The Swiss Law on Accounting and Financial Reporting

Structured presentation and explanation of the most important provisions

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1 Introduction

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 The accounting provisions previously included in the Company Law have been repealed accordingly.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 and still applicable Law on Accounting and Financial Reporting came into effect as at 1 January 2013. The new provisions became applicable to stand-alone financial statements for the first time for the 2015 financial year, and as of 2016 for consolidated accounts, respectively.

Basically, the Swiss Law on Accounting and Financial Reporting affects all entities. The term entity includes sole proprietorships, partnerships as well as legal entities stated in the Swiss Civil Code (associations and foundations) and the Swiss Code of Obligations (public limited companies, limited liability companies, limited partnerships and cooperatives).

This brochure explains the basics of the Swiss Law on Accounting and Financial Reporting in a structured manner and explains the most important provisions. The articles referenced in the margins are reprinted in full in the second part of this brochure.

Accounting and financial reporting

2 Accounting and financial reporting

2.1. Duty to keep accounts and prepare financial reports

Article 957(1) CO

The duty to keep accounts and prepare financial reports is applicable to the following:

1. sole proprietorships and partnerships which generated sales revenues of at least CHF 500,000 in the last financial year;

2. legal entities (public limited companies, limited partnerships, limited liability companies, cooperatives, associations and foundations).

Article 957(2) CO

The following are only obliged to keep accounts on their receipts and disbursements (cash method of accounting) and their financial position:

1. sole proprietorships and partnerships which generated sales revenues of less than CHF 500,000 in the last financial year;

2. associations and foundations not obliged to be registered in the commercial register;

3. foundations exempted from having to appoint an auditor, as per Article 83b(2) CC.

2.2. Requirements regarding accounting and financial reporting

The following figure shows the requirements and duties in regard to accounting and financial reporting:

	Accounting	Financial reporting	
Principles	**Principles of orderly accounting:** • complete, faithful and systematic recording of transactions and matters • documentary proof • clarity • appropriateness in view of the type and size of the business • verifiability	The accounting shall present the financial position of the business so that a third party can judge it reliably. **Fundamentals:** • assumption of going concern • cut-off in regard to time and nature **Principles of orderly financial reporting:** • clarity and understandability • completeness • reliability • materiality • prudence • consistency in presentation and valuation • no offsetting of assets and liabilities or income and expenses	Article 957a(2) CO Article 958 CO Article 958a CO Article 958b CO Article 958c(1) CO
Currency	Swiss francs or the functional currency of the business activities	Swiss francs or the functional currency of the business activities, the latter requiring disclosure of the amounts in Swiss francs and the conversion rates used	Article 957a(4) CO Article 958d(3) CO
Language	An official language of Switzerland or English	An official language of Switzerland or English	Article 957a(5) CO Article 958d(4) CO
Retention of records	Accounting records and accounting vouchers (as hard copies or in electronic or similar form) must be retained for ten years.	Annual reports and audit reports (signed hard copies) must be retained for ten years.	Article 958f CO

Figure 1 Requirements regarding accounting and financial reporting

The assumption of going concern was clarified by assuming that the business will be continued in the foreseeable future. However, if an entity intends to discontinue all or parts of its business – or if such a discontinuation cannot be averted – within twelve months of the balance sheet date, the accounting for the business concerned must be made on the basis of realizable values. Article 958a CO

Stand-alone financial statements

3. Stand-alone financial statements

3.1. Recognition of assets and liabilities and structure of the financial statements

3.1.1 Balance sheet: Assets

The term "assets" is explicitly circumscribed in the law. According to this, the following requirements must be met:

- An asset is a resource controlled by the entity as a result of past events. Article 959(2) CO
- Future economic benefits are expected to flow to the entity.
- Its value can be measured reliably.

Assets that do not fulfill these requirements may not be recognized in the balance sheet.

Moreover, the law provides criteria for differentiating current from non-current assets. Current assets include cash and cash equivalents as well as other assets that are likely turned into cash or otherwise realized within one year from the balance sheet date or during the normal business cycle. All other assets – in particular those acquired for long-term use or for long-term holding – are to be accounted for as non-current assets.

Article 959(3) CO

Article 960d CO

The following figure shows the minimum structure of assets. The law requires that items are disclosed in the following prescribed sequence.

Article 959(3) CO
Article 959a(1) CO

Assets
Current assets
Cash (and cash equivalents) and assets held for short-term disposal with a quoted market price
Trade accounts receivable
Other short-term receivables
Inventories and non-invoiced services
Prepaid expenses and accrued income
Non-current assets
Financial assets
Investments
Property, plant and equipment
Intangible assets
Unpaid share capital, partners' capital or foundation capital

Figure 2 Minimum structure of the balance sheet: Assets

Article 959a(4) CO

The Law on Accounting and Financial Reporting also requires the separate disclosure of receivables due from direct or indirect shareholders, from members of governing bodies and from companies in which the entity holds equity interests, be it directly or indirectly. They may be disclosed in the balance sheet or in the notes.

3.1.2 Balance sheet: Liabilities and shareholders' equity

The liability side of the balance sheet is divided into short- and long-term liabilities and shareholders' equity. The term "liabilities" is explicitly circumscribed in the law. A liability must be recognized if the following criteria are fulfilled:

Article 959(5) CO

- The liability arose from a past event.
- An outflow of funds is probable.
- The amount can be measured reliably.

Article 959(6) CO

Moreover, the law provides criteria for differentiating current from non-current liabilities: liabilities payable within a year after the balance sheet date or within the normal business cycle must be presented as short-term liabilites. All other liabilities are considered to be long-term.

The following figure shows the minimum structure of liabilities and shareholders' equity.
The law requires that items are disclosed in the following prescribed sequence.

Article 959a(4) CO
Article 959a(6) CO
Article 959a(2)

Liabilities and shareholders' equity
Short-term liabilities
Trade accounts payable
Short-term interest-bearing liabilities
Other short-term liabilities
Accrued expenses and deferred income
Long-term liabilities
Long-term interest-bearing liabilities
Other long-term liabilities
Provisions and similar items foreseen in the law
Shareholders' equity
Share capital, partners' capital or foundation capital, if applicable separately according to category
Legal capital reserves
Legal retained earnings
Voluntary retained earnings or accumulated deficit
Treasury shares (as a negative amount)

Figure 3 Minimum structure of the balance sheet: Liabilities and shareholders' equity

Article 959(7) CO

Shareholders' equity must be disclosed and structured in an appropriate form for the legal form on hand.

Article 959a(4) CO

The Law on Accounting and Financial Reporting also requires the separate disclosure of liabilities due from direct or indirect shareholders, to members of governing bodies and to companies in which the entity holds equity interests, be it directly or indirectly. They may be disclosed in the balance sheet or in the notes.

3.1.3 Income statement

The following figure shows the minimum structure of the income statement. The income statement can either be presented by nature of expense ("Produktionserfolgsrechnung") or by function of expense ("Absatzerfolgsrechnung"). The law requires that items are disclosed in the following sequence.

