

# Circular No. 2

## Financial Reporting

(Circular No. 2, CIR2)

Status on 13 October 2016  
Basis Arts. 49 to 51 LR and Directive Financial Reporting (DFR)

This Circular further describes in detail the obligations of issuers applying IFRS or Swiss GAAP FER as their accounting standard. It makes reference to paragraphs in IFRS and Swiss GAAP FER whose application have resulted in findings from SIX Exchange Regulation. The Circular is revised and amended annually. 1

The objective of SIX Exchange Regulation is not to formulate and publish interpretations of specific accounting standards. Interpretations of IFRS are prepared exclusively by the IFRS Interpretations Committee. SIX Exchange Regulation only monitors listed companies' compliance with these standards. 2

The following references to IFRS (the "blue" 2016 edition) which are provided in red italic script have been updated and relate to findings identified by SIX Exchange Regulation with regard to the annual and semi-annual financial statements for 2015. 3

*1. Materiality* In connection with financial reporting, materiality means that the information is of particular importance to the investor's assessment of the company's net assets, financial position and performance. In this regard, qualitative as well as quantitative aspects must be taken into account. Moreover, materiality must be determined with regard to specifically required information and its overall effect. Generally, the disclosure of irrelevant information could represent a violation of the principle of materiality equivalent to the omission or misrepresentation of important details. 4

*2. Relevance* Disclosures are deemed to be relevant if they convey actual information to users of financial statements. The required explanations in the annual financial statements must be challenged at every balance sheet date to ensure that they remain current and they must refer to company specific circumstances. Excessive descriptions of circumstances of lower importance, as well as generic disclosures that have no material substance ("boilerplate"), reduce the information value of a set of financial statements and must be avoided. 5

3. <i>Understandability</i>	<p>Explanations must be provided in a manner that is understandable by a reasonably informed investor. Disclosures must therefore be provided in a way that is clear and easy to comprehend. Spreading information on the same matter across several notes is detrimental to understandability and should be avoided. Furthermore, grouping information in a way that a material amount is assigned to a category named "other" does not fulfil the requirements of IFRS.</p>	6
4. <i>Faithful representation</i>	<p><i>Financial reports present economic processes in words and figures. To be useful, financial reporting must not only be as complete and neutral as possible, but also free from error. Multiple errors in the annual report can make it very difficult for the reader to obtain a faithful and complete view of the company's net assets, financial position and performance, even if each error is individually insignificant.</i></p>	7
5. <i>Presentation of financial statements (IAS 1)</i>	<p>According to IAS 1p18, the application of inappropriate accounting policies may not be rectified by describing the accounting policies, by disclosure in the notes or by additional explanations (e.g. in footnotes).</p>	8
	<p>IAS 1p25 states that uncertainties with regard to the entity's ability to continue as a going concern must be disclosed in the annual financial statements. Such uncertainties might, for example, include doubts about financing, a significant drop in demand, a price deterioration or a pending authorisation decision.</p>	9
	<p>IAS 1p32 requires, as a principle, that assets and liabilities as well as income and expenses may not be offset against each other. So for instance, down payments on inventories are not to be offset against inventories, but must be recognised as a liability.</p>	10
	<p><i>The minimum comparative information required by IAS 1p38 is generally to be disclosed in the notes, except where otherwise required or permitted by IFRS.</i></p>	11
	<p><i>IAS 1p41 states that, if items in the annual financial statements are reclassified, the comparative figures must also be reclassified (including those as at the beginning of the preceding period for balance sheet items). The nature, amount and reason for the reclassification must be disclosed.</i></p>	12
	<p>The statement of comprehensive income contains the items listed in IAS 1p82, and begins with "Revenue" as defined in IAS 18. According to IAS 1p85, additional line items and sub-totals below "Revenue" may be inserted only if they are relevant to an invest-</p>	13

or's understanding of the entity's financial position, for example because of industry practice. According to *IAS 1p85A*, additional sub-totals may not be displayed with more prominence than the sub-totals required by IFRS for the statement of consolidated income. Under *IAS 1p87*, no extraordinary items may be presented. The underlying purpose of this rule must be respected at all times. No attempt may be made to circumvent it by listing the corresponding items under a substantially equivalent description.

