

**Supervisory Concept**  
**for the Ongoing Supervision**  
**of Portfolio Managers**  
according to Art. 17 para. 1 FinIA  
**and Trustees**  
according to Art. 17 para. 2 FinIA  
  
as well as of  
**Audit Firms**  
and  
**Lead Auditors**

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## Preliminary Remark

FINcontrol Suisse AG («**SO**») is a supervisory organization authorized by the Swiss Financial Market Supervisory Authority FINMA («**FINMA**») according to Art. 43a FINMASA. It supervises the financial institutions affiliated to it pursuant to Art. 17 para. 1 and/or para. 2 FinIA (the «supervised persons and entities») within the scope of its legal mandate pursuant to Art. 61 para. 2 FinIA and Art. 43b FINMASA.

## Scope and Principles

### Art. 1 Scope

<sup>1</sup> The supervisory concept governs the ongoing supervisory activities of the SO over (i) supervised persons and entities in accordance with Art. 61 para. 2 FinIA in conjunction with Art. 84 para. 1 FinIO and Art. 43b FINMASA (ii) as well as the audit firms (the «**audit firm**» or the «**audit firms**») and lead auditors (the «**auditors**») approved by the SO to audit supervised persons and entities in accordance with Art. 62 para. 1 FinIA in conjunction with Art. 86 FinIO.

<sup>2</sup> The supervisory concept specifies the statutory and supervisory regulations and amends them insofar as the SO has a regulatory competence subsidiary to the statutory and supervisory regulations.

### Art. 2 Principles and Objectives of the Supervision

<sup>1</sup> The aim of the SO's supervision of supervised persons and entities is to observe whether the supervised persons and entities comply with the provisions of the applicable supervisory regulations on an ongoing basis. In particular, the SO verifies on an ongoing basis whether the supervised persons and entities (a) meet the requirements of the FinIA, (b) comply with the obligations set out in the AMLA, (c) comply with the obligations under the FinSA if they provide financial services in accordance with Art. 3 let. c FinSA, and (d) comply with the obligations set out in the CISA if they are subject to this act.

<sup>2</sup> The SO's supervision of supervised persons and entities follows a risk-based approach, whereby the risk results from the activity, organisation and clientele of the supervised persons and entities. The risk assessment is based on the requirements of FINMA and is carried out by the SO. The SO determines the audit frequency based on the risk assessment.

<sup>3</sup> The SO performs its supervisory activities over the supervised persons and entities primarily by way of audits and self-declarations from the supervised persons and entities. The SO may call in audit firms for the entire audit or parts thereof or perform the audits itself. The regular audits are generally carried out by external audit firms approved by the SO to audit supervised persons and entities. External audit firms are mandated by the supervised persons and entities.

<sup>4</sup> The audit focuses in particular on the risks represented by the activities of the supervised persons and entities for investors and for the functioning of the financial markets.

<sup>5</sup> The objective of the SO's supervision of audit firms and auditors is to verify the licensing requirements and the quality of work performed by the audit firms and auditors.

## **Supervision of Supervised Persons and Entities**

### **Art. 3 Supervisory Activity and Supervisory Instruments of the SO**

<sup>1</sup> In particular, the SO has the following supervisory instruments available to it vis-à-vis supervised persons and entities in accordance with Art. 43k, Art. 43l and Art. 24 paras. 2-5 and Arts. 24a-28a FINMASA:

- a. Ordinary audit.
- b. On-site audit.
- c. Supplementary audit.
- d. Requesting self-declarations.
- e. Requesting statements on matters relevant to supervision.
- f. Conducting supervisory interviews.
- g. Requesting other information relevant to supervision.
- h. Performing audits through audit agents according to Art. 24a FINMASA.
- i. All other supervisory activities in order to fulfil the SO's supervisory mandate.

<sup>2</sup> The SO may perform the audit of the supervised persons and entities in accordance with paragraph 1 letters a - c above by means of the following measures, whereby these measures may also be applied on a cumulative basis:

- a. Order an audit of the supervised person or entity by an audit firm.
- b. Implement an audit of the supervised person or entity by the SO itself (in particular in the case of an on-site audit in accordance with paragraph 1 lit. b) above).

<sup>3</sup> FINMA measures may be implemented at any time independently from the SO's supervisory actions or in coordination with SO measures.

