

# Directives

of the Federal Office of Private Insurance FOPI

21 November 2007

**6/2007 – Framework Directive on the Activities of Independent Auditors with Respect to Insurance Companies (Framework Directive on Auditing)**

**Legal basis:**

Article 4 para. 2 (i) ISA  
Article 5 para. 1 ISA  
Article 25 paras. 2 and 3 ISA  
Article 28 ISA  
Article 29 paras. 1 and 2 ISA  
Article 30  
Article 47 ISA  
Article 65 ISA  
Article 70 ISA  
Article 73 ISA  
Article 78 ISA  
Articles 203 / 204 ISO

**Effective date:**

**21 November 2007**



Schweizerische Eidgenossenschaft  
Confédération suisse  
Confederazione Svizzera  
Confederaziun svizra

Swiss Confederation

Swiss Federal Department of Finance FDF  
**Federal Office of Private Insurance FOPI**

## 1 Background

The Insurance Supervisory Act (ISA; SR 961.01) requires insurance companies (ICs) to designate an independent auditor. The ISA provides general rules governing the conditions for authorizing the independent auditor of an IC under specialized legislation (article 28 ISA), its responsibilities (article 29 ISA), and its reporting obligations (article 30 ISA). Authorisation under specialized legislation is based on the basic authorization issued to audit companies subject to State supervision in accordance with the rules stipulated in the Federal Law of 16 December 2005 on the Licensing and Oversight of Auditors. The responsibilities of the independent auditor under article 29 para. 1 ISA are the object of this Directive.

Additional audits mandated in accordance with article 29 para. 3 ISA and special audits supplementing supervisory audits and audits of the annual financial statements of the IC in accordance with article 29 para. 1 ISA are arranged separately by FOPI and do not fall within the scope of this Directive.

The activities of the independent auditor in accordance with article 29 ISA must be distinguished from the activities as a third party in accordance with article 46 para. 2 ISA. The latter provision authorizes FOPI, in the context of its supervisory responsibilities, to consult third parties at any time to review compliance with insurance supervisory law. However, the Framework Directive on Auditing does not apply to article 46 para. 2 ISA.

An IC must be audited in accordance with the ordinary audit regime (articles 728 et seq. of the revised Code of Obligations).

## 2 Purpose

The purpose of the Framework Directive on Auditing is to further specify the provisions under supervisory law relating to the auditing responsibilities of the independent auditor in accordance with article 29 para. 1 ISA.

The IC mandates the independent auditor to perform the following tasks:

1. The independent auditor audits whether the form and content of the annual financial statement comply with the legal requirements, the articles of association, and the rules and regulations (financial statement audit). The financial statement audit is carried out with respect to the company's statutory financial statements.
2. In accordance with the instructions of the supervisory authority, the independent auditor also verifies compliance with the provisions of the ISA, the Insurance Supervisory Ordinance (ISO; SR 961.011), the FOPI Insurance Supervisory Ordinance (FOPI-ISO; SR 961.011.1) and the Directives (supervisory audit). FOPI explains its instructions governing supervisory audits in the specific audit directives that are included as Annexes to the Framework Directive on Auditing. The supervisory audit supplements the financial statement audit.

## **3 Scope**

The Framework Directive on Auditing applies:

- without restrictions to ICs subject to supervision in accordance with article 2 ISA;
- to insurance groups and insurance conglomerates subject to Swiss insurance supervision in accordance with article 65 or 73 ISA, with the addenda explained in point 6;
- without restrictions to health insurance schemes in accordance with article 12 para. 2 of the Federal Law on Health Insurance (SR 832.10), as long as they are authorised to operate supplementary health insurance under the Insurance Contract Act and they meet the size criteria defined in FOPI Circular 11/2006 of 1 November 2006;
- to Swiss branches of ICs domiciled abroad that are subject to supervision in accordance with article 2 ISA, but only with respect to supervisory audits.

## **4 Definition of terms**

### **4.1 Independent auditor**

Independent auditors are audit companies which, according to article 113 SO, have been authorised by the Swiss Audit Oversight Authority as a State-supervised audit company in accordance with the Audit Supervision Act of 16 December 2005 and by FOPI in accordance with article 28 para. 2 ISA and the Directive on the Authorisation of Independent Auditors and Auditors-in-Charge under Specialised Insurance Legislation.

### **4.2 Reporting**

Reporting under article 29 para. 2 ISA encompasses reporting on the financial statement audit and the supervisory audit.

## **5 Auditing principles**

### **5.1 Auditing standards**

In principle, the financial statement audit is carried out in accordance with the Swiss Audit Standards of the Swiss Institute of Certified Accountants and Tax Consultants in their current version.

