



The Swiss Law on Accounting and Financial Reporting

Accounting and financial reporting in foreign currencies

Definition of the functional currency

Changing the currency of the accounting and/or financial reporting

Disclosure of values in Swiss francs

Table of Contents

01	Background and preliminary remarks	02
02	Definition of the functional currency	04
03	Changing the currency of accounting and/or financial reporting	06
	3.1. Basic principles and overview	07
	3.1.1 Translation of financial statements in a foreign currency under previous law (accounting in foreign currency)	07
	3.1.2 Changing the currency of accounting and/or financial reporting – overview of alternatives	08
	3.2. Current accounting in a foreign currency	09
	3.2.1 Option 1: Conversion based on the last annual financial statements in Swiss francs	09
	a) Previous translation into CHF using the modified current/non-current method	
	b) Previous translation into CHF using the modified closing rate method	
	3.2.2 Option 2: Conversion based on the accounting in the foreign currency adjusted for accumulated translation differences	15
	a) Previous translation into CHF using the modified current/non-current method	
	b) Previous translation into CHF using the modified closing rate method	
	3.2.3 Side note: Continuation of accounting data in the foreign currency (without any further adjustments) is not a permissible option	18
	3.3. Current accounting in Swiss francs	21
	3.4. Summary of the principles for the transition of the accounting and/or reporting currency	24
04	Disclosure of values in Swiss francs	26
	4.1. Basic principles	27
	4.2. Translation methods for disclosing values in Swiss francs	28
	4.2.1 Method 1: Closing rate method, equity at historical rates	28
	a) Translation	
	b) Legal Aspects	
	c) Illustrative example: Disclosure of values in Swiss francs (method 1)	
	d) Illustrative example: Reconciliation of equity items in the notes to the financial statements	
	4.2.2 Method 2: Translation at closing rate, equity valued in the foreign-currency balance sheet	31
	a) Translation	
	b) Legal Aspects	
	c) Illustrative example: Disclosure of values in Swiss francs (method 2)	
	4.2.3 Overall considerations	32
	4.2.4 Side note: Dividends distributed from fiscal reserves from capital contributions	34
	4.3. Disclosure	37
	4.3.1 Disclosure of the values in Swiss francs	37
	4.3.2 Disclosure of the applied conversion method and the exchange rates used	37

Sources used / citations

The texts in this brochure are based largely on the following sources:

- Swiss Auditing Manual, volume "Accounting and Financial Reporting", chapters II.3.4.2 and II.3.4.3. EXPERTsuisse (formerly Treuhand-Kammer) 2014 (hereinafter: *HWP 2014*).
- Selected questions and answers on the new law on accounting and financial reporting, question 7.3. EXPERTsuisse 2019 [hereinafter: *Q&A 2019, question 7.3*]

In the interest of readability, these source will in the following be quoted only in summary in the title of each chapter, even if some passages were incorporated verbatim. KPMG has contributed significantly to these two aforementioned publications.

Terminology Used

The following terms are used in this brochure:

- **Foreign exchange differences**
Generic term, includes exchange rate differences and translation differences.
- **Exchange rate differences**
Foreign currency differences arising from the recording of transactions or from the valuation of balance sheet items in a foreign currency.
- **Translation differences**
Foreign currency differences from the translation of financial statements in a foreign currency to Swiss francs.

Background and preliminary remarks

1 Background and preliminary remarks

On 23 December 2011, the Swiss Parliament enacted the new law on accounting and financial reporting, which is included in the 32nd title of the Swiss Code of Obligations. The accounting provisions previously included in the Company Law have been repealed accordingly. The new Law on Accounting and Financial Reporting came into effect as at 1 January 2013. The new provisions became applicable for the first time to stand-alone financial statements for the 2015 financial year, and as of 2016 for consolidated accounts, respectively.

The legislators proved to be quite progressive when it came to the currency used for accounting and reporting in the stand-alone financial statements. While the previous law did not regulate the accounting currency, the legislation now explicitly allows accounting in a foreign currency. Previously, it was mandatory to present the accounting in Swiss francs but the new provisions allow for the financial reporting in the currency relevant to a company's business activities as a further option. However, if the annual financial statements are not prepared in the national currency, the values must additionally be disclosed in Swiss francs. The relevant provisions are found in Articles 957a(4) CO and 958d(3) CO:

B. Accounting	Article 957a(4) CO ⁴ Accounting is carried out in the national currency or in the currency required for business operations.
IV. Presentation, currency and language	Article 958d(3) CO ³ Financial reports are presented in the national currency or in the currency relevant to the company's business activities. If the national currency is not used, the values must also be shown in the national currency. The exchange rates applied must be published in the notes to the accounts and if applicable explained.

During the discussion on accounting in a foreign currency it soon became clear that company law aspects were posing an obstacle to a simple implementation of this new accounting alternative. For example, the relevant provisions of the company law for the share capital pertain to Swiss francs (Articles 621 and 622(4) CO). Furthermore, provisions on shareholders' equity are based on the share capital in Swiss francs (for example in regard to allocation to reserves and capital protection). Consequently, the figures in Swiss francs continue to be relevant for assessing company-law matters. The contradiction between the new accounting law and the still unchanged company law can be bridged in this context, albeit at the price of increased complexity.

This publication is intended as a practical tool when changing the currency of the accounting and/or financial reporting. By way of introduction, the first part discusses the criteria for defining the functional currency. The second part primarily presents the steps necessary to implement the transition using illustrative examples. The third and last part treats the accepted methods for translating figures into Swiss francs, which is an additional requirement if the company prepares its stand-alone statutory financial statements in a foreign currency.

Definition of the functional currency

2 Definition of the functional currency

[Basis: HWP 2014, II.3.4.2]

The accounting and reporting may be prepared in the currency relevant to the company's business activities (cf. Articles 957a(4) and 958d(3) CO). Although the law does not define the term "currency relevant to the company's business activities," it can be deduced (Article 958(1) CO) that it should be the currency that allows third parties to form a reliable judgment about the company's economic situation.

When looking at other accounting standards, the main business-relevant currency is comparable to the concept of the functional currency. A company's functional currency is the currency of the primary economic environment in which the company operates and in which the cash flows mainly occur. In defining the functional currency, the following factors must be taken into account:

- The currency in which the sales prices of goods and services are denominated and settled;
- the currency of the country whose competitive forces and regulations mainly determine the sales prices of the company's goods and services;
- the currency that mainly influences labor, material and other costs of providing goods and services.

In addition to these primary factors, the currency in which financing activities are carried out or the currency in which receipts from operating activities are usually retained are indicators of a company's functional currency.

If a company makes use of the option to do its accounting in the currency relevant to its business activities, it cannot be expected to keep tracking historical cost values in Swiss francs in the long term. The cost value relevant for future valuation will then be available in the functional currency only.

As Article 957a(4) CO provides a choice, the accounting may always be in Swiss francs, even if the Swiss franc is not the currency relevant to the company's business activities. Only the choice of a foreign currency must be justified.

