Circular No. 2
International Financial Reporting Standards (IFRS)
(Circular No. 2, CIR2)

Status on	30 September 2009
Basis	Arts. 49 to 51 LR and Directive Financial Reporting (DFR)

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, in a number of instances, have given rise to complaints from SIX Exchange Regulation. The Circular on IFRS is revised and amended annually. 1

It is not the task of SIX Exchange Regulation 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 Exchange Regulation only monitors listed companies' compliance with these standards. 2

The following italicised references to IFRS (2009 bound edition) have been updated and relate to complaints SIX Exchange Regulation has made with regard to the annual and semi-annual financial statements for 2008. 3

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. 4

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. 5

3. Relevance

General descriptions that have no material substance impair the meaningfulness of facts of importance to the investor. This point must be observed in the accounting policies disclosed in the notes, in particular. Such disclosures must make material statements about special features specific to the entity, and about the exercise of voting rights. However, explanations of accounting policies that are not actually applied (e.g. hedge accounting) should be omitted in the interests of relevance. 6

4. Completeness

All information required under IFRS is to be included in the audited annual financial statements or published interim financial statements. As a rule, no references may be made in the audited IFRS annual financial statements to other sections (e.g. the corporate governance section), to statutory individual company accounts (disclosure of compensation to management and board of directors) or to other components of the annual report (e.g. overview of financial interests in subsidiaries). The same applies to the interim financial statements, in which references to media releases or websites containing the information laid down in IFRS are not consistent with the requirements of the standard. 7

5. Presentation of financial statements (IAS 1)

According to IAS 1p18, the application of inappropriate accounting policies may not be rectified by disclosing the accounting policies, by disclosures in the notes or by additional explanatory material (e.g. in footnotes). 8

In order that the financial statements can be identified clearly, each individual component must have a unique name. 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 must be indicated on each page of the financial statements (IAS 1p51). This enables the statements to be attributed clearly, even if only individual pages are printed out, for example. 9

IAS 1p125 requires that the most important assumptions and major 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

IAS 1p134 ff. state that an entity must disclose information that enables investors to evaluate its objectives, policies and processes for managing capital. Should an entity be subject to externally imposed capital requirements, these must be stated, and whether or not the entity has been able to fulfil these requirements must 11

be disclosed. Where the entity has not been able to comply with such externally imposed capital requirements, the consequences of non-compliance must be stated as set out in IAS 1p135(e).

6. Cash flow statement (IAS 7)

12 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) 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.

13 When differentiating between specific cash flows, 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) must be observed. 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. 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.

14 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.

15 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).

16 Investing and financing activities that do not lead to a change in cash and cash equivalents are not a component 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.

7. Accounting policies, changes in accounting estimate and errors (IAS 8)

17 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.

18 Pursuant to IAS 8p30, the non-application of new standards or interpretations that have already been issued as of the balance sheet date but are not yet effective must be disclosed. The anticipated impact on the financial statements of the first-time application of such standards is usually known or may reasonably be estimated. The anticipated impact must be explained in a meaningful way. Moreover, negative confirmations that no effects are anticipated also provide the investor with relevant information.

19 Errors in recognition, measurement, presentation or disclosure from previous periods are to be treated in accordance with IAS 8p41 ff. in the form of a restatement. Here, it must be made clear that an error had been made, and what the cause of the error was. Any settlements with or sanctions imposed by SIX Exchange Regulation regarding errors in financial reporting also require such restatement and disclosure.

8. Income taxes (IAS 12)

20 Recognising the effects of loss carryforwards as a deferred tax asset is not a matter of choice (IAS 12p34). Pursuant to IAS 12p81(e), to the extent that the deferred tax asset has not been capitalised, the amounts and date of expiry of loss carryforwards must be disclosed. SIX Exchange Regulation recommends a meaningful gradation according to expiry, as well as the disclosure of the applicable tax rates for significant, non-capitalised loss carryforwards. Here, 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.

21 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)).