Additionally, the instructions of the supervisory authority contained in the Annexes to the Framework Directive on Auditing are applicable to the supervisory audit.

## **5.2 Subject of the audit**

The subject of the audit of the financial statement is the company's statutory or consolidated financial statements, which are compiled in accordance with the provisions stipulated in the Swiss Code of Obligations, the articles of association, and the insurance supervisory provisions (ISA, ISO, FOPI-ISO), the last of which override the provisions of the Swiss Code of Obligations.

The subjects of a supervisory audit are designated and described in the Annexes to this Framework Directive on Auditing. The responsibilities of the independent auditors may be expanded by additional Annexes. Duplications of work in the supervisory audit should be avoided to the extent possible, and information already gathered in the audit of the financial statements should be taken into account.

## **5.3 Reporting**

Reports shall be submitted in writing to FOPI. The audited IC shall receive a copy for its information.

Reporting on the audit of the financial statements shall be carried out in accordance with Supplement 1. In addition, the audit report submitted to the general meeting in accordance with article 729 of the Swiss Code of Obligations or article 728b para. 2 of the revised Swiss Code of Obligations shall be attached.

Reporting on the supervisory audit includes the audit reports required by the Annexes to the Framework Directive on Auditing and the general findings on the supervisory audit in accordance with Supplement 3.

The reports on the audit of the annual financial statements and the supervisory audit must be submitted by 30 April of the year following the business year (article 25 para. 3 ISA). In the case of companies only offering reinsurance, the reports must be submitted at the latest by 30 June of the year following the business year (article 25 para. 3 ISA).

# **6 Special considerations for the audit of insurance groups and insurance conglomerates**

## **6.1 Differences and addenda with respect to scope**

In accordance with articles 70 and 78 ISA, the provisions of articles 28 and 29 ISA shall be applied *mutatis mutandis* to insurance groups and conglomerates which, in accordance with article 65 or 73 ISA, have been placed under Swiss supervision in this respect by decree. If the application of Swiss provisions conflicts with foreign rules, this shall be notified to FOPI in writing immediately; in cases of hardship, exceptions may be granted.

## 6.2 Audits of foreign companies

In the context of the audit of Swiss insurance groups and conglomerates, the independent auditor conducts the necessary audits of the foreign companies of an insurance group or conglomerate itself.

If on-site audits are necessary, they may be conducted by companies within the network of the independent auditor, so-called related audit companies.<sup>1</sup> In this case, the related audit companies must be duly instructed by the independent auditor. Quality control is carried out in accordance with the International Standard on Quality Control No. 1 (ISQC 1).

The designation of a local audit company not related with the independent auditor requires approval by FOPI in accordance with article 114 para. 2 SO. In this case, the local audit company must be duly instructed and monitored by the group or conglomerate auditor. The group or conglomerate auditor must periodically obtain confirmation that the local audit company complies with ISQC 1 and thereby meets the conditions set out in articles 114 and 115 SO. In specific cases, FOPI may set out additional requirements based on article 114 para. 3 SO.

## 6.3 Subject matter of the audit and auditing standards

The subject matter of the audit and the auditing standards of insurance groups and conglomerates are:

1. The group or conglomerate consolidated financial statements, based on the rules stipulated in the Swiss Code of Obligations and/or the accounting principles under the adopted accounting standards and Directive 13.5/2006 on the group or conglomerate report.

The auditing standards applicable to the audit of the group or conglomerate report are based on the accounting standards adopted by the insurance group or conglomerate.

- a. For group or conglomerate consolidated financial statements prepared in accordance with Swiss GAAP FER, the Swiss Audit Standards of the Swiss Institute of Certified Accountants and Tax Consultants apply.
- b. For group or conglomerate consolidated financial statements prepared in accordance with IFRS, the International Standards on Auditing of the International Federation of Accountants (IFAC) apply.
- c. For group or conglomerate consolidated financial statements prepared in accordance with US GAAP, the US Generally Accepted Auditing Standards (US GAAS) of the American Institute of Certified Public Accountants (AICPA).

2. The supervisory audit shall follow the principles set out in point 5.

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<sup>1</sup> An related company or network company is an audit company integrated within the same larger organization. This form of organization is characterized by its purpose of facilitating cooperation between related, legally autonomous companies. Characteristics may include profit or loss participation mechanisms, or the related companies maintain joint ownership, controls, or executive bodies, follow joint quality assurance guidelines and processes, pursue a joint business strategy, use a joint business name, or use a significant portion of their resources jointly.