According to IAS 1p99, an entity must disclose expenses recognised in its statement of comprehensive income either by their nature ("nature of expense" method) or by their function within the entity ("function of expense" method). The standard does not allow an approach which combines the two methods. When costs are aggregated or sub-totals are used, the company must ensure that this is in line with the selected approach and does not lead to a combination of the two methods. Furthermore, the frequency of transactions is not a suitable criterion by which to aggregate different types of expenses (IAS 1BC63). 14

The accounting policies disclosed in the notes must be useful to the investor's understanding of the financial statements (IAS 1p119). This requirement is deemed fulfilled if, among other things, the accounting policies are described in sufficient detail, grouped according to subject and updated regularly. Statements on methods which were not used (e.g. hedge accounting) do not fulfil this requirement, neither does merely reproducing the relevant provisions of IFRS. However, detailed descriptions of accounting policies for which IFRS does not provide enough or specific guidance or where accounting policy options are available are required for critical areas. 15

The disclosures required by IAS 1p122 on critical management judgements in applying the entity's accounting policies constitute an important element of the financial statements and must be compiled with reasonable care. It is therefore recommended that this information be disclosed prominently at the beginning of the notes, along with the assumptions concerning estimation uncertainty that are required under IAS 1p125. 16

IAS 1p134 states that an entity must disclose information that enables investors to evaluate the entity's objectives, methods and processes for managing capital. Should an entity be subject to externally imposed minimum capital requirements, for example as a result of financial covenants, the nature of these requirements and whether or not the entity has been able to fulfil them must be disclosed in accordance with *IAS 1p135(a)(ii) and* 17

*IAS 1p135(d)* . If such externally-imposed minimum capital requirements have not been fulfilled, IAS 1p135(e) requires additional disclosure of the consequences.

<i>6. Inventories (IAS 2)</i>	According to IAS 2p9, inventories must be measured at the lower of cost and net realisable value. In doing so, the assumptions made for the determination of the net realisable value must be based on the most reliable indications available at the time of valuation (IAS 2p30). Furthermore, it must be ensured that these assumptions (e.g. forecast sales proceeds) are also consistently applied in other calculations (e.g. impairment test).	18
<i>7. Statement of cash flows (IAS 7)</i>	Cash flows are inflows and outflows of cash and cash equivalents, which are defined as short-term highly liquid investments that are readily convertible to known amounts of cash and which are subject to an insignificant risk of changes in value. Financial instruments that are subject to fluctuations in value do not qualify as cash equivalents (IAS 7p7). The fact that a financial instrument is accepted as collateral for a liquidity facility of a national bank is not sufficient for its qualification as a cash equivalent. To report money market funds as cash equivalents, the financial instruments included in the fund must meet the corresponding criteria (look-through principle). The individual components must also be disclosed to enable an assessment of the actual composition of cash and cash equivalents (IAS 7p45).	19
	According to IAS 7p10, the statement of cash flows must present cash flows from operating activities, as well as from investing and financing activities. Cash flows from investing and financing activities are, according to IAS 7p21, generally to be presented gross, which means separately for receipts and payments. In addition, these cash flows must also include the activities from discontinued operations as outlined in IFRS 5p33(c). However, the more prominent presentation of additional "normalised" cash flows or subtotals (e.g. free cash flow) is not permitted.	20
	For cash flows arising from transactions in a foreign currency or cash flows from the translation of a foreign subsidiary the exchange rate at the date of the cash flow should be used (IAS 7p26-27). According to IAS 7p27, the use of other exchange rates (e.g. weighted average exchange rate for the period) is only permitted if they essentially correspond to the actual rate.	21
	Pursuant to IAS 7p28, unrealised gains and losses from changes in exchange rates on cash and cash equivalents are not considered cash flows, but are reported as a reconciling item between	22

the balance at the beginning of the period, plus the net cash flows for that period and the balance at the end of the period. This reconciliation may not include any differences or unrelated elements which cannot be supported.

Investing and financing activities that do not lead to a change in cash and cash equivalents are not included in the cash flow statement. Such non-cash transactions are, for example, the first-time recognition of a financing lease, the conversion of debt into equity (debt-equity swap) or the transfer of mortgage loans in connection with a sale of real estate. Additionally, pursuant to IAS 7p43, non-cash transactions must be explained in the notes to the financial statements. 23

*8. Accounting policies, changes in accounting estimates and errors (IAS 8)* An entity may only change an accounting policy if the change results in the financial statements providing more relevant information (IAS 8p14). 24

When an entity has not applied a new standard that has been issued but is not yet effective, the entity must disclose this information in accordance with IAS 8p30. The anticipated impact on future financial statements is usually known or may be estimated with a reasonable effort. The anticipated impact must thus be explained in a meaningful way. Moreover, negative confirmations that no impact is expected also provide the investor with relevant information. 25