<sup>4</sup> The SO publishes a list of supervised persons and entities on its website.

#### **Art. 4 Audit and Audit Frequency**

<sup>1</sup> The SO will perform audits of the supervised person or entity. It will examine whether the applicable supervisory regulations, the supervisory concept, the affiliation agreement and all other regulations and directives issued by the SO (the «regulations and directives») have been complied with and whether the conditions are met for it to be assumed that they can also be complied with in the future.

<sup>2</sup> The audit of the supervised person or entity is generally carried out by an audit firm mandated by the supervised person or entity and approved by the SO. However, the SO may also appoint audit firms or perform audits itself.

<sup>3</sup> As a basic rule, the supervised person or entity is audited once per supervisory year, whereby a supervisory year comprises a period of 12 months, calculated from the time of FINMA's approval. The SO may reduce the period between audits to a maximum of four years, taking into account the supervised person or entity's activities and the associated risks thereof.

<sup>4</sup> During the first two years after licensing by FINMA, one audit per supervisory year must be performed.

#### **Art. 5 Self-declaration**

<sup>1</sup> For the duration of the affiliation with the SO, the supervised person or entity must submit a self-declaration for each supervisory year in which it confirms its compliance with the obligations in accordance with the applicable supervisory regulations as well as in accordance with the regulations and directives and in which it provides all the information required by the SO on its business activities and its organisation.

<sup>2</sup> In general, a self-declaration does not have to be submitted in a year in which an audit is performed by the SO.

<sup>3</sup> The supervised person or entity is obliged to use the form provided in the SO's electronic customer portal and to submit the self-declaration via the customer portal.

#### **Art. 6 Sample Audit Report and Audit Assignment**

<sup>1</sup> The audit firm will perform the audit of the supervised person or entity in accordance with the audit report prescribed by the SO (the «sample audit report»). The audit firm will implement any amendments made by FINMA and/or the SO to the sample audit report on schedule.

<sup>2</sup> The audit assignment for the audit firm results from the sample audit report as well as any further specific audit assignments issued by the SO and FINMA.

<sup>3</sup> The audit firm may carry out any audit procedures within the SO's audit assignment which it deems appropriate and file them in an annex to the SO's specified sample audit report.

<sup>4</sup> The audit firm is mandated directly by the supervised person or entity and must be confirmed to the SO in writing. The SO reserves the right to require that there is a suitable rotation of the auditors and/or the audit firm for a specific supervised entity. In justified cases, the SO may also oblige the supervised persons or entities to mandate a specific audit firm.

<sup>5</sup> The audit firm discloses the time required for the audit, the number of auditors and the costs involved to the SO. This information must be recorded in the audit report. The costs are to be invoiced within 30 days of completion of the audit. However, the SO may request this information as well as other information in any other form, in particular on an aggregated basis.

<sup>6</sup> If the audits are carried out by the SO itself, paragraph 1 ff. shall apply by analogy.

## **Art. 7 Announcement and Location of the Audit**

<sup>1</sup> In general, audits are announced in advance. However, they may also be performed unannounced.

<sup>2</sup> In general, audits take place at the domicile of the supervised person or entity.

## **Art. 8 Audit Arrangements**

<sup>1</sup> In case of announced audits, the audit firm or the SO will inform the supervised person or entity of the date, commencement and location of the audit. The supervised person or entity will also be informed about the persons who must attend the audit and the documents that must be provided.

<sup>2</sup> The supervised person or entity must ensure the performance of a complete audit by allowing the audit firm or the SO to inspect all requested documents and by providing all requested information truthfully and completely. The documents to be submitted shall include, in addition to the relevant documents on client relationships and the organisation of the supervised person or entity, the following documents:

- a. (Financial) accounting records and (audited) annual financial statements.
- b. Documents on the company such as minutes of board of directors meetings and the AGM (applies mutatis mutandis depending on the legal form).
- c. Customer accounts and corresponding receipts, correspondence, notes etc. on customer relations.
- d. Contracts with third parties such as outsourcing relationships.

- e. Any reports of the supervised entity's internal audit unit.
- f. Correspondence with FINMA since the licence was granted.

<sup>3</sup> If the audit firm or the SO deem that an audit cannot be realised they are authorised to cancel/interrupt the audit. In such cases, the reasons and deficiencies leading to this decision must be recorded in a written report and a copy thereof is to be provided to the supervised person or entity.