## **6.4 Reporting**

The report to FOPI on the audit of the group or conglomerate consolidated financial statements must meet the requirements included in Supplement 2, which further specifies the content of the report on the audit of the group or conglomerate consolidated financial statements in accordance with Directive 13.5/2006. In addition, the audit report submitted to the general meeting in accordance with article 729 of the Swiss Code of Obligations or article 728b para. 2 of the revised Swiss Code of Obligations must be attached. The report on the audit of the group or conglomerate consolidated financial statements and the report on the supervisory audit must be submitted by 30 April of the year following the business year.

## **7 Immediate notification requirement of the independent auditor**

If, in accordance with article 30 ISA and in the course of its activities, the independent auditor identifies criminal offences, serious irregularities, breaches of good business principles, or circumstances likely to endanger the solvency of the insurance company or the interests of the insured parties, it shall immediately notify FOPI and not wait until submitting the report under article 29 para. 2 ISA.

## **8 Information requirement**

In accordance with article 47 para. 2 ISA, the independent auditor must submit all information and materials to the supervisory authority that the supervisory authority needs to fulfil its responsibilities. The obligation of the auditors to maintain confidentiality is waived with respect to FOPI.

## **9 Entry into force and transitional provisions**

The Framework Directive on Auditing becomes effective on 21 November 2007. Its first application shall be with respect to the business year ending on 31 December 2007.

Federal Office of Private Insurance FOPI

Dr. Monica Mächler  
Director

# Annex 1

## Supervisory Audit of Tied Assets

**Effective date:** 4 December 2006, revised as of 21 November 2007

### 1. Introduction

This Annex specifies how the supervisory audit of the tied assets as stipulated in article 17 para. 1 ISA shall be conducted by the independent auditor.

The *FOPI Directive on Investments in Tied Assets (hereafter "investment directives") in its latest version* serves as the subject matter for this audit. The investment directives specify the responsibilities of the insurance company under the supervisory law in connection with tied assets.

### 2. Subject of the audit

The independent auditor audits the report on the tied assets (article 72 SO) to be submitted by the insurance company to FOPI by 31 March.

This report includes the following reports:

- G1: General overview consisting of title page and inventory
- G2: Report for each tied asset group
- G2.1: Overview of the coverage of the target amount (2 pages)
- G2.2: Exposures on coverage values (2 pages)
- G2.3: Foreign currencies / Credit rating of the investment classes
- G2.4: Obligation to provide coverage requirement when using derivatives / Evidence of coverage of macrohedges for interest rate transactions / Single investor funds
- G3: List of accounts and custody accounts

### 3. Audit criteria

1. Investment directives, in their current version
2. Circular on Tied Assets, in its current version

## **4. Reporting to FOPI**

The audit report of the independent auditor shall be prepared in accordance with Swiss Audit Standard SAS 800 (Reports on Special Purpose Audit Engagements).

The report shall comply with the following report template (pages 3 to 5 of this Annex).

The audit report must be accompanied by a complete copy of the signed report on the tied assets submitted by the insurance company to FOPI.

Federal Office of Private Insurance FOPI

Dr. Monica Mächler  
Director



## Report template

Report of the independent auditor  
to the Federal Office of Private Insurance  
on the supervisory audit of tied assets of the  
*company [1]*  
Place

### **Introduction**

In accordance with article 29 para. 1 ISA and the Framework Directive 6/2007 of 21 November 2007 (hereafter: Framework Directive on Auditing), Annex 1, of the Federal Office of Private Insurance, we as the independent auditor have audited the reporting on tied assets (including the reports G1: General overview, G2: Report for each tied assets group with annexes, and G3: List of accounts and custody accounts) (hereinafter: subject of the audit) of *company [1]* for the business year ending as of *[reporting date]*.

The scope of our audit was to audit the compliance of the subject of the audit with the requirements stipulated in the circular entitled "*Tied Assets 200n*" *[2]* concerning the reporting on tied assets and the *Directive on Investments in Tied Assets of XX.XX 200n* ("*investment directives*") *[2]* (hereinafter: audit criteria) *[3]*.

### **Responsibility of the board of directors**

The board of directors is responsible for the preparation and reporting of the subject of the audit in accordance with the audit criteria. This responsibility includes: the design, implementation, and maintaining the organizational measures relevant to the preparation and fair presentation of subject of the audit that is free from material misstatement, whether due to fraud or error; selecting and applying the audit criteria that are reasonable in the circumstances.