Errors in recognition, measurement, presentation or disclosure from previous periods are to be treated in accordance with IAS 8p42 in the form of a retrospective correction (restatement). It must be clear and unambiguous that this restatement has been made to correct an error. Under no circumstances may errors in financial reporting be presented as changes in estimates (IAS 8p32) or accounting policies (IAS 8p14). Agreements with or sanctions imposed by SIX Exchange Regulation in connection with breaches of financial reporting rules also require the restatement and disclosure of an error. 26

*9. Income taxes (IAS 12)* Recognising the effects of loss carryforwards as a deferred tax asset is not a matter of choice (IAS 12p34). The period for which future taxable profits are estimated must be based on objective criteria (e.g. statutory expiry dates). Furthermore, the assumptions that are applied must be consistent with the parameters used for other calculations (e.g. impairment tests). 27

	<p>The decision not to recognise deferred taxes in connection with shares in subsidiaries, branches and associated companies is not a general clause, but pursuant to IAS 12p39 only permissible if the group can control the timing of the reversal of the temporary differences and such differences will not be reversed in the foreseeable future. The fact that these deferred taxes were not recognised must be disclosed together with the corresponding temporary differences (IAS 12p81(f)).</p>	28
	<p>IAS 12p81(c) requires a tax reconciliation between the applicable and the effective tax rate (effective tax expense). The items shown in the reconciliation must be comprehensible and the selected designations self-explanatory. If the applicable tax rate has changed from the previous accounting period, then such fact must also be disclosed separately in the notes, together with an explanation of the reasons for the change (IAS 12p81(d)). If the applicable tax rate represents a weighted average of tax rates in different jurisdictions, then both the effect of changes to tax rates and the impact of changes to the structural composition of results in the different jurisdictions must be explained so that an assessment of the future average tax burden is possible. This permits a better assessment of the future average tax burden.</p>	29
	<p>Pursuant to IAS 12p81(e), if no deferred tax asset has been capitalised, the amounts and date of expiry of loss carryforwards must be disclosed. SIX Exchange Regulation recommends staggering such disclosures in a meaningful way based on expiry dates, as well as the disclosure of tax rates. In this context, it is relevant to the investor whether the loss carryforward was incurred at a subsidiary with a high tax rate or rather at a company with a lower tax rate owing to the holding company privilege.</p>	30
<i>10. Revenue (IAS 18)</i>	<p>Where services are rendered where the associated risks and rewards remain with another entity, IAS 18p8 permits only the commission earned on those services to be recognised as revenue. Sales taxes, customs duties and other charges are not considered revenue as these do not accrue to the company. Furthermore, discounts and rebates must be offset directly against revenue (IAS 18p10). Shares in the earnings of an associated company may not be reported as revenue (IAS 18p1).</p>	31
	<p>IAS 18p35 requires the presentation or disclosure of the amounts of each revenue category that is significant to the entity, such as revenue from trading goods, from the sale of products manufactured by the entity or from rendering services. The specific accounting policies applied to the recognition of revenue must be</p>	32

explained properly and in sufficient detail for each category in the notes.

- 11. Employee benefits (IAS 19)* With regard to congruently reinsured post-employment benefit plans, the requirements in IAS 19p46 regarding "insured benefits" must be observed. The recognition and disclosure of such "insured benefits" in the financial statements, in other words the extent to which they are treated as defined contribution or defined benefit plans under IAS 19, depends on whether the company retains a legal or constructive obligation to pay benefits out of the plan (e.g. in the case of possibilities for termination on the part of the insurer). To quantify any such obligation, an actuarial assessment must be made and the relevant conclusions must be documented appropriately. 33
- 12. Related party disclosures (IAS 24)* Explanations concerning related parties are considered one of the most important types of qualitative information disclosed in the notes. These disclosures must be made in such a way that users of financial statements understand the potential effect of these relationships on the financial statements (IAS 24p18). In this context, transactions with related parties may be described as based on standard market terms ("at arm's length") only if such terms can be substantiated (IAS 24p23). 34
- 13. Financial instruments: presentation (IAS 32)* Pursuant to IAS 32p28, the contractual terms of the issuer of a financial instrument must be evaluated to determine whether the instrument contains both a debt and an equity component. Generally, an equity component can be recognised only if there is no contractual obligation to deliver cash or other financial assets. It is appropriate to classify embedded derivatives as equity only if a "fixed-for-fixed" requirement exists, i.e. where the only provision for fulfilling the obligation is a fixed amount of cash for a fixed number of the entity's own equity instruments. In the case of such hybrid financial instruments, the contractual provisions must be analysed carefully and the identified components must be evaluated with regard to their classification. 35
- Pursuant to IAS 32p37, transaction costs directly allocable to a capital increase are to be recognised directly in equity with no impact on the income statement. At the time of an initial public offering (IPO), existing shares are often listed alongside newly issued shares. In such instances, the transaction costs must be allocated plausibly in accordance with IAS 32p38. Generally, a proportionate allocation reflecting the ratio of newly issued and ex- 36

