

Admission Board Circular No. 6

Updated: 9 October 2008

International Financial Reporting Standards (IFRS)

Regulatory basis:

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

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 SIX Swiss Exchange Ltd (SIX Swiss Exchange) complaints. The Circular on IFRS will be revised and amended annually.

It is not the task of SIX Swiss Exchange 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). SIX Swiss Exchange only monitors listed issuers' compliance with those standards.

The following italicised references to IFRS (2008 bound edition) have been updated and relate to complaints SIX Swiss Exchange has made with regard to the annual financial statements for 2007 and semi-annual financial statements for 2008.

1. 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.

2. 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.

3. <i>Relevance</i>	General descriptions that have no material substance impair the significance of facts of importance to the investor. 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 available options (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.	6
4. <i>Completeness</i>	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), statutory individual company accounts (disclosure of compensation to management and board of directors) 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 statements, 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.	7
5. <i>Presentation of financial statements (IAS 1)</i>	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).	8
	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.	9
	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.	10

6. <i>Cash flow statement</i> (IAS 7)	<p>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.</p>	11
	<p>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). <i>In the presentation of the cash flow statement under the indirect method, as per IAS 7p20, the cash flows from operating activities are derived from profit or loss for the period.</i> 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.</p>	12
	<p>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.</p>	13
	<p>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 of, 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).</p>	14
	<p>Investing and financing activities that do not lead to a change in cash and cash equivalents are not a component</p>	15

of the cash flow statement. Among such non-cash transactions are, for example, the first-time recognition of a financing lease or the conversion of debt into equity (debt-equity swap) or the transfer of mortgage debt within the course of a sale of real estate. Also to be borne in mind is that, pursuant to IAS 7p43, non-cash transactions must be explained in the notes to the financial statements.

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| <p>7. <i>Accounting policies, changes in accounting estimates and errors (IAS 8)</i></p> | <p>An entity may only change an accounting policy if the change is necessary due to a standard or interpretation or results in the financial statements providing more relevant information (IAS 8p14). Changes to the accounting policy may under no circumstances be used to conceal from investors any errors in the application of IFRS.</p> | <p>16</p> |
| | <p>The non-application of new standards or interpretations that have been issued as of the balance sheet date but are not yet effective must, in keeping with IAS 8p30, be disclosed. As a part of this, the known or reasonably estimable impact the new standards or interpretations will have on the entity's financial statements in the period of first-time application must be estimated and disclosed. Moreover, negative confirmations that no effects are anticipated provide the investor with relevant information.</p> | <p>17</p> |
| | <p>Errors in recognition, measurement, presentation or disclosure from previous periods are to be treated in keeping with IAS 8p41 ff. in the form of a restatement. As a part of that process, it must be clearly disclosed that it was an error as well as what the cause of the error was. Moreover, any agreements or sanctions issued by SIX Swiss Exchange regarding errors in financial reporting require such a restatement and disclosure.</p> | <p>18</p> |
| <p>8. <i>Income taxes (IAS 12)</i></p> | <p>Recognising the effects of loss carryforwards as a deferred tax asset is not a matter of choice (IAS 12p34). Pursuant to IAS 12p81(e) the amounts and date of expiry of loss carryforwards are to be disclosed, to the extent that the deferred tax asset has not been capitalised. SIX Swiss Exchange recommend a meaningful gradation according to expiry, as well as the disclosure of the applicable tax rates for significant non-capitalised loss carryforwards. Thus in this connection it is of relevance to the investor whether the loss carryforward has been allocated to a subsidiary with a high tax rate or instead to a company with a holding privilege that is subject to a lower tax rate.</p> | <p>19</p> |

	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. As a part of this, the items shown in the reconciliation must be comprehensible and the chosen designations self-explanatory. 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
9. <i>Employee benefits</i> (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>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>In this regard, attention must be paid to the fact that experience adjustments can not correspond to the total actuarial gains and losses if in addition changes have been made to the actuarial assumptions.</i></p>	21
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10. <i>Related party disclosures</i> (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>The disclosure of key management personnel compensation is to be made in adherence with the five categories required under IAS 24p16. For example, the post-employment</p>	23
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benefit costs, termination benefits and share-based payments recognised for key management personnel during the accounting 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.