### **Responsibility of the independent auditor for the supervisory audits**

Our responsibility is to express an opinion on the subject of the audit based on our audit. We conducted our audit in accordance with the Swiss Audit Standards (SAS). Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance whether the subject of the audit is free from material misstatement. We confirm that we meet the legal requirements with respect to qualifications and independence.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the subject of the audit. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the subject of the audit, whether due to fraud or error. In making those risk assessments, the auditor considers organizational prerequisites relevant to the entity's preparation and fair presentation of the subject of the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's organizational prerequisites. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

### **Audit of the organizational measures in connection with this report**

We have audited whether the organizational measures taken by *company [1]* are likely to support the preparation of the subject of the audit in accordance with the audit criteria.

For this purpose, we audited whether the organizational measures presented below are in place to support the preparation of subject of the audit in accordance with the audit criteria and whether they ensure that the subject of the audit is free from material misstatement due to fraud or error. We performed our audit procedures to obtain audit evidence on a test basis evidence.

Our work included the evaluation, whether:

- the organizational measures implemented by the company for purposes of reporting (parts G1 to G2 including annexes) were able to ensure that all tied assets in Switzerland and those to be provided for portfolios abroad are completely and properly recorded.
- organizational measures existed with respect to Swiss business so that all required tied assets could be recorded separately and the investments could be allocated and kept in accordance with the relevant requirements.
- the company took the necessary organizational measures so that the cover values could be allocated to the correct parts of the report in accordance with the requirements.
- the necessary measures were implemented for the ongoing monitoring of the recoverability of the individual investments of the company, so that the precautions stipulated in chapter 1.12 of the investment directives could be ensured.
- the company implemented the necessary organizational measures so that adjustments could be made if an impairment occurred.
- the company was able to ensure by means of organizational measures that all allocated assets whose custody were not governed by a standard agreement were free and unpledged in accordance with the investment directives.

#### ***Audit of cover values in tied assets***

We audited the amounts and disclosures in the reports G1 and G2 including the related annexes on a sample basis.

Moreover, we performed audit procedures to obtain audit evidence with reasonable assurance in order to assess the cover values in the subject of the audit with respect to their existence, their valuation, and their allocation. Additionally, we evaluated the completeness of the report G3 in accordance with the audit criteria and the related existence of signed standard agreements with the custodian for all listed accounts and custody accounts.

#### ***Conclusion***

*In the course of our audit, we encountered circumstances which ....[4]*

Based on our audit procedures described in this report the tied assets of *company [1]*, *except for the matters referred to in the preceding paragraph [5]*, are presented fairly, in all material respects to the audit criteria as of 31 December 200n .

In the context of our work, we trust that the information provided to us is complete and appropriate with respect to all significant matters. Our evaluation is based on the significant framework conditions as they arise from the documents to be audited and from today's perspective. Our audit work was concluded on [date]. Circumstances brought to our attention after this date and developments after this date are not considered herein.

The sole purpose of this report is to provide information to the Federal Office of Private Insurance and the *company* [1] concerning our work and our conclusions in connection with this engagement. It may not be used for any other purpose or made available to any other party.

Independent auditor

Signatory1  
Auditor-in-charge

Signatory2

Supplements:

- G1: General overview consisting of title page and inventory
- G2: Report for each tied assets group
- G2.1: Overview of the coverage values of the target amount
- G2.2: Exposures on coverage values
- G2.3: Foreign currencies / Credit rating of the investment classes
- G2.4: Obligation to provide coverage requirement when using derivatives / Evidence of coverage of macrohedges for interest rate transactions / Single investor funds
- G3: List of accounts and custody accounts

*Editorial comments:*

- [1] Name of company.
- [2] Date of the applicable, i.e. current, version of the Circular on Tied Assets and of the investment directives.
- [3] To be supplemented on a case-by-case basis if the supervisory authority has issued a special decree or if documents refer to this audit and thereby entail relevant supplemental requirements.
- [4] Expand as appropriate, if applicable; otherwise omit.
- [5] If circumstances have been identified in the preceding section which constitute an exception, then insert "*except for the matters referred to in the preceding paragraph ..*"

## Annex 2

# Supervisory Audit of the Occupational Pension Plan Insurance (OPP) Operating Accounts

**Effective date:** 20 February 2007, revised as of 21 November 2007

## 1. Introduction

This Annex specifies the audit of the OPP account by the independent auditor.

The FOPI Directive 4/2007 on the Occupational Pension Plan Insurance (OPP) Operating Accounts in its latest version, which specifies the responsibilities of the insurance company under supervisory law in connection with the OPP operating accounts, serves as the subject matter to this audit.

## 2. Subject of the audit

The audit includes the following documents to be presented by the life insurance company:

### 1. OPP operating accounts

The OPP operating accounts encompasses the following sections:

- Income statement
- Balance sheet
- Technical analysis
- Policy statistics
- Accounting principles
- Valuation reserves
- Disclosure scheme

### 2. Accompanying report

The accompanying report must provide further details on certain positions in the OPP operating accounts as well as additional information (see chapter 5.2 of FOPI Directive 4/2007).

