Swiss GAAP FER – ongoing projects

New or revised Accounting and Reporting Recommendations on government grants and consolidated financial statements

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In the current year, the FER Commission submitted for consultation a new standard on the treatment of government grants and a fundamentally revised standard on consolidated financial statements. This article provides an update on the current status of the projects and sets out the proposed new rules and amendments in these two areas.

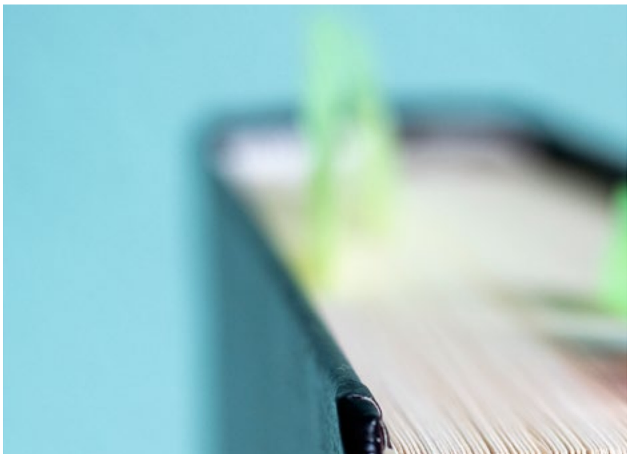
New standard "Government Grants"

In December 2017, the FER Commission launched a review to evaluate the need for regulation in the area of government grants. A resolution was then adopted in June 2019 to draft corresponding regulations. The draft for this separate standard proposed by the FER Executive Committee was approved for consultation in December 2020, and the consultation period ran from 15 March to 30 June 2021. Around 60 submissions were received. These are currently being analyzed and will be brought to the attention of the FER Commission at its November 2021 meeting, where the further schedule, including effective date, will also be discussed.

The new standard aims to improve the comparability and transparency of financial statements prepared in accordance with Swiss GAAP FER with respect to government grants, especially since the review process revealed a widely diverse range of approaches in practice. The key provisions of the draft are summarized below:

Definition and categorization

- Government grants are defined as compensation by a governmental institution for services rendered by the organization as part of its operating activities.
- Such payments are distinguished from regular ones in that the organization gains a special economic benefit as a result, which implies an imbalance between the services rendered and payments received. Consequently, organizations that merely pass on grants as a transitory item do not fall within the scope of the recommendation, as no such benefit accrues to them.
- A distinction is made between asset-based and income-based government grants. Asset-based grants are those linked to the main condition that an organization purchases, manufactures or otherwise acquires non-current assets as a contingency of the grant. Conversely, income-based grants are any grants that do not relate to assets. This includes concessional loans such as COVID-19 loans from the federal government and the cantons.



Recognition, measurement and disclosure

- Government grants are not only recognized at the time of the cash flow, but as soon as there is an entitlement to them.
- Asset-based grants are either to be recognized as deferred income (gross method) or deducted directly from the asset (net method). Releasing the deferred income over the useful life of the asset has the same effect on income as the reduced depreciation under the net method.
- Income-based grants are recognized through profit or loss at the time the expenses to be compensated are incurred. They are reported in the income statement either separately or under the item “Other operating income” (gross method); otherwise the subsidies can be deducted directly from the corresponding expenses (net method).
- Unlike asset-based grants, income-based grants do not have to be measured at current value. This means, for example, that there is no obligation to determine market rents or to split loans with preferential interest rates into a loan and a grant component. However, extended disclosure requirements are in place to ensure the necessary transparency.

Disclosures

- The nature and extent of recognized government grants must be disclosed. The current value of non-monetary income-based grants must also be stated to ensure the necessary transparency regarding the amount received even if another valuation basis is used for the income statement. If these items cannot be valued, or the effort required to do so would be unreasonable, then explanations should at least be provided (e.g. for guarantees).
- Disclosures must be made if government grants are subject to conditions that have not yet been met in full or to possible repayment obligations.