Article 959b(2) CO
Article 959b(3) CO

Income statement by nature of expense	**Income statement by function of expense**
Net revenue from sale of goods and services	Net revenue from sale of goods and services
Changes in inventory of finished goods and work in progress as well as in non-invoiced services	
Raw materials and supplies	
Personnel expenses	
Other operating expenses	
Amortization/depreciation and impairment losses on non-current assets	
	Cost of goods sold
	Administrative expenses and distribution costs
Financial expenses and financial income	Financial expenses and financial income
Non-operating expenses and non-operating income	Non-operating expenses and non-operating income
Extraordinary, non-recurring or prior-period expenses and income	Extraordinary, non-recurring or prior period expenses and income
Direct taxes	Direct taxes
Profit/Loss for the year	**Profit/Loss for the year**

Figure 4 Minimum structure of the income statement

In case the income statement is presented by function of expense, the notes to the financial statements must also disclose the personnel expenses as well as amortization/depreciation and impairment losses of non-current assets.

Article 959b(4) CO

3.1.4 Notes

The following figure shows the minimum information of the notes. Not mentioned are the specific disclosure requirements for companies with exchange-listed shares in regard to remunerations and equity interests held ("Transparency Act", Articles $663b^{bis}$ and 663c CO).

Notes

Article 959c(1) CO

The notes must contain:

1. Description of the principles used in the preparation of the financial statements, if these are not prescribed by law
2. Disclosure, break-down and explanations on balance sheet and income statement items
3. Total amount of net released replacement reserves and any excess hidden reserves if the financial result is thus presented in a significantly more favorable light
4. Other information required by law
   - Deviations in regard to the assumption on the going concern (Article 958a(3) CO)
   - Conversion rates used in financial reportings in a foreign currency (Article 958d(3) CO)
   - Other balance sheet and income statement items, to the extent that it is material for the assessment or common practice in the entity's industry (Article 959a(3) CO, Article 959b(5) CO)
   - Receivables from and liabilities to affiliated parties (Article 959a(4) CO)
   - Personnel expenses, amortization/depreciation and impairment losses for income statements by function of expense ("Absatzerfolgsrechnung") (Article 959b(4) CO)
   - In the case of bonds, the amounts concerned and conditions (Article 959c(4) CO)
   - Information about assets valued at a quoted market price or assets with a quoted market price or another observable market price (Article 960b(1) CO) as well as the total value of securities and other assets thus valued
   - Value of fluctuation reserves if assets are valued at a quoted market price or another observable market price (Article 960b(2) CO)
   - Objects and amounts of revaluations (Articles 670 and 671b CO)
   - Special law information (e.g. ML)

Article 959c(2) CO

The notes must also contain the following information unless already included in the balance sheet or the income statement:

1. Company or company name, as well as its legal form and domicile
2. Declaration as to whether full-time equivalents exceed 10, 50 or 250, respectively
3. Company name, legal form and domicile of entities in which the entity holds direct or significant indirect equity interest as well as voting and capital rights held
4. Number of treasury shares held by the entity or entities in which it holds equity interests
5. Purchase and sale of treasury shares, including terms and conditions
6. Residual liabilities arising from leasing transactions which are similar to sales contracts and other leasing agreements, provided these do not expire or cannot be canceled within 12 months as of the balance sheet date.
7. Liabilities due to pension funds
8. Total amount of collaterals provided for third-party liabilities
9. Total amount of assets pledged to secure own commitments, as well as assets with retention of title
10. Legal or actual obligations where the likelihood of an outflow of resources is remote or cannot be estimated reliably (contingent liabilities)
11. Number and value of shares or options on shares held by all members of senior management and those charged with governance, as well as for employees
12. Explanation of extraordinary, non-recurring or prior-period items included in the income statement
13. Significant events after the balance sheet date
14. Reasons for the early resignation of the auditors

Figure 5 Minimum information of the notes

Additional disclosure requirements for companies subject to the accounting conventions applicable to larger companies [1]
1. Information on the long-term interest-bearing liabilities, broken down according to maturity (less than a year to five years and longer than five years)
2. Fees paid to the auditors, broken down by audit-related services and other services

Article 961a CO

Figure 5 Minimum information of the notes
[1] Also see decision tree in Section 5.1

The declaration of full-time equivalents on an annual average of not more than 10, 50 or 250, respectively, enables readers of the financial statements to find out whether the entity is subject to an ordinary audit or whether it possibly qualifies for an opting out. Larger companies must also provide the exact number of full-time employees on a yearly average in their management report (also see Section 5.4).

3.2. Valuation

3.2.1 Principles

The Swiss Law on Accounting and Financial Reporting explicitly contains the valuation principles to be applied. These are:

Article 960 CO

- the principle of individual valuation
- prudence in applying the valuation principles without obstructing a reliable assessment of the financial situation
- re-assessment and if necessary, an adjustment of values in case indications exist that assets are overstated or the entity’s provisions are understated.

The principles of the individual valuation regime state that, as a rule, assets and liabilities must be valued individually if they are material and if they are normally not grouped together due to their similarity. Contrary to individual valuations, hidden reserves may be used to compensate understated values within specific groups of similar assets in group valuations (also see Section 3.2.3).

3.2.2 Selected valuation principles for assets and liabilities

The figure below shows a selection of valuation principles for assets and liabilities:

Assets	
Valuation of assets: at acquisition or manufacturing costs (upper limit). For certain types of assets, other principles apply.	Article 960a CO
The decrease in value due to use or age must be taken into account by recording depreciations, other declines in value (impairments) by recording value adjustments.	
In order to ensure replacements and the entity's going concern, additional depreciations/amortizations as well as value adjustments may be recorded or the entity may elect to not release depreciations/amortizations and value adjustments no longer required.	
Assets with a market rate or another price observable in an active market may be valued at those rates or market prices in later valuations, even if these exceed acquisition costs.	Article 960b CO
Inventories (raw materials, semi-finished and finished products and goods) as well as non-invoiced services must be valued at the lower of acquisition or manufacturing costs and the net selling price, taking into consideration expected completion costs.	Article 960c CO

Article 960e CO

Liabilities
Valuation at nominal value
If past events indicate that a future outflow of resources is probable, relevant provisions must be made.
Provisions may also be recorded specifically for: • warranty obligations • the refurbishment of tangible fixed assets • reorganizations • securing the going concern of the entity
There is no obligation to release provisions no longer needed.

Figure 6 Valuation of assets and liabilities

Article 960b CO

Assets with a market rate or another price observable in an active market may be valued at those rates or market prices in later valuations on the balance sheet date, even if these are above the nominal value or acquisition costs. Examples for assets with a market rate could be securities, precious metals or commodities. Entities electing to make use of this choice must value all assets of the relevant balance sheet item which have an observable market rate with the market price prevailing on the balance sheet date. The use of this choice must be adequately disclosed in the notes.

If assets are valued at market prices at the balance sheet date, a value adjustment may be recorded through the income statement in order to account for value fluctuations. However, no such value adjustment reserve may be recorded if this causes the carrying value to be lower than acquisition costs or an observable market price. The total amounts of the fluctuation reserves must be disclosed separately either in the balance sheet or in the notes to the financial statements.