Changing the currency of the accounting and/or financial reporting

3 Changing the currency of the accounting and/or financial reporting

3.1 BASIC PRINCIPLES AND OVERVIEW

3.1.1 Translation of financial statements in a foreign currency under previous law (accounting in foreign currency)

[Basis: Q&A 2019, question 7.3]

Under previous law, the inventory, the income statement as well as the balance sheet had to be prepared in the national currency (Article 960(1) old CO). The accounting currency was not regulated by law. In practice, accounting in a foreign currency was accepted as long as the annual financial statements were prepared in Swiss francs in accordance with company law provisions. In theory, the accounting currency underlying the annual financial statements was not meant to influence the annual financial statements in Swiss francs and therefore “did not exist” conceptually.

Under previous law if accounts were kept in a foreign currency, there were essentially two basic options for converting the foreign currency financial statements into financial statements in Swiss francs that were authoritative under company law (cf. HWP 2009, Volume 1, chapter IV.6.1.2):

Modified current/non-current method

- Translation of current assets and current liabilities at the closing rate
- Translation of the non-monetary fixed assets at historical rates
- Translation of the monetary non-current assets at historical rates or lower closing rates, respectively
- Translation of the monetary non-current liabilities at historical rates or higher closing rates, respectively
- Translation of shareholders’ equity at historical rates
- Translation of the income statement at the annual average rate
- Recognition of translation differences in the income statement, taking into account the imparity principle (provisioning of unrealized profits)

Modified closing rate method

- Translation of assets and liabilities at the closing rate
- Translation of shareholders’ equity at historical rates
- Translation of the income statement at the annual average rate
- Recognition of translation differences in the income statement, taking into account the imparity principle (provisioning of unrealized profits)

Important note:

The two methods described above remain applicable for those cases in which – in continuation of the previous practice – the accounts are kept in a foreign currency while the financial statements are prepared in Swiss francs.

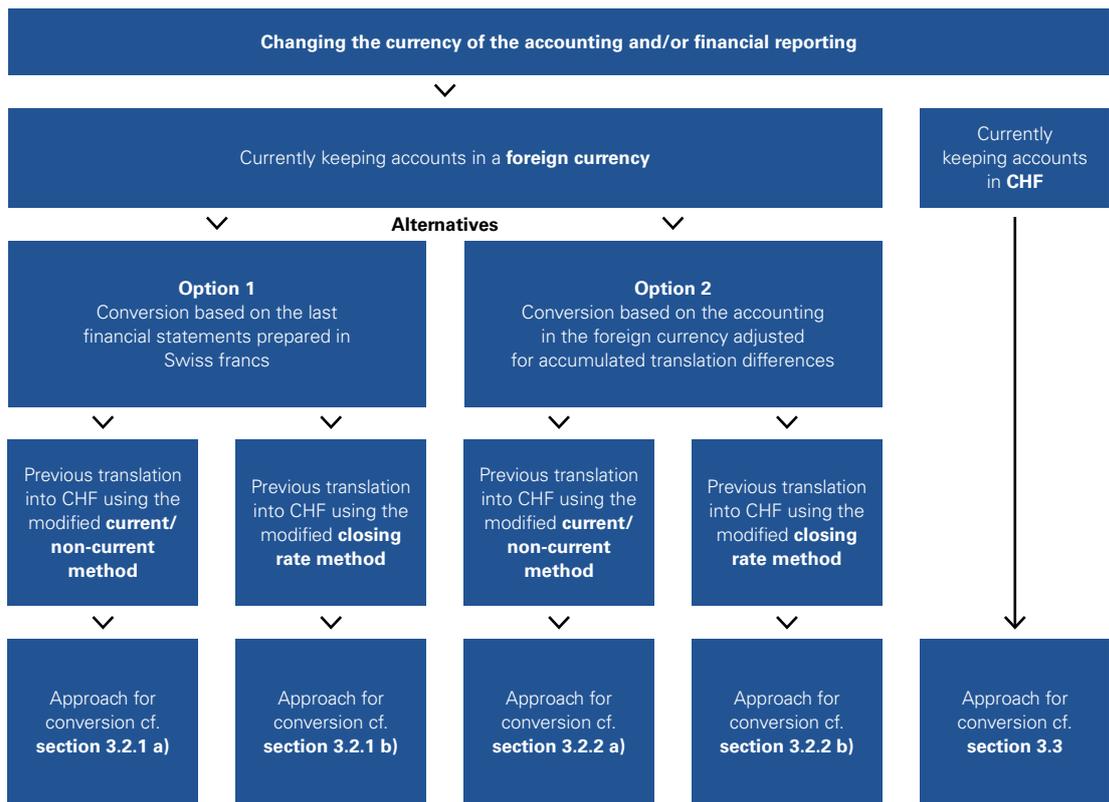
3.1.2 Changing the currency of accounting and/or financial reporting – overview of alternatives

If *currently keeping accounts in a foreign currency*, a company may choose between the following two options for changing the currency used for the financial statements. Depending on the chosen option, the financial impact in the year of the transition may vary significantly.

Accordingly, it is recommended to carefully assess the impact beforehand. Apart from the chosen option, the financial impact also depends on the current method used for translating the financial statements (modified current/non-current method or modified closing rate method, cf. section 3.1.1).

If *currently keeping accounts in Swiss francs*, a company has only one recognized option and accordingly, no possibility to influence the translation result.

Depending on the current accounting currency, the chosen alternative as well as the method used until now for the translation of the financial statements, the following outlines the approach to fact rules currencies recognized by the auditing profession, using illustrative examples (cf. figure):



3.2 CURRENT ACCOUNTING IN A FOREIGN CURRENCY

3.2.1 Option 1: Conversion based on the last annual financial statements in Swiss francs

- a) [Previous translation into CHF using the modified current/non-current method](#)
[Basis: Q&A 2019, question 7.3]

Option 1 consists of a transparent and traceable transition from the last annual financial statements in Swiss francs to the opening balance sheet in the foreign currency, with the conversion date thus establishing the new historical carrying amounts and exchange rates. However, with the exception of the net working capital, these calculated foreign currency values will most probably not correspond to the underlying, already existing accounting information in the foreign currency as the latter values were translated into Swiss francs at historical rates for preparing the financial statements. As a consequence, the new foreign currency basis does not match the existing accounting information but instead establishes new values.

For the conversion, it is recommended to follow a three-step approach:

Step 1:

Assets and liabilities from the last financial statements in Swiss francs are translated into the foreign currency in question at date of the change. (IFRS users are familiar with this type of conversion from the change of functional currency in IAS 21.35-37.)

Step 2:

Long-term monetary items are adjusted to their nominal value (less any accumulated impairment losses) through the income statement. Any translation gains realized through the income statement are justified with the conversion to the other currency.

Step 3:

Existing provisions for unrealized translation gains converted using the exchange rate at the date of change, must be released through the income statement. Should such a provision not be released, it represents a hidden reserve going forward.