isting shares meets this requirement. That portion of the transaction costs attributable to the listing of existing shares must be recognised in the income statement.

14. *Earnings per share (IAS 33)* If negative earnings per share (loss) are reported, no anti-dilutive effect may be taken into account (IAS 33p41). Thus generally speaking, in the event of a loss, fully diluted earnings per share are equal to basic earnings per share. Only those options that might potentially lead to a dilution or are "in the money" are included in the calculation of diluted earnings per share (IAS 33p46-47). *Convertible debt is anti-dilutive whenever its interest per ordinary share on conversion exceeds basic earnings per share (IAS 33p50).* 37
- Other forms of per share measures (e.g. EBIT per share) may be disclosed only in the notes, and not below the statement of comprehensive income (IAS 33p73). The method described in IAS 33 must be applied when calculating the number of shares outstanding (the denominator). If the numerator is not provided in a separate line in the statement of comprehensive income, it must be derived accordingly in the notes. 38
15. *Interim financial reporting (IAS 34)* Pursuant to IAS 34p15, the purpose of interim financial reports is to update the information published in the most recent annual financial statements. Care must therefore be taken in the condensed presentation to ensure that the statements include a sufficiently detailed explanation of significant changes (e.g. restructuring, impairments, business combinations). In addition to this general requirement, IAS 34p16A(i)-(j) prescribe that the detailed disclosures under IFRS 3 for business combinations, as well as IFRS 7 and IFRS 13 for fair value measurements, must be provided. It is therefore recommended that the notes are structured accordingly. 39
- If disclosures required by IAS 34 are given not in the interim financial statements but in other parts of the same report (e.g. in the "management commentary"), such disclosures must be referenced pursuant to IAS 34p16A.* 40
- IAS 34p28 requires that interim financial statements are based on the same accounting policies that were applied to the annual financial statements. This means that adjustments to fair values must also be made in the interim financial statements if there are changes to the underlying assumptions or estimates. 41



16. *Impairment of assets*  
(IAS 36)

Under IAS 36p33(a), when measuring value in use an entity must base its cash flow projections on reasonable and supportable assumptions that represent management's best estimate of the economic conditions. In doing so, neither future expansion investments nor the resulting sales increases may be taken into account (IAS 36p44(b)). The same applies to cost reductions from restructuring measures, to which a company is not yet committed (IAS 36p44(a)). 42

Management must continuously improve the accuracy of cash flow projections on the basis of the knowledge gained from inaccurate forecasts made in the past (IAS 36p34). This is particularly relevant, if the market value has been significantly below the carrying value for a prolonged period of time. If cash flow forecasts are frequently missed, it must be reassessed over what period a reliable forecast is possible and the projection period must be reduced accordingly (IAS 36p35). 43

If, as per IAS 36p84, a part of goodwill acquired in a business combination during the reporting period has not been allocated to a cash-generating unit ("CGU") at the balance sheet date, the unallocated amount must be disclosed together with an explanation in accordance with IAS 36p133. If a reallocation of goodwill becomes necessary as a result of a reorganisation, this may constitute an indication of an impairment for those CGUs that the goodwill amount was assigned to previously. Accordingly, an impairment test must be carried out for such CGUs before a reorganisation. 44

For impairment tests relating to goodwill and intangible assets with indefinite useful lives the allocated book values (IAS 36p134(a)) and, in particular, the basis of valuation (IAS 36p134(c)) must be disclosed. To this end, the key assumptions and methods that were used to determine the reported values must also be described (IAS 36p134(d/e)(i)). These key assumptions and methods must be disclosed individually for each CGU with a significant amount of goodwill, not as an average figure for all CGUs. 45

If the forecast values differ from past developments or external expectations (e.g. from analysts), the reasons must be properly disclosed (IAS 36p134(d/e)(ii)). Where the DCF method is applied, the period of projection, the assumed growth rate beyond the projection period and the discount rate must also be provided. In addition, the events and circumstances that led to impairments must be described in the notes (IAS 36p130(a)). *In this context* 46