## **Art. 9 Audit Documentation, Reporting and Reporting Obligations**

<sup>1</sup> The final results of the audit will be recorded in the audit report and in additional documentation. The audit report must present the results of the audit comprehensively, clearly and objectively. For each audit, the audit firm must prepare separate comprehensive and sufficiently detailed audit documentation which is comprehensible and transparent for a third party.

<sup>2</sup> The audit firm must record its findings in the event that a violation of supervisory provisions or articles of the statutes, regulations and directives relevant for supervisory purposes is identified. Whether the violation has already been remedied or not must also be recorded.

<sup>3</sup> In case of signs or indications that supervisory provisions cannot be complied with in the future, the audit firm makes a recommendation.

<sup>4</sup> The audit documentation must be written in one of the official languages of Switzerland or in English. Exceptions must be approved by the SO.

<sup>5</sup> The result of the audit must be communicated to the supervised person or entity after completion of the audit by issuing a copy of the audit report. The supervised person or entity must confirm receipt of the audit report. Within the next 10 calendar days the supervised person or entity may submit a statement to the SO, in particular if it does not agree with certain findings. The SO may request a statement from the supervised person or entity at any time.

<sup>6</sup> The audit report must be submitted to the SO no later than 30 calendar days after completion of the audit. This also applies in the event that a supplementary audit is required. The SO must be notified of a supplementary audit by submitting the audit report.

<sup>7</sup> The audit firm will notify the SO without any delay of:

- a. Evidence of proceedings against the supervised person or entity, its stakeholders and managing directors which could affect the guarantee of irreproachable business conduct (civil, criminal, administrative, supervisory, enforcement and bankruptcy proceedings).
- b. Reasonable concern that the supervised person or entity is overindebted or has serious liquidity problems.

- c. Reasonable suspicion of fraudulent or other illegal activities.
- d. Reasonable suspicion of systematic violation of rules of conduct (AMLA, suitability and market conduct).
- e. Performance of an activity requiring a license without the requisite license.
- f. Violations of licensing requirements by the supervised person or entity.
- g. Serious breaches of supervisory legislation or other irregularities which cannot be remedied during ongoing supervision or where the setting of a deadline for restoring compliance with the law does not seem appropriate.
- h. If a normal state of affairs could not be restored by the deadline.
- i. If there are concerns that without further measures set by the SO or FINMA the situation will deteriorate (i.e. risk of insolvency, risk to investors/creditors, risk of the supervised person or entity being unable to act).
- j. Other occurrences that are of material significance to the supervision.

<sup>8</sup> The supervisory reporting obligations of the audit firms must be complied with at all times.

#### **Art. 10 Further Procedure after the Audit**

<sup>1</sup> All significant events in the period between the completion of the audit and the submission of the audit report to the SO must also be filed in the audit report. For this purpose, the necessary actions must be taken and satisfactory audit evidence obtained.

<sup>2</sup> The SO will set a deadline of a maximum of 3 months for the supervised person or entity to rectify complaints or any other deficiencies in order to restore a normal state of affairs. By way of exception, the SO may extend this deadline. If the deadline is not met, the SO informs FINMA without any delay.

<sup>3</sup> If the supervised person or entity does not comply with the audit firm's recommendations, the supervised person or entity must justify this in a written statement to the SO within 10 days after receipt of the audit report.

<sup>4</sup> The mandated audit firm, a different audit firm or, if necessary the SO itself, will examine the rectification of complaints after the deadline has expired.

<sup>5</sup> The audit firm recommends a follow-up audit to the SO in its audit report together with the results and the facts if it deems such a follow-up audit appropriate.

<sup>6</sup> The SO will report any deficiencies identified during an audit or in the course of ongoing supervision to FINMA in accordance with its requirements immediately after identification (see Art. 11 SOO and Art. 43b FINMASA), in particular in all cases pursuant to Art. 9 para. 7 above.

#### **Art. 11 Obligation to Cooperate**

<sup>1</sup> The SO is entitled to request all information and documents necessary for supervision from the supervised person or entity at any time. The SO will decide which information and documents it deems necessary.



<sup>2</sup> If the audit is carried out by an audit firm, para. 1 is applicable by analogy to the audit firm.