Illustrative example 1a)

- Current accounting in a foreign currency
- Conversion based on the last financial statements prepared in CHF (= option 1)
- Previous translation into CHF using the modified current/non-current method

2017 financial statements (=starting base, accounting in EUR/financial reporting in CHF)

Exchange rates: Historical EUR = 1 CHF, closing rate EUR = 2 CHF, average EUR = 1.50 CHF

Balance sheet	EUR	Exchange rate	CHF
Cash and cash-equivalents	50.0	2.00	100.0
Long-term loans	200.0	1.00	200.0
Investments	80.0	1.00	80.0
Property, plant and equipment	120.0	1.00	120.0
Total assets	450.0		500.0
Long-term loans payable	150.0	2.00	300.0
Provision for unrealized translation gains			0.0
Shareholders' equity			
• Share capital	150.0	1.00	150.0
• Voluntary retained earnings			
– Results carried forward	100.0	1.00	100.0
– Net loss/profit for the year	50.0		-50.0
Total liabilities and shareholders' equity	450.0		500.0
Income statement	EUR	Exchange rate	CHF
Profit/loss excluding foreign currency result	50.0	1.50	75.0
Foreign currency result (as part of financial income or expenses)			-125.0
Net loss/profit for the year	50.0		-50.0

Illustrative example 1a) – continuation**2018 financial statements** (transition to accounting and financial reporting in EUR as at 1.1.2018)

Balance sheet	Opening balance sheet 1.1.2018			Period (adjustment of opening balance sheet)	Period (operating activities)	Closing balance sheet 31.12.2018/ Income statement 2018
	CHF	Exchange rate	EUR			
Cash and cash-equivalents	100.0	2.00	50.0		100	150.0
Long-term loans	200.0	2.00	100.0	100.0		200.0
Investments	80.0	2.00	40.0			40.0
Property, plant and equipment	120.0	2.00	60.0			60.0
Total assets	500.0		250.0			450.0
Long-term loans payable	300.0	2.00	150.0		150.0	150.0
Provision for unrealized translation gains	0.0	2.00	0.0	0.0		0.0
Shareholders' equity						
• Share capital	150.0	2.00	75.0			75.0
• Voluntary retained earnings						
– Results carried forward	50.0	2.00	25.0		100.0	25.0
– Net loss/profit for the year					100.0	200.0
Total liabilities and shareholders' equity	500.0		250.0			450.0
Balance sheet	CHF			EUR	EUR	EUR
Profit/loss excluding foreign currency result					100.0	100.0
Foreign currency result (as part of financial income or expense)				100.0		100.0
Net loss/profit for the year				100.0	100.0	200.0

- Step 1: Translation of the last CHF financial statements using the exchange rate at the date of the change
- Step 2: Adjustment of long-term monetary positions to their nominal values in the foreign currency through the income statement
- Step 3: Release of the provision for unrealized translation gains through the income statement

Note:

The balance sheets / income statements presented in the illustrative examples are limited to information relevant for illustrating the steps and therefore do not represent the accounting legislation's requirements on minimum structure.

b) Previous translation into CHF using the modified closing rate method

With the modified closing rate method, all assets and liabilities were already translated at the closing rate for the last annual financial statements. In contrast to the procedure described in the preceding section, when the previous financial statements had already been translated using the modified current/non-current method, the second step can be dispensed with if previously the modified closing rate method was used. The other steps remain the same.

Accordingly, the approach with the following steps is recommended:

Step 1:

Assets and liabilities from the last financial statements in Swiss francs are translated into the foreign currency in question at date of the change.

Step 2:

Existing provisions for unrealized translation gains converted using the exchange rate at the date of change, must be released through the income statement. Should such a provision not be released, it represents a hidden reserve going forward.

Illustrative example 1b)

- Current accounting in a foreign currency
- Conversion based on the last financial statements prepared in CHF (= option 1)
- Previous translation into CHF using the modified closing rate method

2017 financial statements (=starting base, accounting in EUR/financial reporting in CHF)

Exchange rates: Historical EUR = 1 CHF, closing rate EUR = 2 CHF, average EUR = 1.50 CHF

Balance sheet	EUR	Exchange rate	CHF
Cash and cash-equivalents	50.0	2.00	100.0
Long-term loans	200.0	2.00	400.0
Investments	80.0	2.00	160.0
Property, plant and equipment	120.0	2.00	240.0
Total assets	450.0		900.0
Long-term loans payable	150.0	2.00	300.0
Provision for unrealized translation gains			275.0
Shareholders' equity			
• Share capital	150.0	1.00	150.0
• Voluntary retained earnings			
– Results carried forward	100.0	1.00	100.0
– Net loss/profit for the year	50.0		75.0
Total liabilities and shareholders' equity	450.0		900.0
Income statement	EUR	Exchange rate	CHF
Profit/loss excluding foreign currency result	50.0	1.50	75.0
Foreign currency result (as part of financial income or expenses)			0.0
Net loss/profit for the year	50.0		75.0

Illustrative example 1b) – continuation

2018 financial statements (transition to accounting and financial reporting in EUR as at 1.1.2018)

Balance sheet	Opening balance sheet 1.1.2018			Period (adjustment of opening balance sheet)	Period (operating activities)	Closing balance sheet 31.12.2018/ Income statement 2018
	CHF	Exchange rate	EUR	EUR	EUR	EUR
Cash and cash-equivalents	100.0	2.00	50.0		100.0	150.0
Long-term loans	400.0	2.00	200.0			200.0
Investments	160.0	2.00	80.0			80.0
Property, plant and equipment	240.0	2.00	120.0			120.0
Total assets	900.0		450.0			550.0
Long-term loans payable	300.0	2.00	150.0		150.0	150.0
Provision for unrealized translation gains	275.0	2.00	137.5	-137.5		0.0
Shareholders' equity						
• Share capital	150.0	2.00	75.0			75.0
• Voluntary retained earnings						
– Results carried forward	175.0	2.00	87.5			87.5
– Net loss/profit for the year				137.5	100.0	237.5
Total liabilities and shareholders' equity	900.0		450.0			550.0
Income statement				EUR	EUR	EUR
Profit/loss excluding foreign currency result					100.0	100.0
Foreign currency result (as part of financial income or expense)				137.5		137.5
Net loss/profit for the year				137.5	100.0	237.5

Step 1: Translation of the last CHF financial statements using the exchange rate at the date of the change

Step 2: Release of the provision for unrealized translation gains through the income statement

3.2.2 Option 2: Conversion based on the accounting in the foreign currency adjusted for accumulated translation differences

- a) Previous translation into CHF using the modified current/non-current method
[Basis: Q&A 2019, question 7.3]

In contrast to option 1 shown in section 3.2.1 (a), in option 2 in the result the non-monetary long-term positions (non-current assets and long-term liabilities) are also adjusted to their previous value according to the foreign currency accounting records. But just as for option 1, there must be a transparent transition from the last financial statements in Swiss francs to the new opening balance in the foreign currency, since under CO accounting principles, changes made to equity must be recorded in the income statement (unless they are a direct capital contribution or a repayment to the shareholders).

