

Press release

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FINMA opens consultation on new audit circulars

The Swiss Financial Market Supervisory Authority FINMA is to make its collaboration with audit firms mandated for tasks under supervisory law even more effective, economical and standardised in future. Two new circulars will regulate this reorientation of auditing. The consultation period closes on 18 September 2012.

The supervisory function of protecting financial market clients and a functioning financial sector is FINMA's core task. Audit firms make an important contribution to the performance of this task through their regulatory audit mandates.

With a view to further improving this collaboration and the quality of audit firms' audits, FINMA has decided to make changes to its audit regulations based on its new supervisory approach and the lessons learned from the financial crisis. The aims are to ensure that audit firms consistently present themselves as the extended arm of FINMA, and to enhance the effectiveness of audits and, with it, that of financial market supervision.

Key changes at a glance

Audit firms will be expected to become more forward-looking and more focused on the risk situation of the supervised institution being audited:

- They will in future be required to draw up a risk analysis for institutions subject to prudential supervision, which will have to be forward-looking in relation to the audited institution's risk situation. FINMA has also drafted regulations setting out its expectations in terms of meaningful reporting.
- In order for audit firms to be employed in a more targeted and risk-oriented manner, the regulatory audit will have a modular structure:
 1. **Basic audit:** the audit firm uses the basic audit to review the supervised institution's compliance with fundamental requirements under supervisory law on a regular basis.

2. **Additional audits:** additional audits are conducted in line with the supervised institution's business model or risk situation and focus on specific areas. They can thus be used in individual cases as a response to current developments and changes in the risk situation.
 3. **Case-related audits:** case-related audits are conducted where the targeted use of specialists is required or where a supervised institution is affected by an extraordinary event.
- Experience has shown that neither national nor international standards for financial audits are suited to the specific requirements of the regulatory audit. These standards will therefore no longer be applied to the regulatory audit.

The changes outlined above will be implemented with the "Auditing" and "Audit firms and lead auditors" circulars. While the "Auditing" circular deals with the regulatory audit, the "Audit firms and lead auditors" circular sets out the licensing and other requirements placed on audit firms and (lead) auditors. Both are intended to enter into force on 1 January 2013. The new circulars will replace FINMA Circular 2008/41 ("Audit matters") and the circulars issued by FINMA's predecessor authorities.

Reform of audit firm supervision already announced

Certain amendments to the relevant acts and ordinances are needed. FINMA will draw up suitable proposals for submission to the legislative process. It announced in June that it was to transfer the supervision of audit firms to the Federal Audit Oversight Authority (FAOA). This move is intended to avoid duplicating work, enable greater efficiency, pool expertise and enhance quality in the supervision of audit firms. If the legislature approves the transfer of this task, the FAOA will in future assess audit firms' compliance with the two circulars.

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