*the reason for an impairment must be described in a clear and comprehensible manner.*

For sensitivity analysis (IAS 36p134(f)), the amount by which the recoverable amount exceeds its carrying amount, the value assigned to the key assumptions used as a basis for the impairment test, and the extent to which a change in the key assumption would lead to the recoverable value being just equal to the carrying amount, must be disclosed. If an impairment was recognised in the previous period, it is assumed that a change in a key assumption at a later date will lead to a further impairment, and thus a sensitivity analysis must be disclosed. 47

17. Provisions and  
contingent liabilities  
(IAS 37)

Pursuant to IAS 37p26, circumstances in which an obligation exists, but for which the corresponding provision cannot be estimated reliably, must be limited to extremely rare cases. It would thus be barely plausible to apply this exception rule to a specific circumstance over several periods or as a general clause for an entire category of provisions. 48

*Where the effect of the time value of money is material, the amount of a provision must be recognised as the present value (IAS 37p45). Contractual or statutory interest rates on arrears are not usually suitable as a discount rate for provisions.* 49

*According to IAS 37p80, a restructuring provision may include only those direct expenditures which are necessarily entailed by the restructuring, and not those associated with the ongoing activities of the entity. Therefore, wages, salaries and bonuses for employees under notice to leave may not be taken into account if they continue to work for a limited period.* 50

IAS 37p85 requires that the nature of the obligations, the expected timing of cash outflows, as well as any related uncertainties, must be described in a meaningful way in the notes for each group of provisions. The conclusion of a legal dispute described in previous years is considered to be relevant information and must be disclosed. Care must also be taken to distinguish clearly between the disclosures for provisions and those for contingent liabilities. 51

*Pursuant to IAS 37p86, for each class of contingent liability for which the possibility of an outflow of funds upon settlement is not judged to be remote, an entity must give a description of the contingent liability, as well as an estimate of its financial effect and uncertainties relating to the amount or timing of outflows. An additional description of a contingent liability for which the* 52

*possibility of an outflow of funds upon settlement is remote can lead to misunderstandings.*

In the event of legal disputes, IAS 37p92 stipulates that the required information may be omitted only in very rare cases. At a minimum the nature of the legal dispute must be indicated, as well as a justification for the non-disclosure. *A judicial defeat in a legal dispute must be taken into account when assessing an existing contingent liability, even if there is the possibility of an appeal.*

*18. Intangible assets  
(IAS 38)*

If the criteria of IAS 38p57 are fulfilled, then development costs must be capitalised. To ensure the comparability of companies in the same industry, it is of great relevance to the investor that the corresponding accounting policies are described in sufficient detail. Furthermore, the total amount of research and development costs recognised as an expense during the reporting period must be disclosed in the notes (IAS 38p126).

If an intangible asset is assessed as having an indefinite useful life (e.g. established brands associated with a business combination), the material factors justifying that assessment must, in accordance with IAS 38p122(a), be described in the notes in a comprehensible manner.

*If the useful life of a class of intangible assets is judged to be finite (e.g. patents), the estimated useful lives or amortisation rates used must be disclosed among other factors according to IAS 38p118(a).*

*19. Financial  
instruments:  
recognition and  
measurement  
(IAS 39)*

If an entity holds financial instruments with embedded options (e.g. for the early repayment of a bond), it must be determined whether these options meet the criteria for separate recognition and measurement (IAS 39p11). The option terms relevant to this assessment must be disclosed (IFRS 7p21).

For available-for-sale equity instruments, an impairment must be reported if there is a significant or prolonged decline in the fair value below cost (IAS 39p61). Whether or not the aforementioned decline corresponds to the relevant overall market for the instruments in question is not relevant to the impairment. Furthermore, the impairment amount must be calculated in the functional currency of the company and not in the currency in which the equity instrument is denominated (IAS 36p54).