#### 2.1 Overview of the expenses and revenues not directly allocated

The detailed overview of the expenses and revenues not directly allocated (including ceded reinsurance) shall indicate in particular which distribution key has been applied in the allocation from the cost centres to the OPP unit.

#### 2.2 List of internal account relationships

The list of the internal account relationships between the OPP business segment and other business segment must indicate the interest rates applicable to internal accounts (current accounts, loans, etc.).

### 2.3 Reconciliation

If the structure of the statutory financial statement under commercial law does not correspond to the structure of the OPP operating accounts (at the level of Swiss business segment), then the life insurance company must submit a reconciliation along with the accompanying report.

### 3. Disclosure proposal

Based on the disclosure scheme, the life insurer must present the so-called disclosure proposal. With the disclosure proposal, the life insurance company presents how it intends to meet its disclosure information requirements stipulated by article 140 ISO.

## 3. Audit criteria

The FOPI Directive 4/2007 on the Occupational Pension Plan Insurance (OPP) Operating Accounts in its latest version.

## 4. Reporting to FOPI

The audit report of the independent auditor shall be prepared in accordance with Swiss Audit Standard SAS 800 (Reports on Special Purpose Audit Engagements).

The report shall comply with the following report template (pages 3 to 6 of this Annex).

The audit report must be accompanied by a complete copy of the audited OPP operating accounts and the further documents explained in point 2 (subject of the audit).

Federal Office of Private Insurance FOPI

Dr. Monica Mächler  
Director

## Report template

Report of the independent auditor  
to the Federal Office of Private Insurance  
on the Occupational Pension Plan Insurance (OPP) account of the  
*company [1]*  
Place

### **Introduction**

In accordance with article 29 para. 1 ISA and the Framework Directive 6/2007 of 21 November 2007 (hereafter: Framework Directive on Auditing), Annex 2, of the Federal Office of Private Insurance, we as the independent auditor have audited the Occupational Pension Plan Insurance (OPP) operating accounts (including the profit and loss statement, balance sheet, technical analysis of the OPP result, information on the OPP client base structure, the accounting principles, and the valuation reserves, as well as the accompanying report and the disclosure proposal) (hereinafter: subject of the audit) of *company [1]* for the business year ending as of *[reporting date]*.

The scope of our audit was to audit the compliance of the subject of the audit with the requirements stipulated in Directive 4/2007 – Directive on the Occupational Pension Plan Insurance (OPP) Operating Accounts *[2]* (hereinafter: audit criteria).

### **Responsibility of the board of directors**

The board of directors is responsible for the preparation and reporting of the subject of the audit in accordance with the audit criteria. This responsibility includes: the design, implementation, and maintaining the organizational measures relevant to the preparation and fair presentation of subject of the audit that is free from material misstatement, whether due to fraud or error; selecting and applying the audit criteria that are reasonable in the circumstances.

### **Responsibility of the independent auditor for the supervisory audits**

Our responsibility is to express an opinion on the subject of the audit based on our audit. We conducted our audit in accordance with the Swiss Audit Standards (SAS). Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance whether the subject of the audit is free from material misstatement. We confirm that we meet the legal requirements with respect to qualifications and independence.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the subject of the audit. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the subject of the audit, whether due to fraud or error. In making those risk assessments, the auditor considers organizational prerequisites relevant to the entity's preparation and fair presentation of the subject of the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's organizational prerequisites. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

***Audit of the organizational measures in connection with this report***

We have audited whether the organizational measures taken by *company [1]* are likely to support the preparation of the subject of the audit in accordance with the audit criteria.

For this purpose, we audited whether the organizational measures presented below are in place to support the preparation of the Occupational Pension Plan Insurance (OPP) operating accounts in accordance with the audit criteria and whether they ensure that the subject of the audit is free from material misstatement due to fraud or error. We performed our audit procedures to obtain audit evidence on a sample basis.