3.2.3 Hidden reserves

Article 960a(4) CO
Article 960e(3) CO
Article 960e(4) CO
Article 959c(1)(3) CO

The Swiss Law on Accounting and Financial Reporting allows the creation of so-called "hidden reserves". Hidden reserves are the difference between carrying values and the maximum amounts allowed for assets or the necessary amounts for liabilities allowed by the accounting law.

Hidden reserves may be created with the help of additional depreciations/amortizations and provisions created for replacement purposes or for the going concern of the entity. Moreover, it is no longer necessary to release depreciations/amortizations and provisions no longer needed. The total amount of the net release of hidden reserves must be disclosed in the notes if this has a positive impact on the achieved results.

Stand-alone financial statements prepared in accordance with a recognized accounting standard

4. Stand-alone financial statements prepared in accordance with a recognized accounting standard

The Swiss Law on Accounting and Financial Reporting contains the concept of financial statements prepared in accordance with a recognized accounting standard. The figure below shows when such financial statements must be prepared in addition.

Article 962 CO
Article 962a CO

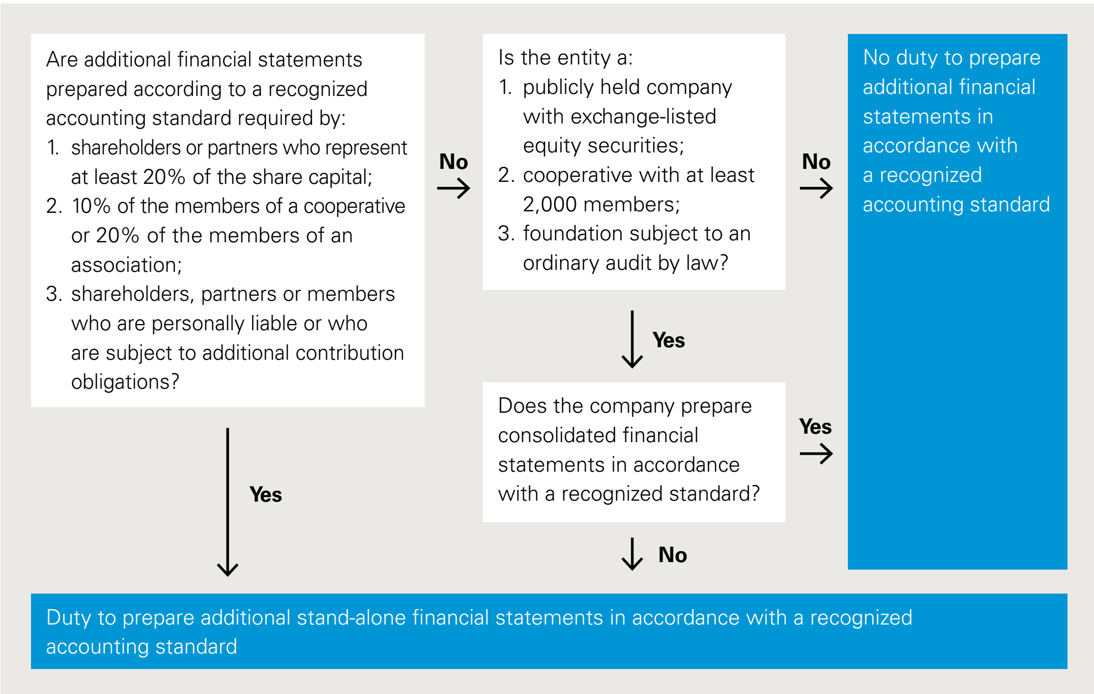


Figure 7 Decision tree for stand-alone financial statements prepared in accordance with a recognized accounting standard

The Swiss Federal Council's Ordinance on Recognized Accounting Standards (ORAS) of 21 November 2012 declares the following frameworks as recognized standards: IFRS, IFRS for SMEs, Swiss GAAP FER, US GAAP and IPSAS. The FINMA's accounting principles for banks, securities dealers and collective investment schemes are stipulated as being equivalent to these recognized accounting standards.

The board of directors (or the equivalent governing body of the entity) is responsible for selecting the recognized standard to be used, unless the articles of incorporation or the foundation deed mention otherwise or the general assembly decides on such a standard. Once selected, the chosen standard must be applied in its entirety and for the entire financial statements. The additional financial statements in accordance with a recognized accounting standard require an ordinary audit performed by a licensed audit expert; these financial statements are then submitted to the general assembly.

The financial statements in accordance with a recognized standard must be prepared in addition to the annual (statutory) financial statements according to the Swiss Code of Obligations. For tax purposes, the materiality principle applies. This means that the financial statements prepared in accordance with the CO constitute the relevant tax base.

Annual report

5. Annual report

5.1. Components of the annual report

Article 958 CO

The mandatory components of the annual report are shown in the following decision tree:

Article 961 CO
Article 961d CO

Article 961 CO
Article 958(2) CO
Article 959c(3) CO
Article 963(1) CO

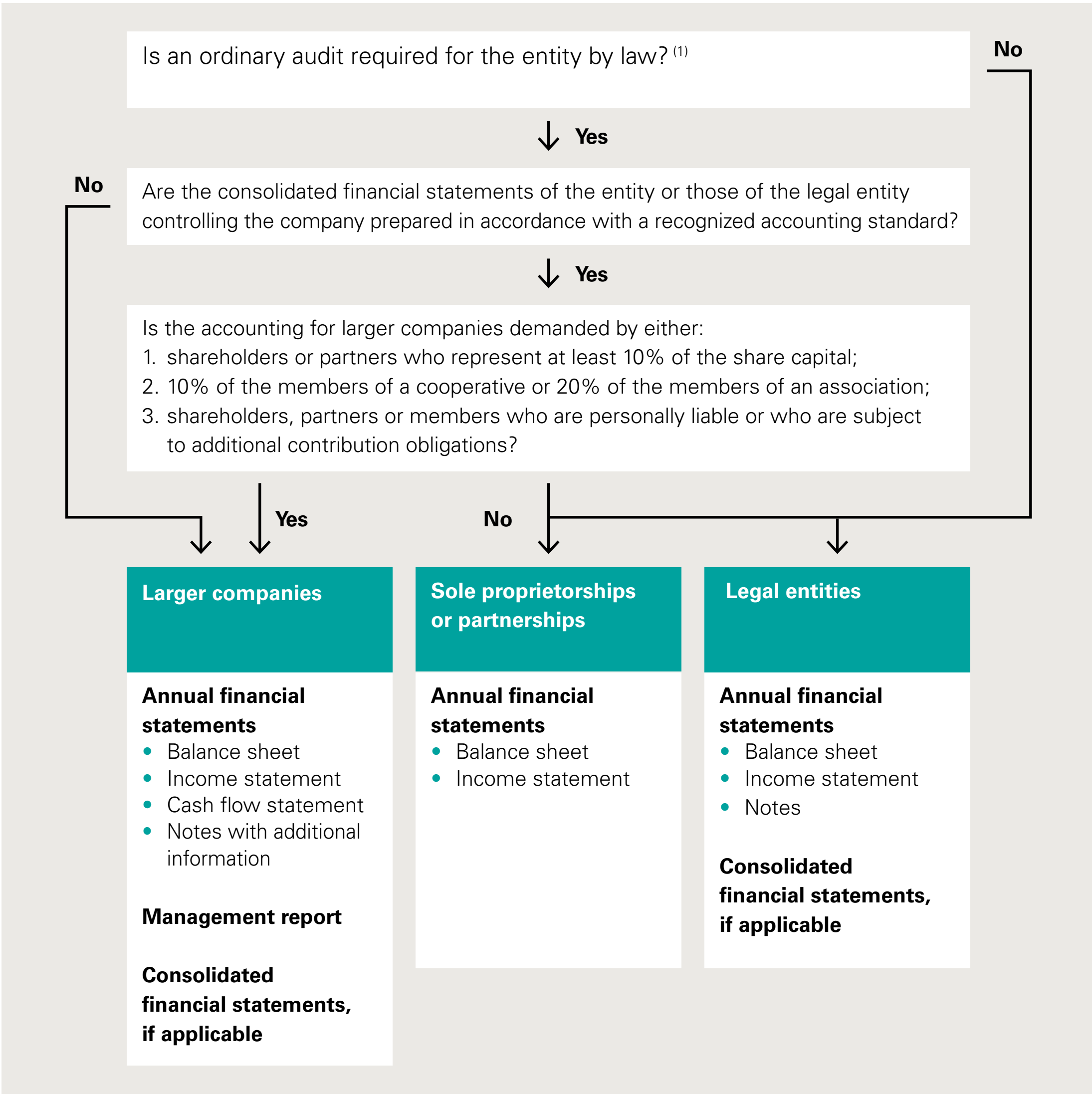


Figure 8 Components of the annual report

[1] The financial statements (and if applicable, the consolidated financial statements) of the following entities require an ordinary audit by law:

1. Publicly held companies, i.e.
   a. companies whose equity securities are listed on a stock exchange,
   b. companies with outstanding bond issues
   c. companies that contribute at least 20% of the assets or net sales to the consolidated accounts of a company according to (a) or (b);

2. Legal entities exceeding two of the following thresholds for two consecutive years (the previous year and the current year are of relevance):
   a. total assets of CHF 20 million (associations: CHF 10 million)
   b. revenue of CHF 40 million (associations: CHF 20 million)
   c. 250 full-time positions on an annual average (associations: 50 full-time equivalents)

3. Legal entities obliged to prepare consolidated financial statements.

The requirements of the Swiss Law on Accounting and Financial Reporting regarding the components of the annual report depend, among other things, on the size of the entity. For legal entities not subject to the requirements applicable to larger companies, there is no longer an obligation to prepare a management report. The financial statements of sole proprietorships and partnerships do not necessarily require notes. Article 959c(3) CO

5.2. Reporting requirements for larger entities

The regulation for larger entities requires a cash flow statement and additional disclosures in the notes to the annual financial statements (also see Section 3.1.4), as well as a management report.

5.3. Cash flow statement

Any entity subject to the reporting requirements for larger entities must prepare a cash flow statement as part of its annual financial statements. The cash flow statement presents separately the changes in cash and cash equivalents arising from operating activities, investing activities and financing activities. Article 961b CO

The law does not prescribe a specific structure for the cash flow statement. According to the Swiss Federal Council's message (BBl 2008, 1717), the structure should nonetheless be based on the minimum structure of the balance sheet (see Sections 3.1.1 and 3.1.2).

5.4. Management report

The management report provides information on the business performance and the entity's financial position. As shown in Section 5.1, the management report only needs to be prepared by entities which fulfill the requirements of a larger entity. Article 961c CO

Minimum content of a management report:

Article 961c(2) CO

Minimum content of a management report
Number of full-time positions on an annual average
A risk assessment
Order intake and order situation
Research and development activities
Exceptional events
Outlook

Figure 9 Minimum content of the management report

The management report provides an overview on the entity's situation, and if applicable, the entire group as at the end of the year and from a perspective that is not covered elsewhere in the financial statements. The management report may not contradict the economic situation as presented in the financial statements.

Consolidated financial statements

6. Consolidated financial statements

6.1. Duty to prepare consolidated financial statements – scope of consolidation

The principle of control is applied to the duty to prepare consolidated financial statements and the scope of consolidation. In the Swiss Law on Accounting and Financial Reporting this is defined as follows:

Article 963 CO

Control is evident if a legal entity controls another entity, either by:		
directly or indirectly holding a voting majority in the general meeting.	directly or indirectly holding the right to appoint or remove the majority of the members of the entity's board of directors or equivalent.	having the possibility to exercise predominant influence due to the articles of incorporation, the foundation deed, a contract or similar instruments.

Figure 10 Control principle applicable to consolidated financial statements

If the consolidated financial statements are prepared under a recognized accounting standard, this standard determines the group to be consolidated.

The duty to produce consolidated financial statements does not depend on the legal form and can therefore also affect foundations, associations and cooperatives.

6.2. Exemption from the duty to prepare consolidated financial statements

The decision tree below shows under which circumstances an entity may forego preparing consolidated financial statements:

Article 963 CO
Article 963a CO

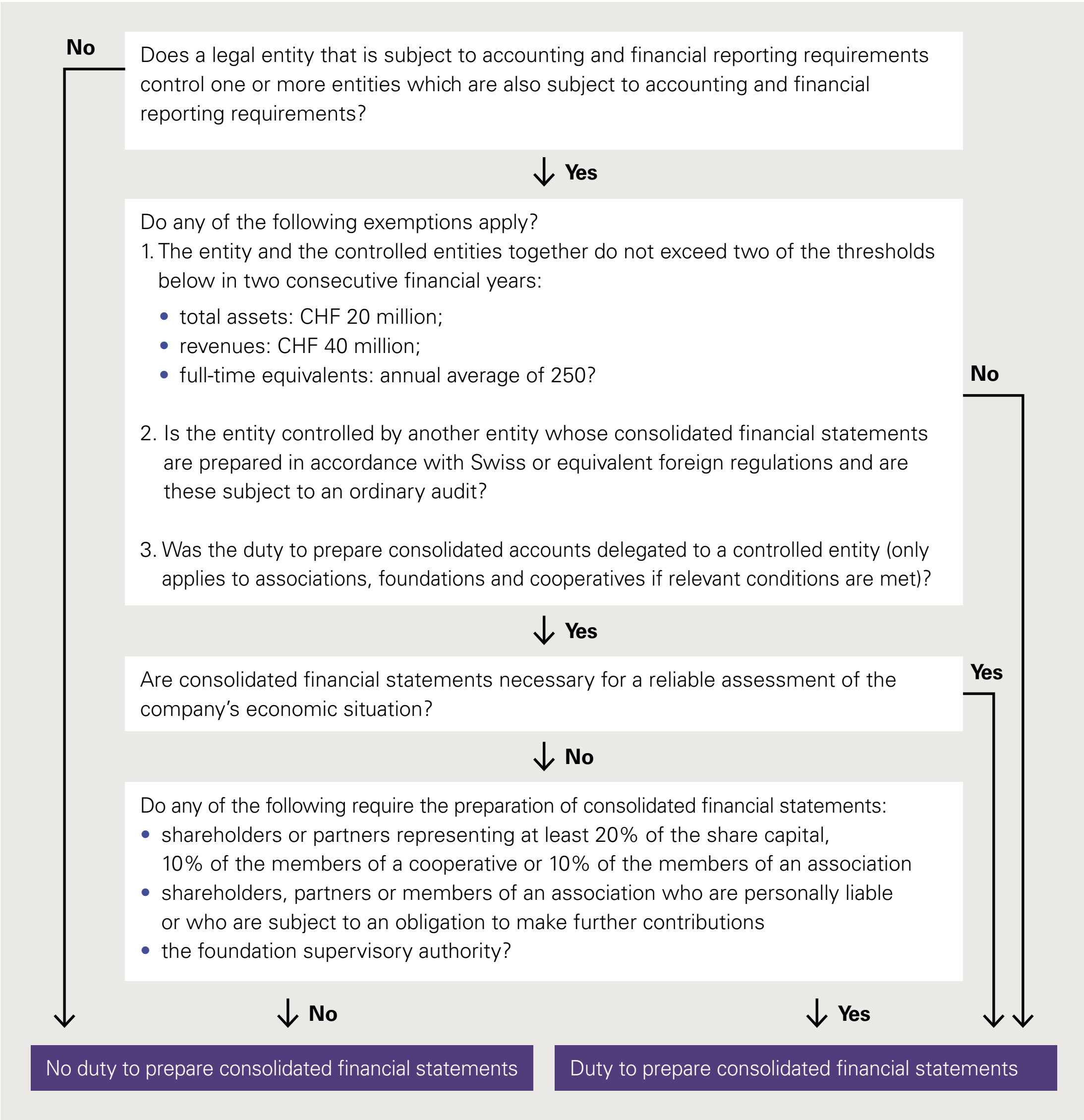


Figure 11 Decision tree with regard to the duty to prepare consolidated financial statements

Article 963(4) CO

Associations, foundations and cooperatives now are also subject to the duty to prepare consolidated accounts. They can delegate this duty to prepare consolidated financial statements to an entity in its control. Such a delegation is possible if the controlled entity unites all of the other companies involved under a single leadership by majority of votes or otherwise and if it can prove that it indeed exercises this control.

6.3. Reporting requirements for consolidated financial statements

The following figure explains under which circumstances consolidated financial statements must be prepared in accordance with a recognized accounting standard.

Article 963b CO

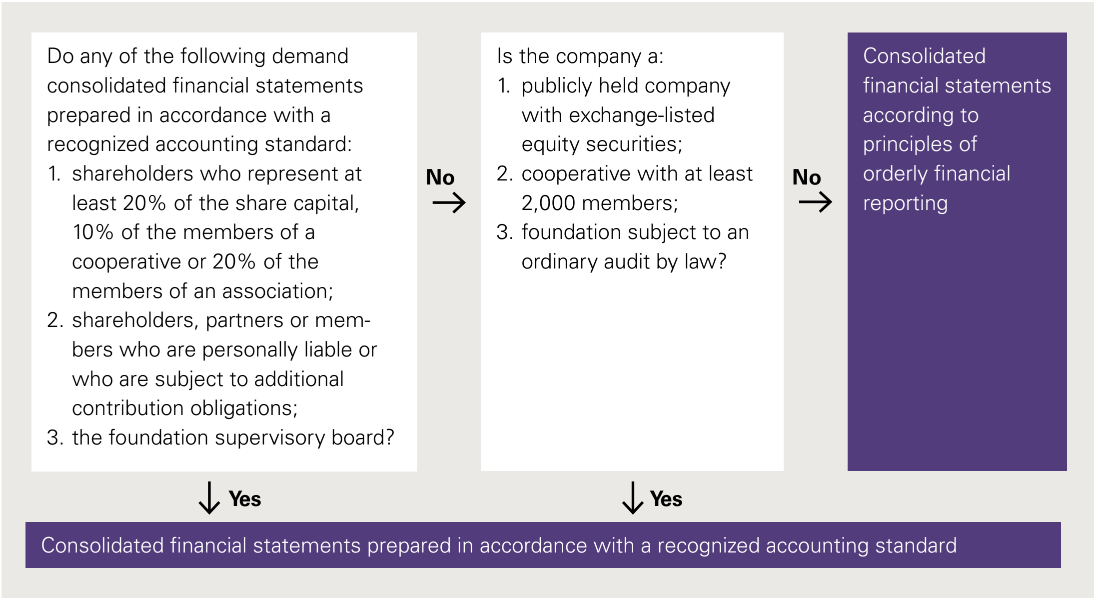


Figure 12 Reporting requirements for consolidated financial statements

Consolidated financial statements which were not prepared in accordance with a recognized accounting standard (see list in Section 4) are subject to the principles of orderly financial reporting (see Section 2.2). The Swiss Law on Accounting and Financial Reporting does not contain any specific accounting principles for consolidated financial statements. In the notes to the financial statements, the entity must state the valuation principles it applies. If it does not apply these consistently, it must disclose this fact in the notes and provide otherwise insight into the group's net assets, financial position and results of operations. Article 963b(3) CO

As the law restricts itself to referring to the principles of orderly financial reporting, the rules regarding the structuring and valuation of the financial statements (see Section 3) are not binding for the consolidated financial statements. However, they may be applied in full, including the provision on hidden reserves. Moreover, for this same reason the reporting requirements for larger entities (see Section 5.2) therefore are not valid. Accordingly, the cash flow statement is not necessarily part of the consolidated financial statements.

Appendix

The following legal provisions are taken from the English version of the Swiss Code of Obligations that is available on the official website of the Swiss Confederation. However, as English is not an official language in Switzerland, this translation is provided for information purposes only and has no legal force. The translation of the technical terms used in the first part of this brochure partly deviates from the official translation.

Title Thirty-Two:[599] Commercial Accounting and Financial Reporting

Section One: General Provisions

Art. 957

A. Duty to keep accounts and file financial reports

[1] The duty to keep accounts and file financial reports in accordance with the following provisions applies to:

1. sole proprietorships and partnerships that have achieved sales revenue of at least 500,000 francs in the last financial year;
2. legal entities.

[2] The following need only keep accounts on income and expenditure and on their asset position:

1. sole proprietorships and partnerships with less than 500,000 francs sales revenue in the last financial year;
2. associations and foundations which are not required to be entered in the commercial Register;
3. foundations that are exempt from the requirement to appoint an auditor under Article 83*b* paragraph 2 Swiss Civil Code[600].

[3] For undertakings in accordance with paragraph 2, recognised accounting principles apply mutatis mutandis.

Art. 957*a*

B. Accounting

[1] Accounting forms the basis for financial reporting. It records the transactions and circumstances that are required to present the asset, financing and earnings position of the undertaking (the economic position).

