immediately reports these violations to the Supervisory Commission which decides on the further procedure. The Supervisory Commission can specifically order the engagement of an audit expert with relevant experience in accordance with Art. 4 of the Audit Supervision Act (RAG).

Art. 8 BOVV Audit Report

¹ The results of the audit are recorded in the BOVV audit report. 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 limitation referred to in Art. 6 Para. 4 of the Audit Concept).

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

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

Art. 9 Approval of BOVV Audit Reports, Supplementary Audits and Further Procedures after Conducting the Audit

¹ The Supervisory Commission decides on the approval (acceptance) of the submitted reports on the BOVV audits and based on these reports (including any other audit documents and other documents obtained or submitted during the audit) decides on the further procedure.

² In case of findings in the audit report, the Supervisory Commission may order, particular a supplementary audit and/or measures/sanctions proceedings.

³ Supplementary audits may be conducted by members of the Supervisory Commission or by an auditor. A decision with regard to the form and content of the supplementary audit is taken in each individual case. Supplementary audits may also be carried out by way of correspondence. However, the Supervisory Commission may also open a proceeding for sanctions or measures directly without a supplementary audit. Moreover, the ordering and conducting of a supplementary audit does not waive the possibility of subsequent proceedings for measures or sanctions.

⁴ After conducting a supplementary audit, the auditor must again discuss the duly supplemented audit report with the member (including the report on the supplementary audit), which the member must again sign. By his signature, the member confirms receipt and discussion of the supplemented report on the BOVV audit (including the report on the supplementary audit) 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 the Audit Concept).

III. Final Provisions

Art. 10 Other Provisions

¹ The respective, current standard forms approved by the Supervisory Commission (for the conducting of the audits referred to in this Audit Concept), sent to and to be used by the auditors 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 the 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 the supplementary audit to the audit on compliance with the rules of conduct (VQF doc. no. 500.24).
- d. Internal risk assessment of the member by the auditor and Supervisory Commission (VQF doc. no. 500.26).
- e. Guidelines, checklists, manuals etc. for auditors for implementing the audit.
- f. Application for approval (accreditation) as an external auditor for audits on SRO members of the VQF and the Industry Organisation for Asset Managers (BOVV) (VQF doc. no. 701.1).

Art. 11 Entry into Force and Transitional Provisions

¹ This Audit Concept enters into force on 1 January 2016.

² It also applies to pending proceedings of the Supervisory Commission.