



BVI · Bockenheimer Anlage 15 · D-60322 Frankfurt am Main

Secretariat of the
Basel Committee on Banking Supervision
Bank for International Settlements
CH-4002 Basel
SWITZERLAND

Bundesverband Investment
und Asset Management e.V.

Contact:
Peggy Steffen
Phone: +49.069/154090-257
Fax: +49.069/154090-157
peggy.steffen@bvi.de

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Email to: baselcommittee@bis.org

Banks' internal audit function – consultative paper issued by the Basel Committee

Dear Sir or Madam,

BVI¹ welcomes the opportunity to present its views on Basel Committee's proposals on certain aspects of the banks' internal audit function.

Our members are manager of investment funds and some of them are part of a banking group. Therefore, our following comments are focused on **principle 14 and paragraphs 7, 60 and 61** of the consultation paper which refer solely to the internal audit function in a group structure or holding company structure.

In general, we agree with the approach that the parent bank of a group is responsible for compliance with the internal audit requirements at the group level. However, we consider the proposal that the internal audit function in a group should be established centrally by the parent bank as not reasonable or going too far with regard to usual Community rules.

Director General:
Thomas Richter
Managing Director:
Rudolf Siebel

¹ BVI Bundesverband Investment und Asset Management represents the interests of the German investment fund and asset management industry. Its 82 members manage currently assets close to EUR 1.8 trillion both in mutual funds and mandates. BVI's ID number in the EU register of interest representatives is 96816064173-47. For more information, please visit www.bvi.de.

Bockenheimer Anlage 15
D-60322 Frankfurt am Main
Postfach 10 04 37
D-60004 Frankfurt am Main
Phone: +49.69.154090.0
Fax: +49.69.5971406
info@bvi.de
www.bvi.de



Investment management companies are subject to special organisational and conduct of business rules under the UCITS regime and soon under the AIFM regime. Moreover, according to Article 11 of the UCITS Implementing Directive 2010/43/EU, investment management companies are required to establish a permanent internal audit function and will soon be under an equivalent obligation in terms of AIF management (cf. Box 50 of ESMA's final report to the Commission on possible implementing measures to the AIFMD, ESMA/2011/379). It states that the internal audit function should be designed to ensure that the investment management company has adequate and effective systems, internal control mechanisms and arrangements. The auditing activities of the internal audit function must encompass all the special activities and processes of the investment management company such as fund management. In contrast, banks are subject to rules with focus on the special banks' activities and processes. Hence and referring to group structures or holding company structures it should not automatically be assumed that employees from the central banks' internal audit function regularly do have the necessary expertise to evaluate the investment management companies' internal control mechanism and arrangements

Therefore, each firm of the group should remain responsible for monitoring its own internal control mechanism and arrangements. However, this should not preclude the possibility of organizational structures which require maintenance of a centralized internal audit function at the group level.

We trust that Basel Committee will take our suggestions into account when refining its views on the principles of internal audit function, and remain at your disposal for any questions that may arise.

Yours sincerely

Alexander Kestler

Peggy Steffen