

Admission Board Circular No. 6

Updated: 26 October 2007

International Financial Reporting Standards (IFRS)

Regulatory basis:

Arts. 64–70 LR and Directive on Requirements for Financial Reporting

1. *Background* This Circular spells out in concrete terms the obligations of issuers who have chosen to apply IFRS accounting standards. It makes reference to IFRS rules that have given rise to SWX Swiss Exchange (SWX) complaints. This Circular on IFRS will be revised and amended annually. 1
2. *Responsibility* It is not the task of SWX to formulate and publish interpretations of specific accounting standards. Interpretations of IFRS are prepared exclusively by the IFRIC (International Financial Reporting Interpretations Committee) and subsequently approved by the IASB (International Accounting Standards Board). SWX only monitors listed issuers' compliance with those standards. 2
3. *Materiality* In connection with financial reporting, materiality means that the information is of importance to the investor in assessing the net assets, financial position and results of operations ("true and fair view") of the company. As a part of this, qualitative as well as quantitative aspects must be taken into account. Moreover, materiality must be judged with regard to a single specifically required item of information and ultimately in view of its overall effect. Thus for example, various individual items of apparently immaterial information that have consequently been omitted can, when viewed as a whole, indeed be material. 3
4. *Understandability* The information must be provided in such a way that it is comprehensible for a reasonably informed investor. As a part of this, the explanations provided in the notes to the financial statements must describe in plain language the actual facts. *Distributing information on the same matter across several notes is detrimental to comprehensibility and should be avoided.* 4

5. <i>Relevance</i>	<p>General descriptions that have no material substance impair the significance of facts of importance to the investor. <i>This point must be observed particularly in terms of the accounting policies that are to be disclosed in the notes, which must explain concretely the company-specific peculiarities (e.g. revenue recognition) and the exercise of a right to choose (e.g. the choice between recognising actuarial gains/losses from employee benefits in equity or in the income statement). On the other hand, the explanation of accounting policies that in fact are not applied (e.g. hedge accounting) is to be avoided in terms of relevance.</i></p>	5
6. <i>Completeness</i>	<p>All information required under IFRS is to be included in the audited annual financial statements or, as the case may be, the published interim financial statements. References from the audited IFRS annual financial statements to other sections (e.g. the corporate governance section) or other components of the annual report (e.g. overview of financial interests) of the annual report are fundamentally impermissible. The same applies to the interim financial report, in which references to media releases or the content of Websites for the purpose of obtaining information required under IFRS are not consistent with the requirements of the standard.</p> <p><i>The following italicised references to IFRS (2007 bound edition) have been updated and relate to complaints SWX has had with regard to the annual financial reports for 2006 and semi-annual financial reports for 2007.</i></p>	6
7. <i>Presentation of financial statements (IAS 1)</i>	<p>According to IAS 1p16, the application of inappropriate accounting methods may be rectified neither by disclosure of the applied accounting principles nor by disclosures or by additional explanatory material (e.g. in footnotes).</p> <p>For unmistakable identification of the financial statements, each component of the financial statements shall be identified clearly. Furthermore, the name of the reporting entity, the balance sheet date or reporting period covered, the presentation currency, as well as the level of rounding used in presenting amounts are as a general rule to be indicated on each page of the financial statements (IAS 1p46). This enables clear attribution, even when for example only individual pages are printed.</p>	7
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<i>IAS 1p116 requires that the key sources of estimation uncertainty relating to assets and liabilities be properly disclosed. In particular, the notes must make it clear to the investor which assets and liabilities are subject to risks.</i>	10
8. Cash flow statement (IAS 7)	
Only the total of cash and cash equivalents is permissible for inclusion in the cash flow statement. Financial instruments that are subject to fluctuations in value (such as shares and bonds) do not qualify as cash equivalents (IAS 7p7). According to IAS 7p45, the value of the individual components is to be disclosed to enable an assessment of the concrete composition of cash and cash equivalents.	11
To be observed when differentiating between the specific cash flows are the explanations included in IFRS regarding the classification of those cash flows as having originated from operating activities (IAS 7p14), investing activities (IAS 7p16) or financing activities (IAS 7p17). Also, cash flows from investing and financing activities are, in accordance with IAS 7p21, to be presented gross, i.e. broken down as receipts and payments. A presentation that merely provides information on net cash flows generally does not correspond to the requirements of IAS 7.	12
Cash flows from interest and dividends received and paid (IAS 7p31), as well as taxes paid on income (IAS 7p35) shall each be disclosed separately and allocated to the appropriate cash flow on a consistent period-to-period basis. This means that the treatment of interest and tax expenses in the cash flow statement using the accrual method is not permissible.	13
Acquisitions and disposals of subsidiaries (share deal) as well as other business units (asset deal) are to be indicated separately as cash flow from investing activities. Furthermore, according to IAS 7p40, information on the acquisition or disposal must be disclosed in the notes (see also the example "Acquisition of Subsidiary" in Appendix A to IAS 7). Apart from the total purchase or disposal consideration and the amount of cash and cash equivalent purchased or disposed, the major categories of current and non-current assets as well as liabilities together with a reconciliation of the actual cash flow for the reporting period must be disclosed. A disclosure that merely reflects current and non-current assets as well as liabilities as a total does not fundamentally correspond to the requirements of IAS 7p40(d).	14