[2] It follows the recognised accounting principles. Particular note must be taken of the following:

1. the complete, truthful and systematic recording of transactions and circumstances;
2. documentary proof for individual accounting procedures;
3. clarity;
4. fitness for purpose given the form and size of the undertaking;
5. verifiability.

599 Amended by No I 2 of the FA of 23 Dec 2011 (Financial Reporting Law), in force since 1 Jan 2013 (AS **2012** 6679; BBl **2008** 1589). See also the Transitional Provision to this Amendment, at the end of this Code.

600 SR **210**

[3] An accounting voucher is any written record on paper or in electronic or comparable form that is required to be able to verify the business transaction or the circumstances behind an accounting entry.

[4] Accounting is carried out in the national currency or in the currency required for business operations.

[5] It is carried out in one of the official Swiss languages or in English. It may be carried out in writing, electronically or in a comparable manner.

Art. 958

C. Financial reporting
I. Aim and constituent elements

[1] Financial reporting is intended to present the economic position of the undertaking in such a manner that third parties can make a reliable assessment of the same.

[2] The accounts are filed in the annual report. This contains the annual accounts (the financial statements of the individual entity), comprising the balance sheet, the profit and loss account and the notes to the accounts. The regulations for larger undertakings and corporate groups are reserved.

[3] The annual report must be prepared within six months of the end of the financial year and submitted to the responsible management body or the responsible persons for approval. It must be signed by the chairperson of the supreme management or administrative body and the person responsible for financial reporting within the undertaking.

Art. 958*a*

II. Principles of financial reporting
1. Going-concern assumption

[1] Financial reporting is based on the assumption that the undertaking will remain a going concern for the foreseeable future.

[2] If it is intended or probably inevitable that all or some activities will cease in the next twelve months from the balance sheet date, then the financial reports for the relevant parts of undertaking must be based on realisable values. Provisions must be made for expenditures associated with ceasing activities.

[3] Derogations from the going-concern assumption must be specified in the notes to the accounts; their influence on the economic position must be explained.

Art. 958*b*

2. Chronological and material distinction

[1] Expenditure and income must be entered separately depending on the date and nature of the transaction.

[2] Provided the net proceeds from the sale of goods or services or financial income does not exceed 100,000 francs, accruals based on

time may be dispensed with and instead based on expenditure and income.

Art. 958*c*

III. Recognised financial reporting principles

[1] The following principles in particular apply to financial reports:

1. they must be clear and understandable.
2. they must be complete.
3. they must be reliable.
4. they must include the essential information.
5. they must be prudent.
6. the same rules must be applied in presentation and valuation.
7. assets and liabilities and income and expenditure may not be offset against each other.

[2] The sum entered for the individual items on the balance sheet and in the notes to the account must be proven by an inventory or by some other method.

[3] Financial reports must be adapted to the special features of the undertaking and the sector while retaining the statutory minimum content.

Art. 958*d*

IV. Presentation, currency and language

[1] The balance sheet and the profit and loss account may be presented in account or in report form. Items that have no or a negligible value need not be shown separately.

[2] In the annual accounts, the corresponding values of the previous year must be shown alongside the figures for the relevant financial year.

[3] Financial reports are presented in the national currency or in the currency required for business operations. 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.

[4] Financial reports are presented in one of the official Swiss languages or in English.

Art. 958*e*

D. Publication and inspection

[1] Following their approval by the competent management body, the annual accounts and consolidated accounts together with the audit reports must either be published in the Swiss Official Gazette of Commerce or sent as an official copy to any person who requests the same within one year of their approval at his or her expense where the undertaking:

1. has outstanding debentures; or
2. has equity securities listed on a stock market.

2 Other undertakings must allow creditors who prove a legitimate interest to inspect the annual report and the audit reports. In the event of a dispute, the court decides.

Art. 958*f*

E. Keeping and retaining accounting records

1 The accounting records and the accounting vouchers together with the annual report and the audit report must be retained for ten years. The retention period begins on expiry of the financial year.

2 The annual report and the audit report must be retained in a written form and signed.

3 The accounting records and the accounting vouchers may be retained on paper, electronically or in a comparable manner, provided that correspondence with the underlying business transactions and circumstances is guaranteed thereby and provided they can be made readable again at any time.

4 The Federal Council shall issue regulations on the accounting records that must be kept, the principles for keeping and retaining them and on the information carriers that may be used.

Section Two: Annual Accounts

Art. 959

A. Balance sheet
I. Purpose of the balance sheet, duty to prepare a balance sheet and balance sheet eligibility

1 The balance sheet shows the asset and financing position of the undertaking on the balance sheet date. It is structured into assets and liabilities.

2 Items must be entered on the balance sheet as assets if due to past events they may be disposed of, a cash inflow is probable and their value can be reliably estimated. Other assets may not be entered on the balance sheet.

3 Cash and cash equivalents and other assets that will probably become cash or cash equivalents assets or otherwise be realised within one year of the balance sheet date or within the normal operating cycle must be entered on the balance sheet as current assets. All other assets are entered on the balance sheet as capital assets.

4 Borrowed capital and shareholders' equity must be entered on the balance sheet as liabilities.

5 Liabilities must be entered on the balance sheet as borrowed capital if they have been caused by past events, a cash outflow is probable and their value can be reliably estimated.

6 Liabilities must be entered on the balance sheet as current liabilities if they are expected to fall due for payment within one year of the balance sheet date or within the normal operating cycle. All other liabilities must be entered on the balance sheet as long-term liabilities.

7 The shareholders' equity must be shown and structured in the required legal form.

Art. 959*a*

II. Minimum structure

1 Among the assets, the liquidity ratio must be shown based on at least the following items, both individually and in the specified order:

1. current assets:
   a. cash and cash equivalents and current assets with a stock exchange price,
   b. trade receivables,
   c. other current receivables,
   d. inventories and non-invoiced services,
   e. accrued income and prepaid expenses;
2. capital assets:
   a. financial assets,
   b. shareholdings,
   c. tangible fixed assets,
   d. intangible fixed assets,
   e. non-paid up basic, shareholder or foundation capital.

2 The due date of liabilities must be shown based on at least the following items, both individually and in the specified order:

1. current borrowed capital:
   a. trade creditors,
   b. current interest-bearing liabilities,
   c. other current liabilities,
   d. deferred income and accrued expenses;
2. long-term borrowed capital:
   a. long-term interest-bearing liabilities,
   b. other long-term liabilities,
   c. provisions and similar items required by law;
3. shareholders' equity:
   a. basic, shareholder or foundation capital, if applicable separately according to participation classes,
   b. statutory capital reserves,
   c. statutory retained earnings,

d. voluntary retained earnings or accumulated losses as negative items,

e. own capital shares as negative items.

3 Other items must be shown individually on the balance sheet or in the notes to the accounts, provided this is essential so that third parties can assess the asset or financing position or is customary as a result of the activity of the company.

4 Receivables and liabilities vis-à-vis direct or indirect participants and management bodies and vis-à-vis undertakings in which there is a direct or indirect participation must in each case be shown separately on the balance sheet or in the notes to the accounts.