In light of this, the following approach for the conversion is recommended:

Step 1:

Assets and liabilities from the last financial statements in Swiss francs are translated into the foreign currency in question at date of the change.

Step 2:

The non-current assets and non-current liabilities are adjusted to their historical acquisition costs in the foreign currency (if applicable, less accumulated depreciation and impairment losses) through the income statement. This means that accumulated translation gains or losses are recognized in the income statement. Any gains realized through the income statement are justified with the change in the accounting currency. This step also restores long-term monetary positions to their nominal value in the foreign currency (if applicable less accumulated impairment losses).

Step 3:

Existing provisions for unrealized translation gains converted using the exchange rate at the date of change, must be released through the income statement. Should such a provision not be released, it represents a hidden reserve going forward.

Future annual financial statements in the foreign currency are based on the existing historical accounting records. In addition, the shareholders' equity in the first financial statements in the foreign currency corresponds to the equity of the last annual financial statements in Swiss francs, converted at historical exchange rates and increased/decreased by the transparently disclosed net profit or loss of the financial statements in the foreign currency.

With this option, the accumulated translation differences are realized through the income statement, which may have a major impact on the transition year's income statement. The transition to a new accounting currency, however, is a "normal" transaction in the statutory financial statements that must be recognized according to the principles of orderly accounting and reporting. Recognizing the conversion gain or loss directly in the equity is therefore not permissible.

Illustrative example 2a)

- Current accounting in a foreign currency
- Conversion based on the accounting in the foreign currency adjusted for accumulated translation differences (option 2)
- Previous translation into CHF using the modified current/non-current method

2017 financial statements (=starting base, accounting in EUR/financial reporting in CHF)

Exchange rates: Historical EUR = 1 CHF, closing rate EUR = 2 CHF, average EUR = 1.50 CHF

Balance sheet	EUR	Exchange rate	CHF
Cash and cash-equivalents	50.0	2.00	100.0
Long-term loans	200.0	1.00	200.0
Investments	80.0	1.00	80.0
Property, plant and equipment	120.0	1.00	120.0
Total assets	450.0		500.0
Long-term loans payable	150.0	2.00	300.0
Provision for unrealized translation gains			0.0
Shareholders' equity			
• Share capital	150.0	1.00	150.0
• Voluntary retained earnings			
– Results carried forward	100.0	1.00	100.0
– Net loss/profit for the year	50.0		-50.0
Total liabilities and shareholders' equity	450.0		500.0
Income statement	EUR	Exchange rate	CHF
Profit/loss excluding foreign currency result	50.0	1.50	75.0
Foreign currency result (as part of financial income or expenses)			-125.0
Net loss/profit for the year	50.0		-50.0

Illustrative example 2a) – continuation**2018 financial statements** (transition to accounting and financial reporting in EUR as at 1.1.2018)

Balance sheet	Opening balance sheet 1.1.2018			Period (adjustment of opening balance sheet)	Period (operating activities)	Closing balance sheet 31.12.2018/ Income statement 2018
	CHF	Exchange rate	EUR	EUR	EUR	EUR
Cash and cash-equivalents	100.0	2.00	50.0		100.0	150.0
Long-term loans	200.0	2.00	100.0	100.0		200.0
Investments	80.0	2.00	40.0	40.0		80.0
Property, plant and equipment	120.0	2.00	60.0	60.0		120.0
Total assets	500.0		250.0			550.0
Long-term loans payable	300.0	2.00	150.0			150.0
Provision for unrealized translation gains	0.0	2.00	0.0	0.0		0.0
Shareholders' equity						
• Share capital	150.0	2.00	75.0			75.0
• Voluntary retained earnings						
– Results carried forward	50.0	2.00	25.0		200.0	25.0
– Net loss/profit for the year					100.0	300.0
Total Passiven	500.0		250.0			550.0
Income statement				EUR	EUR	EUR
Profit/loss excluding foreign currency result					100.0	100.0
Foreign currency result (as part of financial income or expense)				200.0		200.0
Net loss/profit for the year				200.0	100.0	300.0

Step 1: Translation of the last CHF financial statements using the exchange rate at the date of the change

Step 2: Adjustment of long-term positions to their historical values in the foreign currency recognized in the income statement

Step 3: Release of the provision for unrealized translation gains through the income statement

b) Previous translation into CHF using the modified closing rate method

With the previous translation of the foreign currency financial statements using the modified closing rate method, option 2 leads to the exact same result as option 1. For this reason, please refer to the explanations and the illustrative example 1b) in section 3.2.1b).

3.2.3 Side note: Continuation of accounting data in the foreign currency (without any further adjustments) is not a permissible option

[Basis: Q&A 2019, question 7.3]

If accounting data were to be continued in the foreign currency, the existing carrying amounts in the foreign currency would serve as a basis for the opening balance sheet in the foreign currency. The previous reporting was based on the historical data in the foreign currency and basically already existed in this form. Neither of these values as such nor the “values in the national currency” derived from these (cf. the explanations in Section 4) would have a directly traceable connection to the last statutory financial statements in Swiss francs that were approved by the Annual General Meeting. Areconciliation of the equity from the last statutory financial statements in Swiss francs to the opening balance sheet in the foreign currency would not be possible (transactions with shareholders, annual results). Therefore, this particular version as-is is not permissible. As a possible workaround, cf. option 2 in section 3.2.2.

Illustrative example 3

- Current accounting in a foreign currency
- Continuation of accounting data in the foreign currency
- Previous translation into CHF using the modified current/non-current method

Important note:

As explained in the text above, the transition option shown below is not permitted. Illustrative example 3 is only to illustrate the conceptual differences compared to option 2 presented in section 3.2.2, which is the permissible option to continue the existing accounting data in a foreign currency.

2017 Financial Statements (=starting base, accounting in EUR/financial reporting in CHF)

Exchange rates: Historical EUR = 1 CHF, closing rate EUR = 2 CHF, average EUR = 1.50 CHF

Balance sheet	EUR	Exchange rate	CHF
Cash and cash-equivalents	50.0	2.00	100.0
Long-term loans	200.0	1.00	200.0
Investments	80.0	1.00	80.0
Property, plant and equipment	120.0	1.00	120.0
Total assets	450.0		500.0
Long-term loans payable	150.0	2.00	300.0
Provision for unrealized translation gains			0.0
Shareholders' equity			
• Share capital	150.0	1.00	150.0
• Voluntary retained earnings			
– Results carried forward	100.0	1.00	100.0
– Net loss/profit for the year	50.0		-50.0
Total liabilities and shareholders' equity	450.0		500.0
Income statement	EUR	Exchange rate	CHF
Profit/loss excluding foreign currency result	50.0	1.50	75.0
Foreign currency result (as part of financial income or expenses)			-125.0
Net loss/profit for the year	50.0		-50.0

Illustrative example 3 – continuation

2018 financial statements (transition to accounting and financial reporting in EUR as at 1.1.2018)

