

SIX Exchange Regulation  
SIX Swiss Exchange AG  
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03 October 2011

**Request for views – Management Commentary (RLMC)**

Ladies and Gentlemen,

We welcome the opportunity to express our view on the draft directive regarding Management Commentary of the SIX Exchange Regulation. We understand the SIX Exchange Regulation's efforts to enhance understandability, relevance, reliability and comparability of the preparers' Management Commentary.

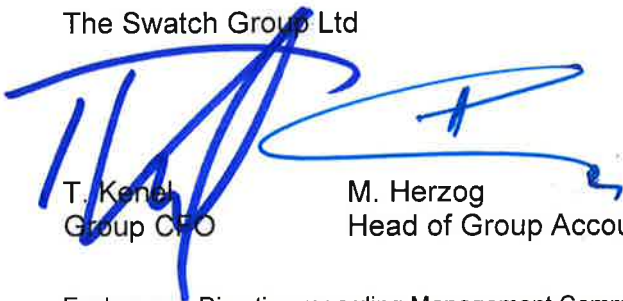
However, as a result of our analyses, we have significant concerns in regard to this new directive, concerns that are expressed hereafter and that we detail in the enclosure.

In summary, we are of the opinion that most information required by the proposed directive is already requested by the current IFRSs and therefore already included in the different sections of the annual report. The Management Commentary would therefore contain repetitive information. In addition, mainly in the area of requirements regarding an entity's objectives, strategies, risks and outlooks, we doubt whether a formalization and standardization of Management Commentary would enhance the transparency of information given to stakeholders. On the contrary, we feel that such requirements would lead to generic disclosures and a formalization, which would be inconsistent with to the objective of the IASB's practice statement on Management Commentary. Therefore, we strongly disagree with the implementation of the proposed directive.

We thank you again for the opportunity to contribute to the due process of the mentioned directive and for taking into consideration our concerns. We would be glad to contribute further, if there are other questions / requests related to this subject.

Yours sincerely,

The Swatch Group Ltd



T. Kenel  
Group CFO

M. Herzog  
Head of Group Accounting & Reporting

Enclosure: - Directive regarding Management Commentary (including Swatch Group's comments)

# Directive regarding Management Commentary (Directive Management Commentary, DMC)

Dated: 21 September 2011

Basis: Art. 1, 4, 5 and Art. 49 para. 2 LR

## I. General Requirements

### Art. 1

#### Objective

<sup>1</sup> The objective of the Directive regarding Management Commentary is to require issuers to provide users of financial statements with integrated information regarding the financial position, financial performance and cash flows of an entity in the context of the entity's objectives and strategies in a meaningful format and from the point of view of management.

<sup>2</sup> The Directive incorporates the requirements of the IFRS Practice Statement "Management Commentary".

**Comment Swatch Group:** A complete level of integrated information is already included in the full set of financial statements of entities which apply IFRS or US GAAP. It is our understanding that the purpose of the IASB was to provide "a broad, non-binding framework for the presentation of Management Commentary" and not a mandatory standard which must be applied by entities applying IFRS. Also, the IASB stated that the framework should be a flexible approach to present Management Commentary and that the form and content of Management Commentary may vary from entity to entity.

Therefore, we are of the opinion that requiring issuers to provide standardized Management Commentary with a binding directive was not the objective of the IASB. On the contrary, we believe that such requirements would lead to generic disclosures and a degree of formalization which would actually be inconsistent with the objective of the IASB's practice statement "Management Commentary".

As a result, we think that the objective stated by the directive "Management Commentary" undermines the purpose of the actual IFRSs. In addition, the resources required for the preparation of the Management Commentary is disproportionate to the benefit derived from disclosing such strategic information and therefore against the principal between benefit and costs mentioned in the IASB Framework.

<p><b>Art. 2</b> Scope</p>	<p><sup>1</sup> This Directive is applicable to all issuers incorporated in Switzerland with equity securities listed on SIX Swiss Exchange, who apply either IFRS or US GAAP as their accounting standard.</p> <p><sup>2</sup> Issuers, who are not incorporated in Switzerland, are also required to comply with this Directive, if their equity securities are primary-listed on SIX Swiss Exchange.</p>	<p>No comment.</p>
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## II. Reporting Obligations

<p><b>Art. 3</b> <i>Qualitative Characteristics</i></p>	<p>Qualitative characteristics are expected to increase the usefulness of the information included in the Management Commentary for users of financial statements. The four most important qualitative characteristics are understandability, relevance, verifiability and comparability.</p>	<p><b>Comment Swatch Group:</b> The mentioned qualitative characteristics are already an integrated part of the IASB Framework and therefore the basis of a full set of financial statements. Important facts regarding these four characteristics are therefore already presented / described in depth in the financial statements. The directive would lead to a repetitive summary of information already disclosed in the full set of financial statements or other parts of the annual report.</p>
<p><b>Art. 4</b> <i>Placement of Disclosure</i></p>	<p>The Management Commentary should complement the financial statements and be presented as a separate section within the annual report. The section Management Commentary may cross-reference to information in other chapters of the annual report.</p>	<p><b>Comment Swatch Group:</b> The Management Commentary would tempt stakeholders to consider only information from this section and to ignore other parts of the annual report (e.g. financial statements). This involves the risk that economic decisions are taken on an incomplete basis of information which is a fully wrong direction. Currently, the objective of the financial statements and the annual report are to be read in full. Therefore, as described under Art. 3, we would consider the Management Commentary section only as an incomplete repetition of the information already included in the financial statements and the annual report.</p>
<p><b>Art. 5</b> <i>Content of the Disclosure</i></p>	<p><sup>1</sup> The Appendix to this Directive lists information, which must be addressed in the annual report. The Appendix is an integral part of this Directive.</p> <p><sup>2</sup> The following structure and section headings (or equivalent headings) are expected to be used:</p> <ul style="list-style-type: none"> <li>1 Nature of the business, 2 Objectives and strategies</li> <li>3 Resources, risks and relationships, 4 Results and outlook</li> </ul>	<p><b>Comment Swatch Group:</b> for our comments to the section 'Appendix' and to the proposed headings please see below.</p>