	IAS 12 requires that a tax reconciliation (IAS 12p81(c)) be made between the applicable nominal tax rate or tax expense and the effective tax rate or tax expense. <i>As a part of this, the items shown in the reconciliation must be comprehensible and the chosen designations self-explanatory.</i> If the applicable tax rate has changed versus the previous accounting period, then such fact must also be separately disclosed in the notes together with an explanation of the reasons (IAS 12p81(d)).	20
11. Employee benefits (IAS 19)	<p>In the treatment of congruent, reinsured post-employment benefit plans, the rules laid down in IAS 19p39 regarding “insured benefits” are to be observed. The recognition and disclosure of such “insured benefits” in the financial statements, i.e. whether they are to be 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). For the quantification of any such obligation, an actuarial assessment must be made and the relevant conclusions are to be appropriately documented.</p> <p><i>The comprehensive disclosure obligations under IAS 19p120 ff enable the investor to assess the type of defined benefit plans and the financial impact of changes to these plans during the reporting period. In particular, amounts for the current and preceding reporting periods related to “experience adjustments” (as a result of the difference between the anticipated and actual course of events) are to be disclosed in keeping with IAS 19p120(p)(ii) because they provide information on the quality of the estimation process.</i></p>	21
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12. Related party disclosures (IAS 24)	<p>Transactions with related parties and entities are to be comprehensively disclosed in the notes to the annual financial statements (IAS 24p12 ff.). A mere statement that transactions with related parties and entities are based on “normal forms of commercial contract and at prevailing market conditions” does not fulfil the disclosure requirements.</p> <p>Under IAS 24p16, the disclosure of key management personnel compensation is to be handled in a manner such that the required information is in adherence with the terminology of IAS 19. For example, the post-employment benefit costs, termination benefits and share-based payments recognised for key management personnel during the accoun-</p>	23
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	ting period must be disclosed separately. The composition of the entity's key management personnel as a general rule has to be congruent with the disclosures made in the corporate governance section of the annual report.	
<i>13. Financial instruments: presentation (IAS 32)</i>	Pursuant to IAS 32p37, the transaction costs directly allocable to a capital increase are to be recognised in equity with no impact on the income statement. Within the scope of an initial public offering (IPO), often existing as well as newly issued shares are listed. In such instances, the transaction costs are to be allocated plausibly in accordance with IAS 32p38. The portion of the transaction costs attributable to the listing of existing shares must be recognised in the income statement.	25
<i>14. Earnings per share (IAS 33)</i>	Basic (i.e. undiluted) earnings per share (EPS) are to be calculated on the basis of the average weighted number of shares that were outstanding during the accounting period. The number of outstanding shares is arrived at by deducting the company-owned shares ("treasury shares") from the total of all issued shares.	26
	If a negative EPS (loss) is to be reported, it must be borne in mind that any anti-dilutive effect may not be taken into account (IAS 33p41). Thus generally speaking, fully diluted EPS in the event of a loss correspond to the basic EPS.	27
	To calculate diluted earnings per share, only a proportionate recognition is made of those options that could potentially lead to dilution or, as the case may be, are in the money (IAS 33p46 f.).	28
<i>15. Interim financial reporting (IAS 34)</i>	IAS 34p10 requires that the condensed balance sheet, income statement, cash flow statement and statement of changes in equity or statement of recognised income and expense (SoRIE) include at minimum the same headings and subtotals that were included in the most recent annual financial statements. Hence for the statement of changes in equity, an abridgement is generally not possible due to the headings that were already used in the annual financial statements.	29
	In keeping with IAS 34p16(a), the interim financial reports (semi-annual or quarterly reports) must contain a statement that the same accounting, valuation and calculation methods have been applied as those in the most recently published annual financial statements. If those methods	30