Balance sheet	Opening balance sheet 1.1.2018			Period (adjustment of opening balance sheet)	Period (operating activities)	Closing balance sheet 31.12.2018/ Income statement 2018
	CHF	Exchange rate	EUR	EUR	EUR	EUR
Cash and cash-equivalents			50.0		100.0	150.0
Long-term loans			200.0			200.0
Investments			80.0			80.0
Property, plant and equipment			120.0			120.0
Total assets			450.0			550.0
Long-term loans payable			150.0			150.0
Shareholders' equity						
• Share capital			150.0			150.0
• Voluntary retained earnings						
– Results carried forward			150.0			150.0
– Net loss/profit for the year					100.0	100.0
Total liabilities and shareholders' equity			450.0			550.0
Income statement				EUR	EUR	EUR
Profit/loss excluding foreign currency result					100.0	100.0
Foreign currency result (as part of financial income or expense)						0.0
Net loss/profit for the year					100.0	100.0

Compared to the permitted transition option 2 shown in illustrative example 2a), the annual result would be lower by EUR 200 since no conversion adjustments were recognized in the income statement. Assets and liabilities as well as total equity would remain identical. However, there would be significant differences in the individual positions within equity compared to option 2. On the one hand, this would be due to the missing translation from the last financial statements in Swiss francs and on the other hand due to the differing net profit.

3.3 CURRENT ACCOUNTING IN SWISS FRANCS

[Basis: Q&A 2019, question 7.3]

If currently accounting in Swiss francs, no historical accounting data is available in a foreign currency. The values that must now be determined in the foreign currency for the first time for the opening balance sheet will then constitute the historical carrying values (if applicable, less accumulated depreciation and impairment losses), and the applicable exchange rate (closing rate of conversion) will be the historical exchange rate.

For this reason, the following approach is recommended:

Step 1:

Assets and liabilities from the last financial statements in Swiss francs are translated into the foreign currency in question at date of the change.

Step 2:

Long-term monetary items are adjusted to their nominal value (less any accumulated impairment losses) through the income statement. Any gains realized through the income statement are justified with the change in the accounting currency.

Step 3:

Existing provisions for unrealized exchange rate gains, converted using the exchange rate at the date of the change, must be released through the income statement (with the exception of any unrealized translation gains related to a third currency). Should such a provision not be released, it represents a hidden reserve going forward.

Illustrative example 4

- Current accounting in Swiss francs

2017 Financial Statements (=starting base, accounts/financial reporting in CHF; only monetary items denominated in a foreign currency are subject to translation)

Exchange rates: Historical EUR = 1 CHF, closing date EUR = 2 CHF, average EUR = 1.50 CHF

Balance sheet	EUR	Exchange rate	CHF
Cash and cash-equivalents	50.0	2.00	100.0
Long-term loans	200.0	1.00	200.0
Investments			80.0
Property, plant and equipment			120.0
Total assets			500.0
Long-term loans payable	150.0	2.00	300.0
Shareholders' equity			
• Share capital			150.0
• Voluntary retained earnings			
– Results carried forward			100.0
– Net loss/profit for the year			-50.0
Total liabilities and shareholders' equity			500.0
Income statement	EUR	Exchange rate	CHF
Profit/loss excluding foreign currency result			75.0
Foreign currency result (as part of financial income or expenses)			-125.0
Net loss/profit for the year			-50.0

Illustrative example 4 – continuation**2018 financial statements** (transition to accounting and financial reporting in EUR as at 1.1.2018)

Balance sheet	Opening balance sheet 1.1.2018			Period (adjustment of opening balance sheet)	Period (operating activities)	Closing balance sheet 31.12.2018/ Income statement 2018
	CHF	Exchange rate	EUR			
Cash and cash-equivalents	100.0	2.00	50.0		100.0	150.0
Long-term loans	200.0	2.00	100.0	100.0		200.0
Investments	80.0	2.00	40.0			40.0
Property, plant and equipment	120.0	2.00	60.0			60.0
Total assets	500.0		250.0			450.0
Long-term loans payable	300.0	2.00	150.0			150.0
Shareholders' equity						
• Share capital	150.0	2.0	75.0			75.0
• Voluntary retained earnings						
– Results carried forward	50.0	2.0	25.0	100.0	100.0	200.0
– Net loss/profit for the year						
Total liabilities and shareholders' equity	500.0		250.0			450.0
Income statement						
Profit/loss excluding foreign currency result					100.0	100.0
Foreign currency result (as part of financial income or expense)				100.0		100.0
Net loss/profit for the year				100.0	100.0	200.0

- Step 1: Translation of the last CHF financial statements using the exchange rate at the date of the change
- Step 2: Adjustment of long-term monetary positions to their nominal values in the foreign currency through the income statement
- Step 3: Release of the provision for unrealized exchange rate gains recognized in the income statement [n/a in the present example, cf. *)]