<i>20. Investment property (IAS 40)</i>	Land held for a currently undetermined future use must be treated in accordance with IAS 40p8(b) as investment property. If an entity has not determined whether it will use the land as owner-occupied property or for short-term sale in the ordinary course of business, then the land must be treated under IAS 40p5 as "held for capital appreciation".	59
<i>21. Share-based payment (IFRS 2)</i>	For share-based payment arrangements, the number of shares and their fair values must be presented, among other information, as required by IFRS 2p47. In addition to other information that must be disclosed in the context of the valuation of stock options, the option pricing model and the parameters used for the valuation – specifically the weighted average share price, exercise price, expected volatility, maturity of the option, expected dividend, and risk-free rate – as well as the assumptions regarding the effects of an earlier-than-expected exercise of the options, must be disclosed. Furthermore, the notes must describe the effects of share-based payments on the entity's profit or loss for the period and on its balance sheet (IFRS 2p50).	60
<i>22. Business combinations (IFRS 3)</i>	The question as to the precise date as of which an acquired business must be included in the consolidated group is determined independently of the precise date on which the contract or merger was formally concluded. The date of the effective or actual change of control (acquisition date) must be used for the purpose of initial consolidation (IFRS 3p8-9). In determining when the effective change of control occurred, the principle of "substance over form" must be applied. To ensure that the information required under IFRS is available, interim financial statements for the acquired entity must generally be prepared as at the date of the effective change of control.	61
	In the event of a business combination, the acquirer might recognise, according to IFRS 3p13, additional assets and liabilities that the acquiree had not previously recognised. These additional assets and liabilities might, for example, be brands or customer relationships. Further examples are listed within IFRS 3IE16-44.	62
	<i>According to IFRS 3p39, contingent consideration must be recognised at fair value as at the acquisition date. In this connection, a fair value of zero is usually deemed to be unreliable.</i>	63
	If the allocation of the purchase price to the acquired assets, liabilities and contingent liabilities was determined provisionally under IFRS 3p45, and those values might change within 12 months subsequent to the acquisition, that fact must be disclosed and	64

explained in accordance with IFRS 3B67(a). If no disclosure is made, investors can expect that the allocated values have been established definitively and that no further adjustment will be made under IFRS 3. *If retrospective adjustments to the recognition of the business combination are necessary, yet the entity has disclosed the allocated values as being definitive, the changes must be treated as an error in accordance with IAS 8 (IFRS 3p50).*

To enable investors to assess the business combinations, particularly the date of acquisition, the purchase price together with a description of the individual price components, and the profit or loss contribution of the acquired entity must be disclosed separately (IFRS 3p59 and IFRS 3B64 ff.). Individually immaterial business combinations may be presented together, but for every material business combination the information must be presented separately (*IFRS 3B67*). Furthermore, pro forma information on the revenues and profit or loss of each acquired entity must be disclosed for the reporting period as though the entity had been acquired at the beginning of that period (IFRS 3B64(q)).

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*23. Insurance contracts  
(IFRS 4)*

IFRS 4 does not provide specific measurement requirements for insurance contracts, but allows using existing accounting policies (IFRS 4p25). The corresponding accounting policies must therefore be explained in detail in the notes, or express reference must be made to other financial reporting standards, which are developed on a similar conceptual basis (e.g. US GAAP).

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IFRS 4p39(c)(iii) requires the disclosure of a comparison of the actual losses with previous estimates. This information is generally disclosed in the form of a so-called loss triangle. The claims development can be influenced by acquisitions or divestments of subsidiaries or portfolios. It is therefore advisable to disclose or describe the effect of acquisitions and divestments separately for the first year after the transaction.

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*24. Non-current assets  
held for sale and  
discontinued operations  
(IFRS 5)*

Under IFRS 5p6, non-current assets must be classified as held for sale if their carrying amount will be recovered principally through a sale transaction rather than through continuing use. A dilution of a financial interest triggered by a capital increase by a third party or by a partial sale of an investment is only considered to be a sale transaction if control is lost (*IFRS 5p8A*). Furthermore, the sale must be considered as "highly probable", and generally take place within 12 months (IFRS 5p8). The period required to complete the sale may be extended only if the reasons for the

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extension are beyond the entity's control (*IFRS 5p9*). Impairment indicators must be evaluated in particular if the sale is delayed.

Immediately before classification as discontinued operations or as a non-current asset held for sale, the carrying amounts of the asset or all the assets and liabilities in the group shall be measured in accordance with the applicable IFRS (IFRS 5p18). If the definition of a discontinued operation is not met, any gain or loss should be included in profit or loss from continuing operations (IFRS 5p37). 69

Results and cash flows from a disposal group may be presented as discontinued operations only if the disposal group to be abandoned meets the criteria of IFRS 5p32 at that time. Pursuant to IFRS 5p35(a), purchase price adjustments in subsequent periods (e.g. from the change to earn-out values) are part of the result from discontinued operations. Changes in the use of assets which result, for example, from a change in business activities or from restructuring do not normally fulfil the criteria for abandonment under IFRS 5p13. 70