Our work included the following evaluation:

- An evaluation whether organizational measures existed to ensure that the subject of the audit are filled in completely and correctly and that recognized deviations are included in the accompanying report;
- An evaluation whether organizational measures existed to ensure that the transfer from the trail balance of the OPP sub-ledger into the balance sheet and income statement of the OPP operating accounts is correct with respect to OPP business segment;
- An evaluation whether organizational measures existed to ensure that the expenses recorded in the OPP operating accounts' profit and loss statement solely refer to the OPP business segment;
- An evaluation whether organizational measures existed to ensure that the revenues of the OPP business segment are recorded completely in the OPP operating accounts' profit and loss statement;
- An evaluation whether organizational measures implemented ensured that the individual positions in the tied assets of the "Occupational Pension Plan Insurance" business are allocated to same positions as kept in the individual inventory/sub-ledger and that they are completely included in the OPP operating accounts' OPP column;
- An evaluation whether organizational measures existed to ensure that the analysis of OPP business into the two parts "subject to the minimum quota" and "not subject to the minimum quota" is complete and correct and that the associated data (e.g. breakdown of the number of contracts and insured parties) is correct;
- An evaluation whether organizational measures existed to ensure that the profit and loss positions of the OPP business segment in the technical analysis of the result are split completely and correctly into the three processes (saving, risk, and cost);
- An evaluation whether organizational measures existed to ensure that the market values in both tables on the valuation reserves (OPP and other business segment) are complete and correct for the reporting year and the preceding year;
- An evaluation whether organizational measures existed to ensure that transfers from and into the OPP business segment were carried out at book value in accordance with article 139 para. 2 ISO and that any difference between the book value and the market value or the close to the market value in the OPP operating accounts is recorded as a gain or loss [3].

***Audits in connection with the accompanying report***

We audited whether the organizational measures taken by the *company [1]* are likely to support the preparation subject of the audit in accordance with the audit criteria.

Our work included the procedures:

- An evaluation whether the accompanying report was completed in accordance with the provisions stipulated in chapter 5.2 of FOPI Directive 4/2007 on the OPP Operating Accounts;
- An evaluation whether the supplement to the accompanying report correctly disclosed the distribution key for the not directly allocated expenses and revenues (including ceded reinsurance);
- An evaluation whether the supplement to the accompanying report correctly disclosed the interest rates for the internal account relationships.

***Audit of the figures included in the reporting***

We audited the amounts and disclosures in the subject of the audit on a sample basis obtaining to give reasonable assurance with respect to their correctness, existence, and valuation. Additionally, we evaluated the completeness and correctness of the disclosure proposal in accordance with the audit criteria.

***Conclusion***

*In the course of our audit, we encountered circumstances which ....[4]*

Based on our audit procedures described in this report the OPP operating accounts of *company [1]*, *except for the matters referred to in the preceding paragraph [5]*, are presented fairly, in all material respects to the audit criteria as of 31 December 200n.

In the context of our work, we trust that the information provided to us is complete and appropriate with respect to all significant matters. Our evaluation is based on the significant framework conditions as they arise from the documents to be audited and from today's perspective. Our audit work was concluded on [date]. Circumstances brought to our attention after this date and developments after this date are not considered herein.

The sole purpose of this report is to provide information to the Federal Office of Private Insurance and the *company [1]* concerning our work and our conclusions in connection with this engagement. It may not be used for any other purpose or made available to any other party.

Independent auditor

Signatory1  
Auditor-in-charge

Signatory2



Supplements:

- Occupational Pension Plan Insurance (OPP) Operating Accounts of the company [1] (including the profit and loss statement, balance sheet, technical analysis of the OPP result, information on the OPP client base structure, the accounting principles, and the valuation reserves, as well as the disclosure proposal) (Enclosure 1)
- Accompanying report dated [date] of the company [1] (Enclosure 2)
- Overview of the expenses and revenues not directly allocated (Enclosure 3)
- List of internal account relationships (Enclosure 4)
- Reconciliation of statutory financial statement under commercial law with the OPP operating accounts (Enclosure 5)
- Disclosure proposal of the company [1] (Enclosure 6)

*Editorial comments:*

[1] Name of company.

[2] To be supplemented on a case-by-case basis if the supervisory authority has issued a special decree or if documents refer to this audit and thereby entail supplemental audit criteria.

[3] Retain if applicable, otherwise indicate in the alternative "*that no transfers have taken place in the reporting period from and into the OPP business segment.*"

[4] Expand as appropriate, if applicable; otherwise omit.