<sup>3</sup> The supervised person or entity is obliged to cooperate and be transparent in all supervisory measures of the SO and must provide all information truthfully to the SO, the audit firm and FINMA. Any events of major importance for the supervision must be reported to the SO without any delay.

## **Art. 12 Risk Assessment and Institution Rating**

<sup>1</sup> The risk assessment of the supervised entity's activities and organisation takes place when a supervised person or entity affiliates itself to the SO and is updated by the SO after each audit and each self-declaration based on the collected information.

<sup>2</sup> In addition, the SO may reassess the risk at any time in case of changed circumstances on which the risk assessment is based.

<sup>3</sup> The risk assessment results in a rating based on all aspects evaluated as part of the risk assessment of the supervised person or entity. The rating consists of several sub-ratings, including but not limited to sub-ratings on the FinIA, FinSA and AMLA. The worst sub-rating is used to determine the institution rating in accordance with para. 4.

<sup>4</sup> The SO will determine the institution rating in accordance with the supervisory requirements stipulated by FINMA. In justified cases, the SO may determine the rating at its own discretion. The rating is set in accordance with the basic risk resulting from the activities and the sub-ratings in accordance with para. 3. The sub-ratings may have a risk-neutral, a risk-increasing or a risk-reducing effect on the final rating. The rating can be adjusted any time. FINMA reserves the right to change the rating system.

<sup>5</sup> Based on the institution rating, the SO will define the form of monitoring of ongoing compliance with the licensing requirements, in particular the frequency of audits of the supervised person or entity.

<sup>6</sup> The supervised person or entity has no right to be assigned to a specific rating.

## **Art. 13 Costs of Supervision and Compensation**

<sup>1</sup> The supervised person or entity bears all costs of supervision consisting of the expenses of the SO, the audit firm, FINMA and any other persons involved.

<sup>2</sup> The audit fees of the audit firm will be invoiced directly to the supervised person or entity by the audit firm.

<sup>3</sup> The SO and/or the audit firm may require an advance payment from the supervised person or entity in the amount of the expected costs.

<sup>4</sup> Audit mandates may not be compensated with a flat rate or according to an agreed, fixed amount of time. Agreements on a specific amount of time are not permitted.

## Licensing and Supervision of Audit Firms

### Art. 14 Requirements for Licensing and Duties of Audit Firms

<sup>1</sup> For licensing as an external lead auditor and as an audit firm for the SO, the requirements for licensing as an auditor according to the financial market laws or according to the AOA and the AOO are applicable.

<sup>2</sup> The requirements for the licensing of the auditors of the audit firm performing audits for the SO must be complied with during the entire audit work for supervised entities and must be confirmed to the SO annually at the end of each calendar year.

<sup>3</sup> Regarding the audit hours required for proof of professional experience, the SO will accept audit hours within the scope of audits for other supervisory organisations in accordance with Art. 43a FINMASA. The SO may require the audit firm to attend additional trainings and advanced education courses defined by the SO.

<sup>4</sup> The SO may at any time request updated versions of certain documents related to the auditor's license.

<sup>5</sup> An audit firm is eligible to be approved by a supervisory organisation if it is sufficiently organised, i.e.:

- a. has at least two lead auditors who are approved for the area of supervisory organisations;
- b. has at least two audit mandates in the area of supervisory organisations within three years after being licensed; and
- c. is compliant with the regulations on documentation and retention of records in accordance with Article 730c Code of Obligations, irrespective of its legal form.

<sup>6</sup> An audit firm is adequately insured against liability risks if it holds financial loss insurance or equivalent financial security to cover its liability from audits in the area of supervisory organisations. The insured sum for all claims in a year must be at least 250,000 francs.

<sup>7</sup> The SO may refuse to accredit or dismiss an audit firm if the license requirements for entities under supervision are no longer met and cannot be met in the foreseeable future.

### Art. 15 SO's Supervisory Instruments vis-à-vis Audit Firms

<sup>1</sup> The SO will ensure ongoing supervision of the licensing requirements and the quality of the audit firm's work. In particular, the SO has the following supervisory instruments at its disposal vis-à-vis audit firms:

- a. Evaluation of reporting quality based on defined criteria by the SO.
- b. Surveying the audit time spent in hours and Swiss francs (subdivided by audit area at the request of the SO).
- c. Reviewing audit dossiers selected taking a risk-based approach.
- d. Review of compliance with the licensing requirements for audit firms and lead auditors in accordance with Art. 13 ff. SOO.