### III. Concluding Provisions

Art. 6 Effective Date	This Directive is effective for annual periods beginning on or after 1 January 2015.	Not applicable as we abolish the implementation of the proposed directive.
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### APPENDIX

1	<p><b>Nature of the Business</b></p> <p><i>Business</i></p> <p>Main business operations including the major products and services of the entity</p>	<p><b>Comment Swatch Group:</b> In the case of Swatch Group and all quoted entities, this information is the central theme of the whole annual report. Also, the entity's business purpose is described in the statutes and in the disclosing of the commercial register (if really needed, a copy print of the entity's commercial register in the annual report would be sufficient). Furthermore, information to the business operations are disclosed as part of the requirements of IFRS 8 "Operating segments". The requirement information would be repetitive and without any added value for the users of the financial statements.</p>
1.2	<p><i>External Environment</i></p> <p>Industry sectors and markets in which the entity operates and the external environment that most significantly impacts the entity</p>	<p><b>Comment Swatch Group:</b> The main information is already included in the disclosures requirements of IFRS 8 "Operating Segments" and in the financial review section. We see no need to repeat this information.</p>
2	<p><b>Objectives and Strategies</b></p>	
2.1	<p><i>Objectives</i></p> <p>Description of the objectives established by the entity</p>	
2.2	<p><i>Strategies</i></p> <p>Strategies to achieve the entity's objectives</p>	<p><b>Comment Swatch Group:</b> As the market environment of entities became highly volatile, especially within the financial industry, and is subject to continuous changes, strategies and objectives may or even should be adapted to these changes and therefore be flexible throughout the year. Therefore, ad hoc publications, press articles and interviews containing relevant information regarding the entity's objectives are more appropriate. In addition, there are limits and constraints regarding the objectives and strategies to be communicated - it is not the objective of the IFRS that entities must disclose potential opportunities in advance to its competitors and therefore lose competitive advantages. As a result, the benefit of requiring entities to communicate strategies and objectives in the Management Commentary is questionable.</p>

3	<p><b>Resources, Risks and Relationships</b></p>	<p><b>Comment Swatch Group:</b> Sufficient information regarding resources, such as an entity's capital structure, financial arrangements (e.g. contingent liabilities), liquidity and cash flows, etc., is already included in the notes to the financial statements. There is no need to repeat this information in an additional section of the annual report.</p>
3.1	<p><b>Resources</b> Critical financial and non-financial resources as well as their availability and allocation</p>	<p><b>Comment Swatch Group:</b> Risk descriptions such as financial risk management (market, credit and liquidity risk), critical estimates and judgments by the Group's Management are already presented in detail in the notes to the financial statements. In addition, a description of the risk management is required by the Swiss Code of Obligation and therefore also included in the annual report. Moreover, hypothetical, year-end related and too detailed disclosures of an entity's risks and uncertainties could be misleading. Also, comments about "general" risks would be off-set by giving legal disclaimers at the same time as is current practice for entities under U.S. reporting requirements. These legal disclaimers invalidate the information contained in these comments. As of today, an entity's risk profile is adequately reflected in the annual report.</p>
3.2	<p><b>Risks</b> Description and evaluation of the important strategic, operational and financial risks</p>	<p><b>Comment Swatch Group:</b> The relationships with related parties are already described in detail in the financial statements (requirements of IAS 24) and Corporate Governance part of the annual report. If material, other relationships with stakeholders (e.g. information about major customers according to IFRS 8) would also be included in the financial statements. Therefore we do not see any benefit for stakeholders in publishing more / additional information in this area.</p>
3.3	<p><b>Relationships</b> Relationships to stakeholders and description of how these relationships are managed</p>	<p><b>Comment Swatch Group:</b> The relationships with related parties are already described in detail in the financial statements (requirements of IAS 24) and Corporate Governance part of the annual report. If material, other relationships with stakeholders (e.g. information about major customers according to IFRS 8) would also be included in the financial statements. Therefore we do not see any benefit for stakeholders in publishing more / additional information in this area.</p>

<b>4</b>	<b>Results and Outlook</b>	
4.1	<i>Results</i>	
4.1.1	Entity's performance against the stated objectives and strategies as described in Art. 2 of this Appendix	<b>Comment Switch Group:</b> We refer to our explanations regarding Art. 2.
4.1.2	Most significant financial and non-financial performance measures as well as the development of these measures throughout the financial year	<b>Comment Switch Group:</b> The information on an entity's performance is sufficiently ensured by the disclosures of the existing IFRS Framework and Standards. We do not see a requirement for repeating or explaining already disclosed information in a separate Management Commentary section of the annual report.
4.2	<i>Outlook</i> Description of the outlook, which may include targets for financial and non-financial measures	<b>Comment Switch Group:</b> Many issuers already include forward-looking information in the press release to the sales figures and / or other short reports. However, in past years, we noted that an entity's performance is strongly influenced by global economic factors which could not be controlled by an entity's Management (e.g. exchange rate evolution, financial crisis, etc.). In retrospective, it was often impracticable for the Management to give reliable forward-looking information. Therefore, we do not support the idea of requiring entities to give formalized forward-looking information and to oblige them to comment thereafter on variances from its previously stated information. In our view, the decision about the form and content of forward-looking information should remain in the responsibility of each entity's Management.