#### 25. Financial instruments: disclosures (IFRS 7)

Financial instruments are to be analysed with regard to their characteristics and subsequently allocated in a comprehensible way to relevant classes (IFRS 7p6). Financial instruments that do not fall within the scope of IFRS 7 are to be excluded from disclosure in accordance with IFRS 7 (e.g. investments in associates or benefits and obligations relating to employee benefits). It is recommended that the disclosures required by IFRS 7 are presented in tabular form. It must be possible to reconcile this table with the line items in the balance sheet. 71

*No fair value disclosures are required for investments in equity instruments measured at cost (IFRS 7p29(b)). However, in such cases further explanations are required by IFRS 7p30.* 72

IFRS 7p40 requires sensitivity analyses of market risks (currency, interest rate and other price risks) that show how profit or loss and equity might change as the result of changes in the relevant risk variables. In this context, the applied methods and assumptions are to be chosen and disclosed in a manner that enables the investor to arrive at a realistic assessment of the related risks. Disclosures based on best-case or worst-case scenarios do not fulfil this requirement. 73

Translation differences arising from the difference between the reporting currency of the group and the functional currency of 74

the subsidiary must be excluded from the foreign currency sensitivity analysis (IFRS 7B23).

26. *Operating segments (IFRS 8)*

IFRS 8p22 requires the disclosure of whether operating segments have been aggregated for the purposes of reporting. It should be noted that IFRS 8p12 permits the aggregated presentation of operating segments if they have similar economic characteristics and are comparable in the following respects: products and services, production processes, customers, distribution methods or methods of service provision, and regulatory environment. However, if the margins of two operating segments differ widely, they do not generally have similar economic characteristics, and must therefore be presented separately. 75

Pursuant to IFRS 8p28, there must be a reconciliation of segment profit and loss to the profit and loss of the entity as a whole. Material reconciling items such as write-downs on intangible assets or financial items must be presented separately. Furthermore, reconciling items must be presented separately in accordance with IFRS 8p16, and may not be combined with the disclosures for a given reportable segment. 76

27. *Consolidated financial statements (IFRS 10)*

In general, an investment entity may not consolidate the subsidiaries it controls. Instead, an investment entity must measure its holdings at fair value through profit or loss (IFRS 10p31). *However, subsidiaries which are solely service entities (and are not simultaneously investment entities) are consolidated (IFRS 10p32).* 77

28. *Disclosure of interests in other entities (IFRS 12)*

*With regard to the consolidated financial statements, the entity shall disclose the significant judgements and assumptions, as well as any changes to the same, concerning the treatment of equity investments, joint agreements or associates (IFRS 12p7). This applies especially to situations in which the entity does not have control even though it holds more than half of the voting rights, or controls another entity even though it holds less than half the voting rights (IFRS 12p9).* 78

*An investment entity must disclose the significant judgements and assumptions made in determining that it holds the status of an investment entity (IFRS 12p9A).* 79

29. Fair value measurement (IFRS 13)

The determination of fair value in accordance with IFRS 13p22 must make use of all the assumptions that market participants would use for the fair value measurement. This includes the counterparty default risk, which requires an assessment and appropriate documentation of this risk at the initial as well as subsequent measurements. The underlying assumptions for the valuation methodology (e.g. discount rates, growth rates for the extrapolation of cash flow projections or volatilities in option pricing models) must be disclosed in accordance with IFRS 13p93(d). *The quantitative disclosures of the non-observable input parameters for level 3 fair values can also be made using ranges and weighted averages. If such input parameters have been developed by an external provider, they are normally expected to be available to the entity and thus must be disclosed.*

Where a company determines fair value using a valuation technique, maximum use must be made of observable market inputs. According to IFRS 13p61, the method used must be that which is most appropriate for the particular asset or liability.

Prices provided by traders, brokers or other services are considered fair values of level 1 only if they are based on current and regularly occurring market transactions between independent third parties (IFRS 13p78). Market transactions in an asset or a liability must therefore occur with sufficient frequency and volume to provide pricing information on an ongoing basis. *It is recommended that, for each category of assets and liabilities, the characteristics defining an active market be set out in the accounting policies.*

If there is no active market for identical assets or liabilities, these must be classified as level 3. Additionally, indirectly observable or non-identical assets and liabilities must also be classified as level 3. However, the material input factors for the valuation of the assets and liabilities must be observable, otherwise they will be classified as level 3 (IFRS 13p84).