Art. 959*b*

B. Profit and loss account; minimum structure

1 The profit and loss account presents the earnings of the company over the financial year. It may be prepared according to the period-based accounting method or the cost of sales method.

2 If the period-based accounting method is used (nature of expense method), a minimum of the following items must be shown individually and in the specified order:

1. net proceeds from sales of goods and services;
2. changes in inventories of unfinished and finished goods and in non-invoiced services;
3. cost of materials;
4. staff costs;
5. other operational costs;
6. depreciation and valuation adjustments on fixed asset items;
7. financial costs and financial income;
8. non-operational costs and non-operational income;
9. extraordinary, non-recurring or prior-period costs and income;
10. direct taxes;
11. annual profit or annual loss.

3 If the cost of sales method is used (activity-based costing method), a minimum of the following items must be shown individually and in the specified order:

1. net proceeds from sales of goods and services;
2. acquisition or manufacturing costs of goods and services sold;
3. administrative costs and distribution costs;
4. financial costs and financial income;

5. non-operational costs and non-operational income;
6. extraordinary, non-recurring or prior-period costs and income;
7. direct taxes;
8. annual profit or annual loss.

4 If the cost of sales method is used, the notes to the accounts must also show the staff costs and, as a single item, depreciation and valuation adjustments to fixed asset items.

5 Other items must been shown individually in the profit and loss account or in the notes to the accounts to the extent that this is essential in order that third parties can assess the earning power or is customary as a result of the activity of the company.

Art. 959*c*

C. Notes to the accounts

1 The notes to the annual accounts supplement and explain the other parts of the annual accounts. They contain:

1. details of the principles applied in the annual accounts where these are not specified by law;
2. information, breakdowns and explanations relating to items on the balance sheet and in the profit and loss account;
3. the total amount of replacement reserves used and the additional hidden reserves, if this exceeds the total amount of new reserves of the same type where the result achieved thereby is considerably more favourable;
4. other information required by law.

2 The notes to the accounts must also include the following information, unless it is already provided on the balance sheet or in the profit and loss account:

1. the business name or name of the undertaking as well as its legal form and registered office;
2. a declaration as to whether the number of full-time positions on annual average is no more than 10, 50 or 250;
3. the business name, legal form and registered office of undertakings in which direct or substantial indirect shareholdings are held, stating the share of the capital and votes held;
4. the number of its own shares that the undertaking itself holds and that are held by undertakings in which it has shareholdings;
5. acquisitions and sales of its own shares and the terms on which they were acquired or sold;

6. the residual amount of the liabilities from sale-like leasing transactions and other leasing obligations, unless these expire or may be terminated within twelve months of the balance sheet date expiry or be terminated may;
7. liabilities vis-à-vis pension schemes;
8. the total amount of collateral for third party liabilities;
9. the total amount of assets used to secure own liabilities and assets under reservation of ownership;
10. legal or actual obligations for which a cash outflow either appears unlikely or is of an amount that cannot be reliably estimated (contingent liabilities);
11. the number and value of shares or options on shares held by management or administrative bodies and by employees;
12. explanations of exceptional, non-recurring or prior-period items in the profit and loss account;
13. significant events occurring after the balance sheet date;
14. in the event of the auditor's premature resignation: the reasons therefor.

3 Sole proprietorships and partnerships may dispense with notes to the accounts if they are not required to file financial reports under the regulations for larger undertakings. If additional information is required in the regulations on the minimum structure of the balance sheet and profit and loss account and the notes to the accounts are dispensed with, this information must be shown directly on the balance sheet or in the profit and loss account.

4 Undertakings with outstanding debentures must provide information on the amounts concerned, interest rates, maturity dates and other conditions.

Art. 960

D. Valuation
I. Principles

1 Assets and liabilities are normally valued individually, provided they are significant and not normally consolidated as a group for valuation purposes due to their similarity.

2 Valuation must be carried out prudently, but this must not prevent the reliable assessment of the economic position of the undertaking.

3 If there are specific indications that assets have been overvalued or that provisions are too low, the values must be reviewed and adjusted if necessary.

Art. 960*a*

II. Assets
1. In general

[1] When first recorded, assets must be valued no higher than their acquisition or manufacturing costs.

[2] In any subsequent valuation, assets must not be valued higher than their acquisition or manufacturing costs. Provisions on individual types of assets are reserved.

[3] Loss in value due to usage or age must be taken into account through depreciation, while other losses in value must be taken into account through valuation adjustments. Depreciation and valuation adjustments must be applied in accordance with generally recognised commercial principles. They must be deducted directly or indirectly from the relevant assets and charged to the profit and loss account and may not be shown under liabilities.

[4] For replacement purposes and to ensure the long-term prosperity of the undertaking, additional depreciation and valuation adjustments may be made. For the same purposes, the cancellation of depreciation and valuation adjustments that are no longer justified may be dispensed with.

Art. 960*b*

2. Assets with observable market prices

[1] In the subsequent valuation, assets with a stock exchange price or another observable market price in an active market may be valued at that price as of the balance sheet date, even if this price exceeds the nominal value or the acquisition value. Any person who exercises this right must value all assets in corresponding positions on the balance sheet that have an observable market price at the market price as of the balance sheet date. In the notes to the accounts, reference must be made to this valuation. The total value of the corresponding assets must be disclosed separately for securities and other assets with observable market price.

[2] If assets are valued at the stock exchange price or at the market price as of the balance sheet date, a value adjustment to be charged to the profit and loss account may be made in order to take account of fluctuations in the price development. Such valuation adjustments are not permitted, however, if they would result in both the acquisition value and the lower market value being undercut. The total amount of fluctuation reserves must be shown separately on the balance sheet or in the notes to the accounts.

Art. 960*c*

3. Inventories and non-invoiced services

[1] If the realisable value in the subsequent valuation of inventories and non-invoiced services taking account of expected costs is less than the acquisition or manufacturing costs on balance sheet date, this value must be entered.

[2] Inventories comprise raw materials, work in progress, finished goods and resale merchandise.

Art. 960*d*

4. Capital assets

[1] Capital assets are assets that are acquired with the intention of using or holding them for the long-term.

[2] Long-term means a period of more than twelve months.

[3] Shareholdings are shares in the capital of another undertaking that are held for the long-term and confer a significant influence. This is presumed if the shares confer at least 20 per cent of the voting rights.

Art. 960*e*

III. Liabilities

[1] Liabilities must be entered at their nominal value.

[2] If past events lead to the expectation of a cash outflow in future financial years, the provisions probably required must be made and charged to the profit and loss account.

[3] Provisions may also be made in particular for:

1. regularly incurred expenditures from guarantee commitments;
2. renovations to tangible fixed assets;
3. restructuring;
4. securing the long-term prosperity of the undertaking.

[4] Provisions that are no longer required need not be cancelled.

Section Three: Financial Report for Larger Undertakings

Art. 961

A. Additional requirements for the annual report

Undertakings that are required by law to have an ordinary audit must:

1. provide additional information in the notes to the annual accounts;
2. prepare a cash flow statement as part of the annual accounts;
3. draw up a management report.