9. Revenue (IAS 18)

22 *IAS 18p35(b) requires the disclosure of each significant category of revenue recognised during the period. Alternatively, a separate statement may be included in the statement of comprehensive income. The specific accounting policies adopted for the recognition of revenue, for each individual category, must also be disclosed.*

10. Employee benefits (IAS 19)

23 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.

24 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. In this regard, attention must be paid to the fact that experience adjustments to benefit obligations cannot correspond to total actuarial gains and losses if changes have also been made to the actuarial assumptions.

11. Related party disclosures (IAS 24)

25 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.

The disclosure of key management personnel (board of directors and management) compensation is to be made in adherence to the five categories required under IAS 24p16. For example, the post-employment benefit costs, severance packages and share-based payments recognised for key management personnel during the accounting period must be disclosed separately. The composition of key management personnel should correspond to the corporate governance section of the annual report and to the information supplied under Art. 663b [bis] and Art. 663c para. 3 of the Swiss Code of Obligations (CO). *In the event of any discrepancy in the respective recognition and measurement rules of IFRS and the CO in the IFRS annual financial statements, then additional reconciliations between the information required under IAS 24p16 and that stipulated in Art. 663b [bis] CO must be provided in the interests of understandability and comparability.* 26

12. Financial instruments: presentation (IAS 32)

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. 27

13. Earnings per share (IAS 33)

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. 28

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.). 29

14. Interim financial reporting (IAS 34)

IAS 34p10 requires that the condensed balance sheet, statement of comprehensive income, cash flow statement and statement of changes in equity published in the interim financial statements include, at a minimum the same headings and subtotals that were included in the most recent annual financial statements. Where the statement of changes in equity is concerned, the column 30

headings used in the annual financial statements generally make it impossible to produce an abridged version.

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

32 If interim financial statements have 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 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).

33 IAS 34p28 ff. require that the same accounting policies be used in interim financial statements as were applied in the annual financial statements. With regard to post-employment benefit plans, for example, 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 to the parameters of post-employment obligations.

15. Impairment of assets (IAS 36)

34 *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 range of economic conditions. IAS 36p44 ff. states that impairment tests may factor in only those future restructuring measures to which the entity has already committed itself.*

35 *When calculating value in use, IAS 36p55 determines that the discount rate that is applied must be a pre-tax rate that reflects current market assessments with regard to the time value of money, and the risks specific to the asset for which the future cash flow estimates have not been adjusted.*

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.

37 In keeping with IAS 36, write-downs in connection with impairments are to be reported as a separate item as part of segment reporting (IAS 36p129). In addition, the events and circumstances

that 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 the discount rate (IAS 36p130(g)).

38 Pursuant to IAS 36p134 f., the information given on impairment tests on goodwill and intangible assets with indefinite useful lives must include, in particular: the basis of valuation and, in the case of a calculation of value in use, at a minimum the discount rate, period of projections, assumed growth rates beyond the projection period, and a description of the key assumptions. *The required information must be given separately for each cash-generating unit for which the carrying value of goodwill is significant in comparison with the total carrying value of goodwill. The carrying value of goodwill must also be disclosed for each individual cash-generating unit.*

39 If a reasonably possible change in a key assumption would lead to an impairment of the CGU (cash-generating unit), a sensitivity analysis must be published in keeping with IAS 36p134(f). The following information must be given: the amount by which the recoverable amount exceeds its carrying amount, the value assigned to 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 being just equal to the carrying amount. In the case of an impairment already recognised in the previous period, it must be supposed that a change in a key assumption might lead at a later date to a further impairment, and thus a sensitivity analysis as per IAS 36p134(f) must be disclosed.

16. Provisions and contingent liabilities (IAS 37)

40 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.

41 In the event of legal disputes, IAS 37p92 stipulates that the required information be omitted only in extremely rare cases. At a minimum the nature of the legal dispute must be indicated, as well as justification for the non-disclosure.

17. Intangible assets (IAS 38)

42 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 specific form of the corresponding accounting policies is 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 as per IAS 38p126.

43 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 comprehensibly described in the notes to the financial statements.