<p>11. <i>Financial instruments: presentation (IAS 32)</i></p>	<p>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.</p>	<p>25</p>
<p>12. <i>Earnings per share (IAS 33)</i></p>	<p>If negative earnings per share (loss) are 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 earnings per share in the event of a loss correspond to the basic earnings per share.</p> <p>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.).</p>	<p>26</p> <p>27</p>
<p>13. <i>Interim financial reporting (IAS 34)</i></p>	<p>IAS 34p10 requires that the condensed balance sheet, income statement, cash flow statement and statement of changes in equity published in the interim financial report 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.</p> <p>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.</p> <p>If interim financial statements have been prepared in accordance with IAS 34, then specific disclosure of that fact is to</p>	<p>28</p> <p>29</p> <p>30</p>

be made in the notes. It is not permissible to designate interim financial statements as being “in accordance with IFRS” if they do not comply with all standards of IFRS, also in terms of presentation and disclosure (IAS 34p19).

IAS 34p28 ff. require that the same accounting policies be used in interim financial statements as were applied in the annual financial statements. For example, in terms of post-employment benefit plans, this means that, in the case of direct recognition of actuarial gains and losses via equity, adjustments must also be made in the interim financial statements if there is a material change in market conditions or the parameters of the post-employment obligations.

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14. Impairment of assets
(IAS 36)

If as per IAS 36p84 a portion of goodwill acquired in a business combination during the reporting period has not been allocated to a cash-generating unit at the balance sheet date, then under IAS 36p133 that amount must be disclosed together with an explanatory justification.

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In keeping with IAS 36, extraordinary depreciation in connection with impairments is to be reported as a separate item 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)).

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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.

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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

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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, according to the given situation, be treated either 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 can 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).

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21. *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.

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22. *Financial instruments: disclosures (IFRS 7)* 47
- In terms of their characteristics, financial instruments are to be analysed and subsequently allocated in a comprehensible way to specific classes (IFRS 7p6). For disclosure purposes, at minimum a differentiation must be made between financial instruments measured at amortised cost and those measured at fair value. Financial instruments that are not in 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 under IFRS 7 be made in tabular form.*
- Under IFRS 7p27, a company must disclose for each class of financial instruments how the specific fair values were determined and whether the fair values were determined directly through the application of published prices respectively quotations in active markets or derived from valuation techniques. If a valuation technique has been used the relevant underlying assumptions must be disclosed (e.g. the discount rates utilised, growth rates for the extrapolation of cash flow projections, volatilities in the case of option pricing models).* 48
- Apart from various specified information, IFRS 7p34(a) makes it compulsory to disclose also other quantitative information provided to key management personnel on the extent of risks from financial instruments to which the entity is exposed on the balance sheet date. 49
- IFRS 7p40 requires sensitivity analyses of market risks (currency, interest rate and other price risks) that show how profit or loss and equity could change as the result of changes in the relevant risk variables. As a part of this, 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. Presentation based on best-case or worst-case scenarios do not fulfil this requirement.* 50

Annex 1

Addresses and contact persons

ANNEX 1

Addresses and contact persons

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<i>Website</i>	<p>Further information in the area of financial reporting can be accessed at the following SIX Swiss Exchange Website:</p> <p>http://www.six-swiss-exchange.com/admission/being_public/financial_reporting_en.html</p> <p>Media releases on published sanctions and agreements can be accessed via the following Internet addresses:</p> <p>http://www.six-swiss-exchange.com/admission/being_public/sanctions/media_releases/financial_reporting_en.html</p> <p>http://www.six-swiss-exchange.com/admission/agreements/financial_reporting_en.html</p> <p>In addition, anonymised full versions of sanction decisions can be accessed at:</p> <p>http://www.six-swiss-exchange.com/admission/being_public/sanctions/integrated_publication/financial_reporting_en.html</p>										
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