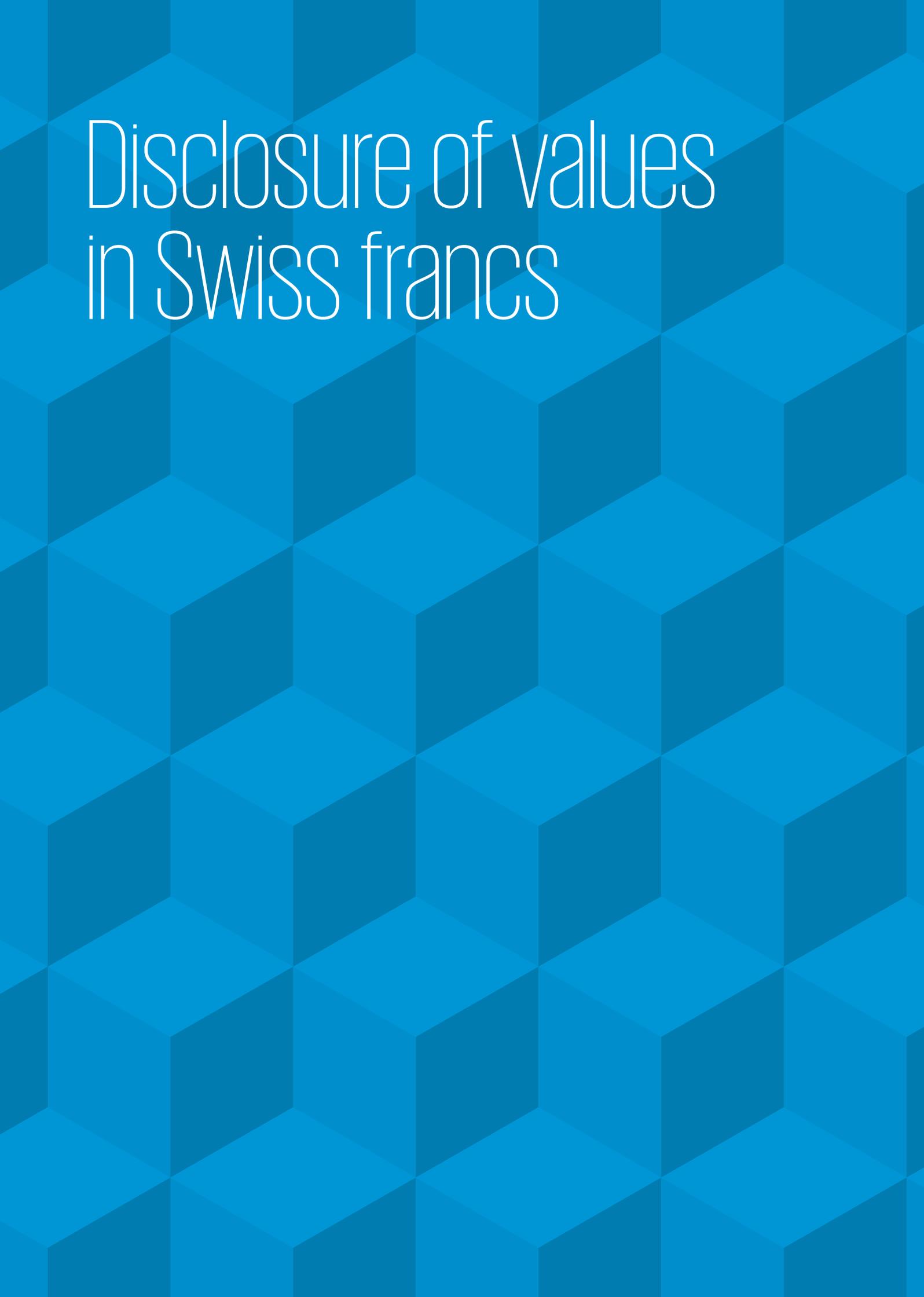
^{*)} When accounting in Swiss francs a provision for unrealized translation gains may only arise from the valuation of long-term monetary positions. The lowest value principle requires that unrealized exchange rate gains are not recognized in the income statement. This does not mean, however, that they cannot be disclosed in the balance sheet. For example, long-term loans may be valued at the closing rate despite a lower historical rate if at the same time a provision for unrealized exchange rate gains in the amount of the corresponding difference is recorded. So in the above example, an alternative would be to value the loans of EUR 200 in the 2017 financial statements at the higher closing rate (i.e. CHF 400) and record the difference between closing rate and lower historical rate of CHF 200 as a provision for unrealized translation gains. This would not change the transition result.

3.4 SUMMARY OF THE PRINCIPLES FOR THE TRANSITION OF THE ACCOUNTING AND/OR REPORTING CURRENCY

[Basis: Q&A 2019, question 7.3]

The following principles should be taken into account when changing the accounting and/or reporting currency:

1. The starting value are the last annual financial statements in Swiss francs approved by the Annual General Meeting.
2. Translation differences arising from the conversion are recognized in the income statement as extraordinary positions, irrespective of a potentially different tax treatment. It is not permitted to recognize any translation differences resulting from the change of currency directly in shareholders' equity.
3. After a change of the accounting and or financial reporting currency, a brief description of the change and the reconciliation of the equity are required in the notes to the annual financial statements (Article 959c(1)(1) and (2) CO). A possible representation for the transition of equity items can be found in the illustrative example 6.
4. For legal reasons, the equity items in Swiss francs according to the last financial statements in Swiss francs must be reconcilable to the "values in the national currency," to be presented in the financial statements at the end of the year (cf. Section 4 as well as the illustrative example 6).

The background of the page is a repeating pattern of blue isometric cubes, creating a 3D effect. The cubes are arranged in a grid, with each cube slightly offset from the others to create a sense of depth and perspective. The color is a consistent medium blue.

Disclosure of values in Swiss francs

4. Disclosure of values in Swiss francs

4.1 BASIC PRINCIPLES

[Basis: HWP 2014, II.3.4.3.1]

If the financial reporting is in a different currency than the national currency, the values must also be stated in the national currency (Article 958d(3) CO). Consequently, for all of the elements of the financial statements (balance sheet, income statement, notes and potentially also cash flow statement) the values must be indicated in Swiss francs as well.

The CO rules on accounting and financial reporting (in particular the rules applicable to recognition and valuation) must in this case be applied to the values in the functional currency.

The purpose of the financial reporting, to present the company's economic situation that allows third parties to form a reliable judgment, can only be fulfilled by the annual financial statements in the currency relevant to the company's business activities (Article 958(1) CO), but not the values in the national currency that must be indicated as well. The values in Swiss francs are intended for information purposes only and should not be used to form a "reliable judgment". In particular, as there are no historical exchange rates, it cannot be expected that the values indicated in the national currency convey the same result as if the company had always had its accounting in Swiss francs.

4.2 TRANSLATION METHODS FOR DISCLOSING VALUES IN SWISS FRANCS

[Basis: HWP 2014, II.3.4.3.1]

Neither the law nor the corresponding message by the Swiss Federal Council address how the values for the additional disclosure in Swiss francs must be determined. The suitability of a translation method must, however, be assessed not only from a reporting perspective, but also in more detail from the perspectives of the tax and company legislation. The disclosure of the values in the national currency for themselves may in many cases not completely fulfill the accounting rules prescribed in the CO, as fundamental information, such as historical acquisition costs are no longer available in Swiss francs (and no longer have to be available when the accounting and financial reporting are carried out in the functional currency). However, in combination with the other elements of the financial statements in the functional currency, they nonetheless fulfill the requirements of the law.

Below are two appropriate methods of translation:

- Method 1: Closing rate method, equity at historical rates
- Method 2: Translation at closing rate, equity valued in the foreign-currency balance sheet

4.2.1 Method 1: Closing rate method, equity at historical rates

a) Translation

[Basis: HWP 2014, II.3.4.3.2]

With this method the equity items are carried forward at historical exchange rates. The remaining balance sheet items are translated at the closing rate; income statement items and, if applicable, the cash flow statement are translated at the average rate for the period (alternative: Also at the closing rate). The resulting translation difference is recognized directly in equity, in the position "translation difference" in retained earnings.