[5] If circumstances have been identified in the preceding section which constitute an exception, then insert "*except for the matters referred to in the preceding paragraph ..*"

## Annex 3

# Supervisory Audit of Insurance Groups and Conglomerates

Effective date: 21 November 2007

## 1. Introduction

This Annex specifies the requirements on the supervisory audit conducted by the independent auditor with respect to insurance groups and conglomerates subject to supervision in accordance with articles 65 and 73 ISA. The following reports to be submitted by insurance groups and conglomerates to FOPI serve as the subject matter for the supervisory audit:

- *Directive 13.1/2006 on Reporting on the Organization of Insurance Groups and Insurance Conglomerates* contains the reporting requirements for groups/conglomerates with respect to organizational, control, and business management structure
- *Directive 13.2/2006 on Reporting on the Structure of Insurance Groups and Insurance Conglomerates* refers to the reporting requirements for groups/conglomerates with respect to the group organizational chart and the structure of participation holdings
- *Directive 13.3/2006 on Reporting on Internal Business Transactions in Insurance Groups and Insurance Conglomerates* requires the groups and conglomerates to submit ad hoc notifications and an annual report concerning business transactions internal to the group/conglomerate
- *Directive 13.4/2006 on Reporting on Solvency I for Insurance Groups and Insurance Conglomerates* contains the reporting requirements for groups and conglomerates with respect to their annual and semi-annual solvency reports.

## 2. Subject of the audit

The supervisory audit carried out by the independent auditor with respect to insurance groups and conglomerates includes particularly the following subject matters:

### **Directive 13.1/2006 – Organization**

- Organizational charts of the business management in accordance with Directive 13.1/2006, point 5.1
- Organizational rules in accordance with Directive 13.1/2006, point 5.2
- Overview table of the most important group-/conglomerate-internal instructions in accordance with Directive 13.1/2006, point 5.3

**Directive 13.2/2006 – Structures**

- Table and graphical representations of the group organizational chart in accordance with Directive 13.2/2006, point 6.1
- Significant holdings in accordance with Directive 13.2/2006, point 6.2

**Directive 13.3/2006 – Internal business transactions**

- Periodic reporting on internal business transactions
- Ad hoc notifications during the business year

**Directive 13.4/2006 – Solvency I**

Risk control processes in accordance with article 203 para. 1 ISO

### **3. Audit procedures**

The following "agreed-upon procedures" in particular must be performed with respect to the above-mentioned items subject of the audit:

**1. Directive 13.1/2006 – Organization**

1. The organizational chart of the executive management structure and the immediately below management level most recently submitted to FOPI corresponds to the current organization of the staff of the insurance group or conglomerate and contains the minimum requirements stipulated in the Directive under point 5.1.
2. Any changes to the executive management structure and the immediately below management level during the business year have been notified completely, accurately, and in a timely manner to FOPI.
3. The organizational rules most recently submitted to FOPI contain the minimum content stipulated in the Directive under point 5.2 and correspond to the current situation.
4. Any changes during the business year have been notified to FOPI completely, accurately, and in a timely manner.
5. The most important group-/conglomerate-internal instructions included in the overview table for FOPI are in force in accordance with the Directive.

**2. Directive 13.2/2006 – Structures**

1. The group organizational chart most recently submitted to FOPI contains the essential minimum information set out in point 6.1.1 and corresponds to the current situation.
2. Changes to significant holdings during the business year have been notified to FOPI completely, accurately, and in a timely manner in accordance with point 6.2 of the Directive.

**3. Directive 13.3/2006 – Internal business occurrences**

1. The annual notification of group- and conglomerate-internal transactions submitted to FOPI corresponds to the criteria set out in Directive 13.3/2006.

2. The information contained in the annual notification can be compared with information contained in the group/conglomerate financial statement, eliminations of group-/conglomerate-internal occurrences, and other data sources.
3. Significant group- and conglomerate-internal transactions have been notified to FOPI during the business year within 14 days of entry into effect in accordance with point 5.1 para. 1 of the Directive.

#### **4. Directive 13.4/2006 – Solvency I**

1. The "required solvency margin" presented in the Excel sheet for insurance groups (Annex 1) has been calculated in accordance with the requirements contained in article 199 ISO and point 5.2.1 of Directive 13.4/2006 and corresponds to the requirements.
2. The "required solvency margin" presented in the Excel sheet for insurance conglomerates (Annex 2) has, taking account of the allocation of the companies in accordance with article 205 ISO, been calculated in accordance with the requirements contained in article 199 ISO and point 5.2.1 of Directive 13.4/2006 and corresponds to the requirements.
3. The calculation of the available solvency capital corresponds to the requirements set out in point 5.2.2 of Directive 13.4/2006.
4. Additionally allowable elements with the character of equity capital in accordance with point 5.2.2 para. 3(a), (c) and (d) of Directive 13.4/2006 correspond to the approval granted by FOPI with respect to both scope and calculation.
5. The data used for the calculation of the solvency margin corresponds to the relevant data in the consolidated financial statements.

#### **5. Risk control processes in accordance with article 203 para. 1 ISO**

1. The risk control processes described by the group/conglomerate in accordance with article 196 ISO have been implemented by the group/conglomerate.

## **4. Reporting**

The audit report of the independent auditor shall be prepared in accordance with Swiss Audit Standard SAS 920.