have been changed, a description of the nature and effect of the change must be included in the notes.

IAS 34p16 refers among other things in a general manner to potential disclosure requirements in the interim financial statements (e.g. restructurings, impairment, issuances). At variance to these generally held provisions, IAS 34p16(i) prescribes that the detailed disclosure obligations under IFRS 3p66-73 must be fulfilled in the case of business combinations. 31

If an interim financial report has been prepared in accordance with IAS 34, then specific disclosure of that fact is to be made in the notes. It is not permissible to designate an interim financial report as being "in accordance with IFRS" if it does not comply with all standards of IFRS, also in terms of its presentations and disclosures (IAS 34p19). 32

The reporting periods for which interim financial statements are to be prepared are laid down in IAS 34p20. Under the terms of this standard, the balance sheet figures as at the end of the immediately preceding financial year are to be used for comparison. Where the reporting year corresponds to the calendar year, this means that the balance sheet as at 30 June (reporting period) must be compared with the previous year's balance sheet as at 31 December. For the income statement, cash flow statement and statement of changes in equity or the statement of recognised income and expense (SoRIE), the corresponding period of the previous financial year is to be used for comparison. 33

*16. Impairment
of assets
(IAS 36)*

In keeping with IAS 36, extraordinary depreciation in connection with impairments is to be reported as separate items in the segment reporting (IAS 36p129). In addition, the events and circumstances that have led to significant impairments must be described in the notes (IAS 36p130(a)). Where the value in use is recognised as the recoverable amount, the information given must include among other things the discount rate (IAS 36p130(g)). 34

Furthermore, the additional requirements for disclosure of impairment tests of goodwill and intangible assets with an indefinite useful life are to be observed. Pursuant to IAS 36p134 ff., in particular information on the basis of valuation and, in the case of a calculation of value in use, at minimum the discount rate, period of projections, assumed growth rates beyond the projection period, as well as a description of the key assumptions must be disclosed in the notes. 35

	<i>If a change in a key assumption that is considered realistic and would lead to an impairment of the CGU (cash-generating unit), a sensitivity analysis must be disclosed in keeping with IAS 36p134(f). To be indicated in this regard are: the amount by which the recoverable amount exceeds its carrying amount, the value of the given 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 just being equal to the carrying amount.</i>	36
17. Provisions (IAS 37)	Provisions may be used only for expenditures for which they were originally recognised (IAS 37p61). In addition to the reconciliation of provisions (IAS 37p84), a meaningful description of the nature of the obligations, the expected timing of any cash outflows as well as any related uncertainties must be provided in the notes for each group of provisions (IAS 37p85). Allocating the bulk of provisions to the category "other provisions" does not correspond to the basic concept of IFRS.	37
18. Intangible assets (IAS 38)	<i>If the criteria of IAS 38p57 are fulfilled, development costs are to be capitalised. If capitalisation is not permitted as a result of those provisions, then the cumulative development costs, together with research costs as per IAS 38p126, are to be disclosed separately in the notes. As a part of this, it is of great relevance to the investor, when comparing companies active in the same industry, that the concrete elaboration of the corresponding accounting policies be presented in sufficient detail.</i>	38
	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, be comprehensively described in the notes to the financial statements.	39
19. Financial instruments: recognition and measurement (IAS 39)	Financial interests that represent less than a 20% share of voting rights are as a general rule to be accounted for at fair value. <i>If there is no active market for the related financial instruments, then the entity must determine their fair value by using a valuation technique that makes maximum use of market inputs. As a part of this, IAS 39p48A prescribes that it must be demonstrable that the technique is an establis-</i>	40

hed one that would also be used by other market participants in the valuation of the relevant financial instruments.