Disclosures in the notes directly related to a position in the financial statements are translated using the same exchange rate as for this position. Other disclosures unrelated to other positions are translated either at closing rate or average rate, whichever is more appropriate.

b) Legal Aspects

[Basis: HWP 2014, II.3.4.3.2]

With the exception of the translation difference, the changes in the equity items in the national currency are easily reconciled due to the application of historical rates. The equity item "translation differences" forms part of the voluntary retained earnings. The individual equity items in the functional currency and in Swiss francs can deviate significantly over the course of time.

c) Illustrative example: Disclosure of values in Swiss francs (method 1)

Illustrative example 5

- Disclosure of values in Swiss francs
- Method 1: Closing rate method, equity at historical rates
[figures from illustrative example 2 a)]

Exchange rates: Historical EUR = 2 CHF, closing rate EUR = 3 CHF, average EUR = 2.50 CHF

	Closing balance sheet 31.12.2018/ Income statement 2018		Values in CHF
Balance sheet	EUR	Exchange rate	CHF
Cash and cash-equivalents	150.0	3.00	450.0
Long-term loans	200.0	3.00	600.0
Investments	80.0	3.00	240.0
Property, plant and equipment	120.0	3.00	360.0
Total assets	550.0		1'650.0
Long-term loans payable	150.0	3.00	450.0
Shareholders' equity			
• Share capital	75.0		150.0
• Voluntary retained earnings			
– Results carried forward	25.0		50.0
– Net loss/profit for the year	300.0		750.0
– Translation difference	n/a		250.0
Total liabilities and shareholders' equity	550.0		1'650.0
Income statement	EUR	Exchange rate	CHF
Profit/loss excluding foreign currency result	100.0	2.50	250.0
Foreign currency result (as part of financial income or expenses)	200.0	2.50	500.0
Net loss/profit for the year	300.0		750.0
The translation differences recognized in retained earnings is composed as follows:			
	EUR	Exchange rate	CHF
Shareholders' equity in EUR as at 1.1.2018 translated at the exchange rate	100.0	3.00	300.0
./. Shareholders' equity in EUR as at 1.1.2018 translated at the exchange	-100.0	2.00	-200.0
Profit 2018, translated at the exchange rate as at 31.12.2018	300.0	3.00	900.0
./. Profit 2018, translated at the 2018 average exchange rate	-300.0	2.50	-750.0
Total translation difference			250.0

d) Illustrative example: Reconciliation of equity items in the notes to the financial statements

Illustrative example 6

- Presentation of the reconciliation of equity items in the notes to the financial statements [figures from illustrative example 2 a) and 5]

Based on the figures from the illustrative example 2 a) and the resulting data in Swiss francs according to the illustrative example 5, the reconciliation of equity items in the notes to the annual accounts should be presented as follows:

Reconciliation of equity items	EUR			Values in CHF		
	Share capital	Voluntary retained earnings	Total shareholders' equity	Share capital	Voluntary retained reserves	Total shareholders' equity
Amounts in CHF according to financial statements 31.12.2017	n/a	n/a	n/a	150.0	50.0	200.0
Amounts in CHF according to financial statements of 31.12.2017, translated to EUR at the closing rate	75.0	25.0	100.0	n/a	n/a	n/a
Foreign currency result from the change in the reporting currency to EUR (recorded in the income statement)		200.00	200.0		500.00	500.0
Net profit for the year 2018 (excluding foreign currency result from the change in reporting currency to EUR)		100.00	100.0		250.00	250.00
Translation differences from the translation of the financial statements to Swiss francs	n/a	n/a	n/a		250.00	250.00
Total	75.0	325.0	400.0	150.0	1'050.0	1'200.0

4.2.2 Method 2: Translation at closing rate, equity valued in the foreign-currency balance sheet

a) Translation

[Basis: HWP 2014, II.3.4.3.3]

In this method equity items are carried in Swiss francs and valued in the balance sheet in the foreign currency at the closing rate; unrealized translation losses are recognized through the income statement, whereas unrealized translation gains are recorded in the balance sheet in the functional currency as an accrual item. The adherence to the imparity principle is based on the consideration that the resulting foreign currency difference from this method represents a valuation difference and therefore any unrealized translation gains may not be recorded in the income statement.

The translation of the entire financial statements (including income statement and cash flow statement, if any) is carried out at the closing rate.

Alternatively, an average exchange rate may be used for the income statement (and the cash flow statement, if any); in this case, the resulting difference to the net profit according to the balance sheet must be recognized in the income statement.

b) Legal Aspects

[Basis: HWP 2014, II.3.4.3.3]

If the translation is performed using closing rates consistently, this method results in a more simple carry forward of equity items without additional translation differences in the financial statements in Swiss francs. The items in equity in the functional currency and in Swiss francs run parallel.

c) Illustrative example: Disclosure of values in Swiss francs (method 2)

The practical application of method 2 is relatively complex. It remains to be seen how often this method will be used in practice. For an illustrative example over the course of six business periods, cf. the following publication (in German):

Buchmann, René / Duss, Fabian / Handschin, Lukas (2013): Rechnungslegung in Fremdwahrung. Probleme und Losungsansatze aus buchhalterischer, handelsrechtlicher und steuerlicher Sicht. (Financial reporting in a foreign currency: Issues and solutions from the accounting, commercial law and tax perspective.) In: EXPERT FOCUS (formerly Der Schweizer Treuhander), 11/2013, p. 823-835.

4.2.3 Overall considerations

[Basis: HWP 2014, II.3.4.3.4]

The method chosen should be applied consistently and explained transparently in the notes (Article 958d(3) CO).

For assessing company law matters, the national currency continues to be relevant. The relevant provisions in the company law either mention Swiss francs or make no mention related to currency. The legal provisions on equity are orientated towards the equity in Swiss francs. For instance, this fact rules out a uniform translation of the entire financial statements (in particular the individual equity items) as at the closing rate, because this would not satisfy the requirements for a proper financial reporting.

Depending on the translation method applied, the equity items in the functional currency can deviate from those in Swiss francs, due to (accumulated) translation differences. This has ramifications in particular for the proposed appropriation of retained earnings as well as for the determination of the relevant reference values for capital loss and a repayment of share capital:

Proposed appropriation of retained earnings	Capital loss	Repayment of share capital
<p>The Board of Directors' proposal on the appropriation of retained earnings must be presented not only in functional currency in but also in Swiss francs; for the maximum distribution, the information in Swiss francs remains decisive. The proposed appropriation of retained earnings in Swiss francs, however, may not exceed the distributable equity items in the functional currency. Furthermore, the development of the exchange rates up to the date of the dividend resolution must be observed closely so as to avoid that retained earnings are distributed, which are already used up by unfavorable currency developments.</p>	<p>The provision relating to capital loss (Article 725(1) CO) must for reasons of prudence be adhered to both in Swiss francs and in the functional currency, i.e. the corresponding duties requiring action are triggered by the currency that first oversteps the critical threshold value.</p>	<p>The provision relating to repayment of share capital (Article 680(2) CO) must for reasons of prudence be adhered to in both Swiss francs and in the functional currency, i.e. a violation is triggered by the currency that first oversteps the critical threshold value.</p>

Illustrative example 7

- Presentation of the proposed appropriation of retained earnings when accounting and financial reporting are done in a foreign currency [Figures from illustrative example 5]

Proposal on the appropriation of retained earnings 2018

	EUR	CHF
Profit brought forward	25.0	50.0
Net profit for the year	300.0	750.0
Translation difference	n/a	250.0
The available retained earnings are	325.0	1'050.0

The Board of Directors proposes to the Annual General Meeting the following appropriation of retained earnings:

	EUR	CHF
Payment of a dividend in the amount of	100.0	300.0
Allocation to general legal retained earnings	24.6	59.3
Balance to be carried forward	200.4	690.7
Total	325.0	1'050.0

The Board of Directors proposes a dividend payment of EUR 100.0, but not exceeding CHF 300.0. At the time of the Annual General Meeting's resolution, the maximum amount of CHF 300.0 is translated to EUR using the applicable rate at that date. If the resulting amount is below the EUR 100.0 proposed for distribution, the distribution will only be of this lower amount. The proposed allocation to the general legal retained earnings remains unchanged even if the dividend amounts are adjusted due to the exchange rate.