<sup>2</sup> If necessary, the SO will take appropriate measures. In particular, the following measures may be taken:

- a. Feedback discussions with the audit firm or the auditor-in-charge.
- b. Requesting a written statement from the audit firm with regard to deficiencies identified or suspected by the SO and with regard to the requirements for the licensing of an audit firm or the correctness and completeness of the audit activities performed at supervised entities.
- c. Ordering further audit procedures in the event of inadequate audit procedures.
- d. Annual reporting on audit quality to the SO's management.
- e. Revocation of mandates up to and including temporary or permanent license revocation.

<sup>3</sup> In justified cases, the SO may require the supervised person or entity to change the audit firm.

## **Art. 16 Audit Performance by the Audit Firm**

<sup>1</sup> The audit firm will appoint a lead auditor for each audit. This position may not be delegated.

<sup>2</sup> The audit firm will perform the audits of the supervised person or entity taking a risk-based approach and within the scope of the audit mandates granted by the SO.

<sup>3</sup> For audits based on random samples, the sample must provide a sufficient basis to draw a conclusion on the audited items. The sampling risk must be reduced to an appropriate low level. The purpose of the audit, the relevance of the audit area and field as well as the characteristics of all customer dossiers must be taken into account when determining the samples. The SO specifies a minimum number of samples based on bandwidths.

<sup>4</sup> The audit documentation contains the type, time and scope of the audit procedures performed. Documents prepared by the supervised person or entity which are used within the scope of the audit must be labeled accordingly and their correct drafting will be assessed.

## **Art. 17 Confidentiality and Obligation to Cooperate**

<sup>1</sup> The audit firm must undertake to observe confidentiality with regard to all facts or circumstances of which it becomes aware during its activities for the SO. The audit firm is obliged to notify the SO and FINMA about all information, findings or other observations and to pass on all information and documentation relating to the supervised persons and entities.

## **Art. 18 Audit Independence and Incompatibilities**

<sup>1</sup> The audit firm is obliged to review its independence before accepting an audit mandate as well as continuously during the performance of the audit mandate. Facts which could influence the independence of the audit firm during an existing mandate must be reported to the SO in writing without delay. In case of justified doubts regarding the independence of the audit firm, an existing mandate must be revoked.

<sup>2</sup> Audit firms' activities at a supervised person or entity to be audited which could influence the objective performance of the audit are incompatible with an audit mandate, in particular:

- a. Supervisory advice;
- b. Advice on transactions as well as auditing and assessment of transactions;
- c. Development and implementation of systems to support compliance, legal, risk control, risk management or investment control functions;
- d. Participation in and advice on the hiring, promotion or dismissal of persons in a position of responsibility or other persons with key functions relevant under

supervisory law, namely in the areas of finance, compliance, risk control or internal audit;

- e. Acting as responsible actuary;
- f. Performance of internal audits.

<sup>3</sup> Supervisory advice in connection with licensing or affiliation procedures is not permitted if an audit mandate will be assumed after the licensing of the supervised entity.

<sup>4</sup> An activity requiring a license according to financial market laws pursuant to Article 1 para. 1 FINMASA is incompatible with the licensing as an audit firm for audits in the area of supervisory organisation for the following persons:

- a. Companies under the same management as the audit firm;
- b. Individuals who directly or indirectly hold at least 10 percent of the capital or votes in a company subject to let. a or persons who can significantly influence its business activities in another way;
- c. The lead auditors.

## **Art. 19 Further Provisions on the Audit Organisation**

<sup>1</sup> The audit firm will ensure that it is correctly mandated for the audit by the supervised person or entity.

<sup>2</sup> The audit firms will report once a year the mandates of the lead auditors with a breakdown by supervised person or entity to the SO. The audit firm will also report further mandates for supervised entities and of auditors assigned to the audit.

<sup>3</sup> In the event of a change of audit firm, the previous audit firm will disclose the audit documentation to the new audit firm.

<sup>4</sup> Several audit firms providing audit services simultaneously to the same supervised person or entity will inform each other about the results of their audits.