Additionally, a report in accordance with Supplement 3 shall be prepared.

Federal Office of Private Insurance FOPI

Dr. Monica Mächler  
Director

## Supplement 1

# Reporting – Report on the Audit of the Annual Statutory Financial Statements

The audit report shall contain at least the following points:

### 1. Information on performance of the audit

- 1.1 Timing of audit;
- 1.2 Special areas of emphasis and who initiated these areas;
- 1.3 Information on the use of work of third parties (another auditor, the internal audit department, etc.);
- 1.4 Indications of any difficulties encountered during the audit.

### 2. Findings with respect to accounting principles

**The following positions must be commented on or appraised. The appraisal must contain the opinion of the auditor with respect to the positions in question.**

- 2.1 Remarks on the basis of valuation and potential risks;
- 2.2 Treatment of special risk positions;
- 2.3 Unusual transactions;
- 2.4 Comments on the capital investments with an indication of the following values: acquisition, market, and amortized cost values;
- 2.5 Comments on the technical provisions;
- 2.6 Comments on the off-balance-sheet transactions;
- 2.7 Detailed disclosure of undisclosed (“silent” reserves under stock corporation law;
- 2.8 Comments on significant positions of the profit and loss statement, i.e. “Revenue/realized earnings from investments, Depreciation of investments, Earned premium, Claims expenses, Paid life/health insurance benefits, Acquisition costs, Administrative expenses” and their changes relative to the preceding year;
- 2.9 Significant subsequent events after the balance sheet date.

### 3. Additional details on the result of the audits

- 3.1 Additional explanations on emphasis of matters, qualifications or disclaimers in the opinion submitted to the general meeting;
- 3.2 Overview of not corrected significant errors with respect to valuation;
- 3.3 Indications of violations of the law or articles of association according to SAS 700 point 35C, unless these have been notified immediately to FOPI.

### 4. Further information

- 4.1 Other services rendered in the reporting year in addition to audit services (short description of the activities).

## Supplement 2

# Reporting – Report on the Audit of the Group or Conglomerate Consolidated Financial Statements

The audit report shall contain at least the following points:

### 1. Information on performance of the audit

- 1.1 Audit principles used;
- 1.2 Timing of audit;
- 1.3 Special areas of emphasis and who initiated these areas;
- 1.4 Explanation of the annual rotating areas of emphasis of the audit;
- 1.5 Scope of audit with respect to branches and subsidiaries;
- 1.6 Cooperation with other auditors or third parties (internal audit department, experts, etc.);
- 1.7 Other significant remarks concerning audit approach.

### 2. Findings with respect to accounting

**The following positions must be commented on or appraised. The appraisal must contain the opinion of the auditor with respect to the positions in question.**

- 2.1 Application of accounting standards (Swiss GAAP AAR, IFRS, US GAAP);
- 2.2 Remarks on the valuation basis and potential risks;
- 2.3 Application of existing alternatives and restrictions with respect to the principle of consistency;
- 2.4 Remarks on the general quality of the accounting (more careful or tight valuation, etc.);
- 2.5 Special accounting questions relating to the financial statements (treatment of special risky areas or positions with broad discretion);
- 2.6 Significant subsequent events after the balance sheet date;
- 2.7 Explanation and comments concerning unusual transactions and their impact on the audited group or conglomerate;
- 2.8 Explanation and comments on direct and indirect investments;
- 2.9 Explanation and comments on the technical provisions;
- 2.10 Explanation and comments on other significant positions (e.g. pension obligations, discontinued operations, off-balance-sheet transactions, etc.);
- 2.11 Explanation and comments on asset and capitalization structure;
- 2.12 Explanation and comments on “special purpose group/conglomerate companies” such as investment vehicles.

### 3. Additional details on the result of the audits

- 3.1 Additional explanations and comments on emphasis of matters, qualifications or disclaimers in the opinion submitted to the general meeting;
- 3.2 Overview of not corrected errors with respect to valuation, disclosure, and application of the adopted accounting standard;
- 3.3 Indications of violations of the law or articles of association according to SAS 700 point 35C, unless these have already been notified to FOPI.

### 4. Further information

- 4.1 Other services rendered in the reporting year in addition to audit services (short description of the activities).

## **Supplement 3**

### **Reporting – Report on the Supervisory Audit**

#### **1. General findings**

- 1.1 Indications of any difficulties encountered during the audits;
- 1.2 Significant weaknesses found with respect to compliance with the provisions and instructions stipulated by law, in the articles of association, and in the rules and regulations;
- 1.3 Confirmations concerning recommendations and decrees of FOPI;
- 1.4 Important remarks.