Possible alternative wording concerning procedure for allocation to reserves:

(...) The proposed allocations to the general legal retained earnings is reduced to the legally required minimum if the dividend amounts are adjusted due to the exchange rate (allocation in the amount of 5% of the net profit of the year [unchanged] plus 10% of the dividend amount that exceeds 5% of the share capital).

In the present example, the allocation to the general legal retained earnings is calculated as follows:

Required allocation to reserves	EUR	CHF
5% of the net profit for the year up to 20% of the share capital	15.0	30.0
10% on surplus dividend (dividend that exceeds 5% of the share capital) up to 50% of the share capital	9.6	29.3
Total allocation to general legal retained earnings	24.6	59.3

Note:

In the above example with a planned dividend payment of EUR 100.0, the proposed dividend in the CHF column could be increased to a maximum of CHF 975.0 (net profit of CHF 1,050.0 less minimum allocation to reserves of CHF 75.0 up to the threshold of 50% of the share capital) to build a maximum buffer for any exchange rate fluctuations until the resolution by the Annual General Assembly.

4.2.4 Side note: Dividends distributed from fiscal reserves from capital contributions

Just as mentioned in section 4.2.3, in the case of a financial reporting in a foreign currency, the Board of Directors' proposed appropriation of available earnings must be presented in the notes to the financial statements not only in the company's functional currency but also in Swiss francs. While the information in Swiss francs remains decisive for the maximum distribution, the proposed appropriation of available earnings in Swiss francs may not exceed the distributable shareholder equity items in the functional currency. Moreover, the presentation of the proposed appropriation of available earnings must also address the possible changes in exchange rates up to the date of the dividend resolution so as to avoid that the retained earnings reserve is distributed that has already been used up by unfavorable foreign currency developments.

For tax purpose, the Swiss Federal Tax Administration (SFTA) keeps track of the capital contributions reserves (CCR) in Swiss francs regardless of the reporting currency. For a projection and a definition of the CCR, the SFTA calculates a distribution in the relevant foreign currency at the exchange rate with the Swiss franc applicable at the time of the payment.

Because of the SFTA's practice, there is a problem concerning the appropriation of available earnings: the CCR derecognition takes place at an exchange rate that is not yet known at the time when the Annual General Meeting resolves the distribution.

Illustrative example number 8 shows a way to present this, taking into account the SFTA's practice.

Depending on how the exchange rate develops between the balance sheet date and the key date of the distribution, the following constellations could occur in the case of a financial reporting in a foreign currency and distributions from the CCR (assumption: All available CCR is to be distributed):

- Depreciation in the foreign currency exchange rate: The CCR in the foreign currency amount to 0 but show a remainder in Swiss francs.
- Appreciation in the foreign currency exchange rate: The CCR in Swiss franc amount to 0 but show a remainder in the foreign currency.

As the disclosure of values in Swiss francs requires the translation of equity items at historical exchange rates (cf. Section 4.2.1), the CCR amounts must be adjusted in the foreign currency financial reporting in case of the above constellations; (reclassifications between CCR and other reserve items required, as the amount of 0 in FX cannot lead to a positive amount in Swiss francs or a positive amount in the foreign currencies cannot lead to an amount of 0 in Swiss francs, regardless of the historical rate used). In principle, such reclassifications should not exist in foreign currency financial statements because the Code of Obligations rules on accounting and financial reporting must be applied to the values in foreign currency (cf. Section 4.1). However, as the CCR remains denominated in CHF despite the financial reporting in currency, the adjustments explained above cannot be avoided.

Illustrative example 8

- Presentation of a proposed appropriation of retained earnings if (for tax purpose) a distribution from capital contribution reserves is intended

X Ltd. uses EUR for its accounting and financial reporting.

As at 31 December 2018, the balance sheet of X Ltd is presented as follows:

Balance sheet as at 31.12.2018	EUR	Exchange rate	Values in CHF
Cash and cash-equivalents	250.0	2.00	500.0
Total assets	250.0		500.0
Shareholders' equity			
• Share capital	100.0	2.0	200.0
• Legal capital reserve (= Capital contribution reserve)	100.0	2.0	200.0
• Legal retained earnings	50.0	2.0	100.0
• Voluntary retained earnings			
– Results carried forward	0	2.0	0
– Net profit for the year	0	2.0	0
– Translation difference	n/a	n/a	0
Total liabilities and shareholders' equity	250.0		500.0

Illustrative example 8 – continuation

The Board of Directors would like to distribute all of the capital contribution reserves for tax purpose existing as at 31 December 2018. The relevant appropriation of retained earnings may be presented as follows:

Proposed appropriation of available earnings 2018

	EUR	CHF
Profit brought forward	0	0
Net profit for the year	0	0
Translation difference	n/a	0
Capital contribution reserves, carried forward	100.0	200.0
Total at the disposition of the Annual General Meeting	100.0	200.0

The Board of Directors proposes to the Annual General Meeting the following appropriation of retained earnings:

	EUR	CHF
Payment of a dividend out of capital contribution reserves	100.0	200.0
Allocation to general legal retained earnings	0	0
Balance to be carried forward	0	0
Total	100.0	200.0

The Board of Directors proposes a dividend payment of EUR 100.0 drawn down from the capital contribution reserves, which may not exceed CHF 200.0. The maximum amount of CHF 200.0 is translated to the foreign currency at the time of the payment using the exchange rate prevailing on that day according to the Swiss National Bank's website. If the resulting amount is below the EUR 100.0 proposed for distribution, the distribution will only be of this lower amount. The due date for the dividends will be set for [DATE].

No further allocations will be made as the legal retained earnings and capital reserves have reached 50% of the share capital.

4.3 DISCLOSURE

4.3.1 Disclosure of the values in Swiss francs

As mentioned in Section 4.1, the indication in Swiss francs is required for all components of the financial statements. This is also specifically applicable to the disclosures in the notes.

The presentation may for instance be in columns, as follows:

Balance sheet item	Reporting year		Previous year	
	EUR	CHF	EUR	CHF

Other presentation forms are possible as well (for example, a separate disclosure in the notes of the complete reproduction of the annual financial statements translated into Swiss francs).

All values (i.e. every individual position) of the annual financial statements must also be indicated in the national currency.

4.3.2 Disclosure of the applied conversion method and the exchange rates used

If the accounting is in the main business-relevant currency, the exchange rates used for the translation into Swiss francs must be disclosed in the notes to the financial statements and, if necessary, explained (Article 958d(3) CO). In addition to the mere disclosure of the exchange rates used, the translation method used must also be indicated, for instance, closing rates for position values and average rates for fluctuating values.

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