<sup>5</sup> The SO will publish a list of approved audit firms on the SO's website. If the SO does not prescribe a particular audit firm for the performance of the audit, the supervised person or entity may select an audit firm from the list of approved audit firms. The supervised person or entity will inform the SO without delay if they wish to mandate an audit firm, but this audit firm refuses to accept the mandate.

<sup>6</sup> In case of cross-border audits the audit firm itself performs the audit within the scope of the group audit for group companies abroad. The audit may also be performed by affiliated audit firms. The affiliated audit firm must be carefully instructed and monitored by the audit firm and acknowledged in a report. The audit firm will inform the SO in the

audit report if Swiss regulatory provisions cannot be complied with as a result of a conflict with foreign law.

## **Art. 20 Audit Principles of the Audit Firm**

<sup>1</sup> The audit firm will prepare and perform the audit taking a critical approach. In doing so the audit firm will ensure objective assessment. Possible effects of current developments in relation to the audit area at the supervised person or entity as well as in the environment, in particular with regard to possible violations of supervisory provisions, must be taken into account in the course of the audit.

<sup>2</sup> The audit must be conducted objectively and with the care of a suitably-qualified professional auditor. The audit firm is responsible for the audit and will formulate the audit result based on its own assessment.

<sup>3</sup> During the audit the audit firm may rely on facts ascertained by the internal audit unit of the supervised person or entity provided that the audits of the internal audit unit meet the requirements of the audit and the standards for content, scope and quality.

<sup>4</sup> The audit must be conducted separately from the accounting audit in accordance with the principles of the Code of Obligations. Where appropriate the audit firm may rely on the results of the accounting audit.

<sup>5</sup> The SO may regulate further details of the audit principles in audit directives.

## **Art. 21 Quality Assurance**

<sup>1</sup> The audit firm will lay down principles to ensure the quality of its audit procedures and will ensure compliance with these principles at all times. The audit firm will take the necessary measures for each audit engagement to ensure compliance with the principles as a whole and for the individual audit engagements. The latter applies in particular to the planning of the audit, the performance of the audit, the delegation of work to qualified employees in accordance with their skills, the provision of the information required for the audit, the instructing of the audit teams, their supervision and appropriate scheduling.

<sup>2</sup> The SO reviews the audit activities of the accredited and mandated audit firms on an ongoing basis. In particular the SO verifies for the audit activities the duty of care, the knowledge and expertise. It also checks that the audit activities are carried out taking a risk-based approach and with the necessary thoroughness.

<sup>3</sup> The SO reserves the possibility to supplement the audit activities of an audit firm with its own audit activities at any time. The SO may inspect the audit firm's working papers and audit notes at any time.

<sup>4</sup> The SO will also ensure that:

- a. The audit firm consulted is correctly mandated and licensed in accordance with Article 43k FINMASA;
- b. The audit firm implements the requirements of FINMA and the SO;
- c. The audit areas correspond to the institution's rating; and
- d. The audit firm informs the SO immediately about any irregularities identified by the audit firm at the supervised person or entity.

## **Further Provisions**

### **Art. 22 Filing**

<sup>1</sup> The data collected and documents produced in the course of the ongoing supervision of supervised persons or entities and concerning audit firms will be filed electronically by the SO for the duration of the statutory retention period. The SO ensures compliance with the provisions of the Data Protection Act (DPA). The SO may destroy physically submitted documents after electronic archiving.

### **Art. 23 Other Applicable Principles**

<sup>1</sup> In addition to the Supervisory Concept the provisions shall apply in accordance with FINMA requirements and, in particular in relation to the internal audit work of a supervised person or entity, the financial market audit ordinance in conjunction with FINMA Circular 13/3 «Auditing» and the audit instructions in accordance with paragraph 2.

<sup>2</sup> Especially in connection with the acceptance and continuation of audit mandates, the quality assurance, the critical basic approach, the due diligence, the audit performance, the audit evidence and the documentation and reporting, audit firms must comply with the requirements of the current version of the Swiss Auditing Standards (PH70) issued by EXPERTsuisse.

## **Final Provision**

### **Art. 24 Entry Into Force**

<sup>1</sup> This Supervisory Concept will enter into force on September 30, 2020.

In case of any inconsistencies between the English and the German version the German version shall prevail.