For every category of assets and liabilities measured or disclosed at fair value, a company must provide a classification into one of the three levels of the fair value hierarchy in accordance with IFRS 13p93(b) or IFRS 13p97. The disclosures regarding the fair value hierarchy must be provided regardless of whether the company is exposed to the volatility from the changes in fair value, or has transferred this risk to a third party.

*The following references to Swiss GAAP FER are based on the 2014/15 version of the Accounting and Reporting recommendations.*



<i>30. Swiss GAAP FER framework</i>	Financial statements according to Swiss GAAP FER are based on the assumption that an organisation continues as a going concern for at least 12 months after the balance sheet date (Swiss GAAP FER framework/9). Significant doubts related to the going concern assumption must be described.	86
<i>31. Presentation and format (Swiss GAAP FER 3)</i>	Pursuant to Swiss GAAP FER 3/6, an entity may present its income statement according to either the nature of expense method or the function of expense method. If the nature of expense method is used, changes in inventory of finished and unfinished goods, as well as unbilled goods and services, must be presented separately according to Swiss GAAP FER 3/7.	87
	If the format deviates from the standard (Swiss GAAP FER 3/7 and 3/8), the deviation must be appropriate (Swiss GAAP FER 3/1), e.g. with a differentiated format for real estate entities. The alternative format must also be applied consistently. It is also recommended that any deviations from the standard format be explained in the accounting policies.	88
	Non-operating and extraordinary expenses and income must be presented separately from the operating result and explained in the notes (Swiss GAAP FER 3/9). According to Swiss GAAP FER 3/21, expenses and income from non-operating tangible fixed assets (e.g. real estate) are part of the non-operating result.	89
<i>32. Inventories (Swiss GAAP FER 17)</i>	Inventories represent goods held for sale in the ordinary course of business (Swiss GAAP FER 17/1). Therefore, assets that are held for sale in the ordinary course of business must be classified as current assets (Swiss GAAP FER 17/7). Development property determined for sale must thus be classified as inventory and valued at the lower of acquisition or production cost, or at the net market value if lower (Swiss GAAP FER 17/3).	90
<i>33. Tangible fixed assets (Swiss GAAP FER 18)</i>	Tangible fixed assets held exclusively for investment purposes (e.g. rented-out residential buildings) should, subsequent to initial recognition, be measured at their current value or acquisition/production cost less accumulated depreciation (Swiss GAAP FER 18/14). A uniform valuation basis must be applied in all cases (Swiss GAAP FER 2/3). Measuring certain assets at current value and other assets on the basis of their historical cost is not permitted. Should the valuation be made at current value, a valuation method as described in Swiss GAAP FER 18/14 must be used. The valuation must be updated at least once a year.	91

<i>34. Provisions (Swiss GAAP FER 23)</i>	Pursuant to Swiss GAAP FER 23/10, other provisions must be disclosed separately. These other provisions must be further broken down if additional material categories (e.g. warranty provisions) exist.	92
<i>35. Equity and transactions with shareholders (Swiss GAAP FER 24)</i>	Minimum disclosure requirements for the changes in equity are described in Swiss GAAP FER 24/7. In this connection, a distinction is made between capital reserves (including share premium) and retained earnings. Furthermore, changes in equity arising from capital increases/reductions must be presented separately for the various components of equity (Swiss GAAP FER 24/28).	93
<i>36. Consolidated financial statements (Swiss GAAP FER 30)</i>	Net assets taken over in an acquisition must be valued at current values (Swiss GAAP FER 30/14). If previously not capitalised intangible assets are recognised through a purchase price allocation, this accounting treatment must be applied consistently for all future acquisitions (Swiss GAAP FER framework/30).	94
<i>37. Additional recommendations for listed companies (Swiss GAAP FER 31)</i>	The calculation method for both undiluted and diluted earnings per equity security must be disclosed in the notes according to Swiss GAAP FER 31/5. Furthermore, the undiluted and the diluted earnings per equity security must be presented below the income statement.	95
	Should an entity not disclose segment results as required by Swiss GAAP FER 31/8, the reasons must be disclosed accordingly and must be explained specifically to the situation of that entity.	96
	With regard to interim reporting, Swiss GAAP FER 31/12 requires that disclosures should enable the reader to form a well-founded opinion on the development of activities and the course of business of the organisation during the reporting period. In this connection, changes in accounting policies and the resulting material effects must be disclosed. Furthermore, factors that had a significant impact on the net assets, financial position and performance of the entity during the reporting period must be disclosed.	97