Art. 961*a*

B. Additional information in the notes to the annual accounts

The notes to the annual accounts must also contain the following information:

1. long-term interest-bearing liabilities, arranged according to due date within one to five years or after five years;

2. on the fees paid to the auditor, with separate items for audit services and other services.

Art. 961*b*

C. Cash flow statement

The cash flow statement presents separately changes in cash and cash equivalents from business operations, investment activities and financing activities.

Art. 961*c*

D. Management report

1 The management report presents the business performance and the economic position of the undertaking and, if applicable, of the corporate group at the end of the financial year from points of view not covered in the annual accounts.

2 The management report must in particular provide information on:

1. the number of full-time positions on annual average;
2. the conduct of a risk assessment;
3. orders and assignments;
4. research and development activities;
5. extraordinary events;
6. future prospects.

3 The management report must not contradict the economic position presented in the annual accounts.

Art. 961*d*

E. Simplification due to consolidated accounts

1 The additional information in the notes to the annual accounts, the cash flow statement and the management report may be dispensed with if the undertaking itself or a legal entity controlling the undertaking prepares consolidated accounts in accordance with a recognised financial reporting standard.

2 The following persons may request financial reports in accordance with the regulations in this Section:

1. company members who represent at least 10 per cent of the basic capital;
2. 10 per cent of cooperative members or 20 per cent of the members of an association;
3. any company member or any member subject to personal liability or a duty to pay in further capital.

Section Four: Financial Statements in accordance with Recognised Financial Reporting Standards

Art. 962

A. General

1 In addition to annual accounts under this Title, the following must prepare financial statements in accordance with a recognised financial reporting standard:

1. companies whose equity securities are listed on a stock market, if the stock market so requires;
2. cooperatives with a minimum of 2000 members;
3. foundations that are required by law to have an ordinary audit.

2 The following may also request financial statements in accordance with a recognised standard:

1. company members who represent at least 20 per cent of the basic capital;
2. 10 per cent of cooperative members or 20 per cent of the members of an association;
3. any company member or any member subject to personal liability or a duty to pay in further capital.

3 The duty to prepare financial statements in accordance with a recognised standard ceases to apply if consolidated accounts are prepared in accordance with a recognised standard.

4 The supreme management or administrative body is responsible for choosing the recognised standard, unless the Articles of Association, the by-laws or the foundation deed provide otherwise or the supreme management body fails to specify the recognised standard.

Art. 962*a*

B. Recognised financial reporting standards

1 If financial statements are prepared in accordance with a recognised financial reporting standard, details of the standard must be given in the financial statements.

2 The chosen recognised standard must be applied in its entirely and for the financial statements as a whole.

3 Compliance with the recognised standard must be verified by a qualified audit specialist. An ordinary audit must be made of the financial statements.

4 Financial statements in accordance with a recognised standard must be submitted to the supreme management body when the annual accounts are submitted for approval, although they do not require approval.

[5] The Federal Council shall specify the recognised standards. It may stipulate requirements that must be met when choosing a standard or when changing from one standard to another.

Section Five: Consolidated accounts

Art. 963

A. Duty to prepare

[1] Where a legal entity that is required to file financial reports controls one or more undertakings that are required to file financial reports, the entity must prepare consolidated annual accounts (consolidated accounts) in the annual report for all the undertakings controlled.

[2] A legal entity controls another undertaking if it:

1. directly or indirectly holds a majority of votes in the highest management body;
2. directly or indirectly has the right to appoint or remove a majority of the members of the supreme management or administrative body; or
3. it is able to exercise a controlling influence based on the articles of association, the foundation deed, a contract or comparable instruments.

[3] A recognised standard under Article 963*b* may define the group of undertakings.

[4] Associations, foundations and cooperatives may delegate the duty to prepare consolidated accounts to a controlled undertaking provided the controlled undertaking concerned brings all the other undertakings together under a single management by holding a voting majority or in any other way and proves that it actually exercises control.

Art. 963*a*

B. Exemption from the duty to prepare accounts

[1] A legal entity is exempt from the duty to prepare consolidated accounts if it:

1. together with the controlled undertaking has not exceeded two of the following thresholds in two successive financial years:
   a. a balance sheet total of 20 million francs,
   b. sales revenue of 40 million francs,
   c. 250 full-time positions on annual average;
2. is controlled by an undertaking whose consolidated accounts have been prepared and audited in accordance with Swiss or equivalent foreign regulations; or

3. it has delegated the duty to prepare consolidated accounts to a controlled undertaking in accordance with Article 963 paragraph 4.

2 Consolidated accounts must nonetheless be prepared where:

1. this is necessary in order to make the most reliable assessment of the economic position;
2. company members who represent at least 20 per cent of the basic capital or 10 per cent of the members of a cooperative or 10 per cent of the members of an association so require;
3. a company member or an association member subject to personal liability or a duty to pay in further capital so requires; or
4. the foundation supervisory authority so requires.

3 If a legal entity in accordance with paragraph 1 number 2 dispenses with preparing the consolidated accounts for the subsidiary group, it must disclose the consolidated accounts of the parent group in accordance with the regulations for its own annual accounts.

Art. 963*b*

C. Recognised financial reporting standards

1 The consolidated accounts of the following undertakings must be prepared in accordance with a recognised financial reporting standard:

1. companies whose equity securities are listed on a stock market, if the stock market so requires;
2. cooperatives with a minimum of 2000 members;
3. foundations that are required by law to have an ordinary audit.

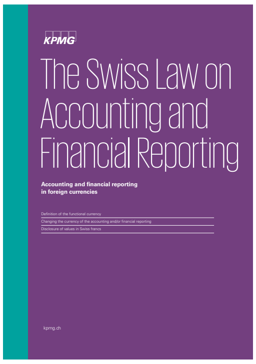
2 Article 962*a* paragraphs 1–3 and 5 apply mutatis mutandis.

3 The consolidated accounts of other undertakings are governed by recognised financial reporting principles. In the notes to the consolidated accounts, the undertaking shall specify the valuation principles. If it derogates from such rules, it shall give notice thereof in the notes to the accounts and provide the information required for assessing the asset, financing and earnings of the corporate group in a different form.

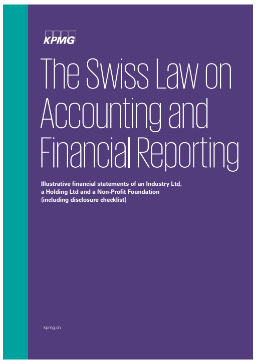
4 Consolidated accounts must nonetheless be prepared in accordance with a recognised financial reporting standard where:

1. company members who represent at least 20 per cent of the basic capital or 10 per cent of the members of a cooperative or 20 per cent of the members of an association so require;
2. a company member or an association member subject to personal liability or a duty to pay in further capital so requires; or
3. the foundation supervisory authority so requires.

Publications



The Swiss Law on Accounting and Financial Reporting
Accounting and financial reporting in foreign currencies



The Swiss Law on Accounting and Financial Reporting
Illustrative financial statements of an Industry Ltd, a Holding Ltd and a Non-Profit Foundation (including disclosure checklist)

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