

Media Release

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SIX Exchange Regulation

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Incorrect financial reporting and its consequences

Checking listed companies' financial reports and imposing sanctions when they fail to comply with the applicable reporting requirements are crucial to ensuring that the capital market functions as it should. A study by the University of St. Gallen looked at the effects of SIX Exchange Regulation's enforcement activities and revealed room for improvement in terms of financial reporting requirements. Prof. Leibfried showed that sanctions have consequences for the companies affected, their auditors and also the market itself.

SIX Exchange Regulation checks the annual and interim financial statements of companies listed on SIX Swiss Exchange for compliance with the financial reporting requirements. The University of St. Gallen's Institute for Accounting, Controlling and Auditing carried out a study under the lead of Prof. Peter Leibfried to gauge the effects of this enforcement activity on the various parties involved in the capital market.

The study shows that the capital market takes notice of sanctions relating to financial reporting and responds with "significant" price falls after such sanctions are published. It claims that these price falls are triggered by a small number of investors, while most small investors hardly respond at all. The authors attribute this primarily to the media coverage of the information, which they see as insufficient.

Media releases on breaches of financial reporting requirements, they point out, are circulated effectively by the Exchange, but media interest fades quickly, regardless of the nature of the sanctions. According to the authors, most media reports simply regurgitate the concise media releases provided by SIX Exchange Regulation without offering any comment. However, investigations have shown that it is not the publication of a sanction in itself but the way it is presented that is relevant to the capital market. The media could thus play a key role in the enforcement process with their coverage and comment.

The companies affected clearly have considerable respect for the potential consequences of sanctions relating to financial reporting. This is evidenced within companies hit by sanctions through increased personnel changes at management level, cover-up attempts and failure to comply with the rules on error correction. In this respect, the study reveals a large number of cases in which the affected

companies did not adhere to the financial reporting requirements concerning the correction of errors in the following year. SIX Exchange Regulation will therefore react by increasing its focus on follow-up checks of the financial statements of sanctioned companies, reducing the materiality threshold and attaching greater importance to compliance with disclosure obligations.

SIX Exchange Regulation's sanctioning practices also affect the auditors of reprimanded and sanctioned companies. According to the study, this is reflected in increased staff turnover among lead auditors and frequent changes of audit firm by sanctioned companies. Enforcement practices thus create a strong incentive to exercise greater care in auditing financial statements. SIX Exchange Regulation's ongoing close collaboration with the audit supervisory authority results in efficient and effective monitoring of auditors.

The findings of the University of St. Gallen study underscore the positive impact of regulation by the SIX Swiss Exchange regulatory bodies and confirm the need for enforcement by SIX Exchange Regulation. The preventive function of enforcement in terms of financial reporting evidently helps to build trust on the financial markets because it clearly improves the quality of financial reporting. In order to ensure that high standards can be maintained in enforcement going forward, companies and their auditors must be made more aware of SIX Exchange Regulation's monitoring activities and the potential consequences of a breach of or failure to comply with the regulations. In addition, the authors call for greater transparency in terms of error correction with a view to improving media resonance.

To receive the study (only in German), send an e-mail to: lea.zingg@unisg.ch.

Answers to questions on enforcement in the area of financial reporting can be found here: http://www.six-exchange-regulation.com/obligations/financial_reporting/faq_requirements_en.html

Should you have any questions, please feel free to contact Werner Vogt, Head Media Relations.

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SIX Exchange Regulation

SIX Exchange Regulation performs the functions assigned under Swiss federal law and enforces and monitors compliance with the rules laid down by the Regulatory Board. SIX Exchange Regulation imposes sanctions in so far as it is authorised to do so by the regulations, or submits sanction requests to SIX Swiss Exchange's Sanction Commission.

SIX Exchange Regulation's independence from SIX Swiss Exchange's operating business is guaranteed by its direct subordination to the Chairman of the Board of Directors of SIX Group. SIX Exchange Regulation consists of the divisions Listing & Enforcement, responsible for regulating issuers, and Surveillance & Enforcement monitoring trading.