18. Financial instruments: recognition and measurement (IAS 39)

44 Financial interests that represent less than a 20% share of voting rights are as a general rule to be accounted for at fair value. 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 established one that would also be used by other market participants in the valuation of the relevant financial instruments.

45 *According to IAS 39AG82(b), estimates of the fair values of financial instruments must also consider the counterparty credit risk. This requires the risk to be assessed and appropriately documented, for both the initial and subsequent valuations.*

46 *If an entity holds options in connection with a convertible bond (e.g. for the early repayment of the bond), it must be established whether or not these options fulfil the criteria for separate measurement and presentation (IAS 39p10 f.). The corresponding treatment of such options must be described appropriately in the accounting policies.*

19. First-time adoption of IFRS (IFRS 1)

47 The first-time adopter of IFRS 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 1p24(a) and (b) must be sufficiently detailed so that the investor can easily comprehend the adjustments that have been made to the balance sheet, statement of comprehensive income and cash flow statement. Lump-sum reconciliations that incorporate a wide variety of adjustments do not fulfil this requirement. In this con-

nection, the example shown in IG63 (Implementation Guidance to IFRS 1) is recommended as a basic guideline.

20. Share-based payment (IFRS 2)

48 An entity must 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 must be described, including the key contractual terms and conditions for each plan. In addition to other information, the option pricing model applied in connection with the valuation of stock options must be stated, as must the parameters used for such valuation – in particular the weighted average share price, exercise price, expected volatility, option life, expected dividend, and risk-free interest rate – as well as the effects of an expected early exercise. The notes must also describe the effects of share-based payments on the entity's profit or loss for the period and on its balance sheet (IFRS 2p50).

21. Business combinations (IFRS 3)

49 The question as to the precise date as of which an acquired business is to be included in the scope of consolidation is to be judged independently of the precise date on which the contract or merger was formally concluded. Only the date of the effective change of control (acquisition date) is to be used for the purposes of initial consolidation (IFRS 3p8 f.). 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 prepared as at the date of the effective change of control.

50 If the values of acquired assets, liabilities and contingent liabilities covered by the purchase price have been determined provisionally under IFRS 3p45, and those values might change within 12 months subsequent to the time of acquisition, that fact must be disclosed and explained in keeping with IFRS 3B67(a). If no disclosure is made, investors may conclude that the reported values included in the purchase price have been established definitively and that no further adjustment will be made 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 either as a change of estimate or correction of an error as per IAS 8, depending on the given situation.

51 For business combinations in accordance with IFRS 3, the IFRS-consistent carrying values determined for the acquired entity immediately prior to the business combination must be disclosed for

each class of that entity's assets, liabilities and contingent liabilities. These must be reconciled with the fair values determined when setting the purchase price. In order that investors may assess the quality of the business combination, in particular 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 3B64 ff.). Furthermore, pro forma information on the revenues and profit or loss of each acquired entity is to be disclosed for the period since the beginning of the accounting year as though the entity concerned had been acquired at the beginning of that period (IFRS 3B64(q)).

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

52 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.

23. Financial instruments: disclosures (IFRS 7)

53 Financial instruments are to be analysed with regard to their characteristics and subsequently allocated in a comprehensible way to specific classes (IFRS 7p6). For disclosure purposes, at a minimum a differentiation must be made between financial instruments measured at amortised cost and those measured at fair value. Financial instruments that are not 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). *Normally, accruals and deferrals do not qualify as financial instruments under IFRS.* It is recommended that the disclosures required under IFRS 7 be made in tabular form. *It must be possible to reconcile this table with the items listed in the balance sheet.*

54 Pursuant to IFRS 7p27, an entity must state how fair values have been determined for each category of financial instrument. It must also disclose whether fair values have been determined directly using published prices on active markets, or using a valuation technique. If a valuation technique has been used, the rele-

vant 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).

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. 55

IFRS 7p34(c) states that information on significant concentrations of risk must be disclosed. Business confidentiality cannot be used as grounds for omitting this information. 56

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. 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 does not fulfil this requirement. 57