20. *First-time adoption of IFRS (IFRS 1)*

The first-time adopter of IFRS 1 must show by means of reconciliations and supplemental explanations how the transition to IFRS from the previously applied accounting principles has affected its assets, liabilities, profits and losses and financial position, as well as its cash flows. The reconciliations stipulated under IFRS 1p39(a) and (b) must be sufficiently detailed so that the investor can easily comprehend the significant adjustments that have been made to the balance sheet, income statement and cash flow statement. Lump-sum reconciliations that incorporate a wide variety of adjustments do not fulfil this requirement. In this connection, the example shown in IG63 (Implementation Guidance to IFRS 1) is recommended as a basic guideline.

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21. *Share-based payment (IFRS 2)*

An entity shall disclose information that enables the investor to understand the nature and extent of share-based payment agreements that existed during the period. Pursuant to IFRS 2p46 f., the individual plans are to be described, including the key contractual terms and conditions for each plan. In addition to other information, indication must be given of the option pricing model applied in connection with the valuation of stock options, the parameters used for such valuation – in particular the weighted average share price, exercise price, expected volatility, option life, expected dividend, risk-free interest rate – as well as the effects of an expected early exercise. Also to be disclosed in the notes are the effects of share-based payments on the income statement and balance sheet (IFRS 2p50).

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22. *Business combinations (IFRS 3)*

The question regarding the precise date as of which an acquired business is to be included in the consolidation is to be judged independently from the precise date of the formal conclusion of the contract or merger. As regards initial consolidation, only the date of the effective change of control (acquisition date) is to be used for such purposes (IFRS 3p25). In determining when the effective change of control occurred, the principle of "substance over form" is to be applied. So that the information required under IFRS is made available, as a general rule interim financial statements of the acquired entity have to be prepared as at the date of the effective change of control.

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If the acquired assets, liabilities and contingent liabilities within the purchase price allocation under application of

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IFRS 3p62 have been determined provisionally and those values could change within 12 months subsequent to the time of acquisition, that fact must be disclosed and explained in keeping with IFRS 3p69. If such disclosure were to be waived, investors could conclude that the reported values associated with the purchase price allocation have been established definitively and are no longer subject to a further adjustment under IFRS 3. If subsequent adjustments are found to be necessary yet the entity has disclosed the acquired values as being definitive, those changes must be treated as a change of estimate or correction of an error as per IAS 8.

For business combinations in accordance with IFRS 3 disclosure of the IFRS-consistent carrying amounts determined for the acquired company immediately prior to the business combination must be made for each class of that entity's assets, liabilities and contingent liabilities, and, within the framework of purchase price allocation, be reconciled with the determined fair value. So that investors have the opportunity to assess the quality of the concluded business combination, separate disclosure in particular must also be made with regard to the date of acquisition, purchase price together with a description of the individual price components, as well as the profit or loss contribution of the acquired entity (IFRS 3p67). Furthermore, pro forma information on the revenues and profit or loss of each combined entity is to be disclosed for the period since the beginning of the accounting year as though the relevant business combination had taken place at the beginning of the period (IFRS 3p70). 45

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

Once the criteria formulated in IFRS 5p6 ff. have been fulfilled, non-current assets (or a disposal group) must be classified as "non-current assets held for sale" and separately recognised on the balance sheet as current assets (with any related liabilities recognised accordingly in current liabilities). In addition to other criteria, it is decisive that the assets are to be realised principally through a sale transaction and that the sale is considered to be highly probable. In this regard, any dilution of a financial interest related to a capital increase by a third party is not considered a sale transaction. Also insufficient is the sale of a part of a subsidiary that does not result in the loss of control of that financial interest. 46

24. *Financial instruments: disclosures (IFRS 7)*

IFRS 7p34(a) makes it compulsory to disclose information on the extent of risks from financial instruments to which the entity is exposed on the reporting date. The disclosures must be based on the information provided to key management personnel (e.g. liquidity plans).

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Annex 1

Addresses and contact persons

ANNEX 1

Addresses and contact persons

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