Revised standard “Swiss GAAP FER 30 – Consolidated financial statements”

After initiating the review process in June 2017, the FER Commission adopted the resolution to revise Swiss GAAP FER 30 in June 2018 and tasked the FER Executive Committee with preparing a draft. The draft submitted was approved by the FER Commission for consultation at its meeting on 29 June 2021; the consultation will run from 1 September to 31 December 2021. According to the project plan, the draft should be finalized in the first half of 2022 and enter into force on 1 January 2024, with an option for voluntary early adoption.

The main objective of the revision of Swiss GAAP FER 30 is to close existing regulatory gaps and scope for interpretation in key areas, thus also increasing the comparability of consolidated financial statements prepared in accordance with Swiss GAAP FER. The key changes and amendments proposed in the draft primarily relate to the following four core areas:

Goodwill/negative goodwill

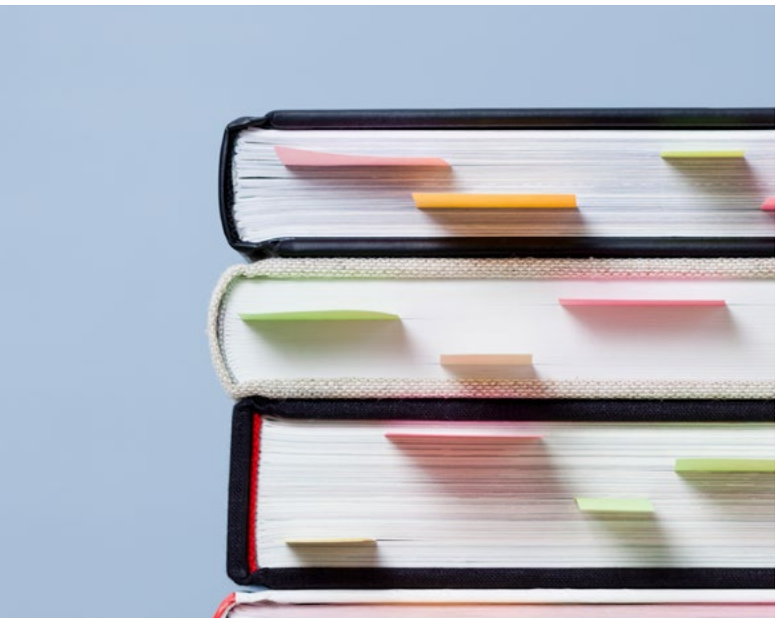
- There is still an option to offset goodwill directly against equity upon acquisition without affecting profit or loss, however the provisions for this have been defined in greater detail. In the future, companies that offset goodwill (but not those that capitalize and amortize goodwill) must also measure and recognize at the time of acquisition any material intangible assets not previously recognized in the target (at least trademarks, patents and licenses, if any). This will reduce the amount of goodwill that can be offset.

"New requirement to value and recognize trademarks, patents and licenses before offsetting goodwill."

- Negative goodwill is determined and treated using the same approach as with goodwill: if goodwill is offset, negative goodwill is also offset against equity; if goodwill is capitalized and amortized, negative goodwill is recognized as a liability and released to profit or loss over a maximum of five years.
- When a subsidiary or business unit is sold, any goodwill or negative goodwill offset against equity is (as before) recognized in profit or loss at the original cost (entry: gain on disposal/equity. Closure and liquidation are explicitly equated with disposal. In the case of a disposal in stages, pro rata "recycling" must take place.
- Earn-out arrangements must be taken into account when determining the acquisition costs on the acquisition date if an outflow of funds is probable. The subsequent measurement of such contingent purchase price components is performed as of each balance sheet date, with changes leading to an adjustment of goodwill or negative goodwill (capitalized or offset against equity). This corresponds to the previously applicable rule under IFRS.
- The goodwill or negative goodwill items offset against equity must be presented as a separate component (column) in the statement of changes in equity.

Step acquisitions

- The gradual (step) acquisition and sale of shares (e.g. increasing the share in a company from 20% to 80%) is governed by new regulations.
- In the case of a step acquisition, goodwill or negative goodwill is calculated separately for each step of the acquisition, whereby the net assets acquired are valued at current values as of the date control is obtained (with recognition of the difference between current values and carrying amounts on existing shares in equity). This means that the net assets acquired are included in the consolidated financial statements at their full current value on the date control is obtained. The solution chosen is based on an approach previously applied under IFRS. The useful life of goodwill or negative goodwill is determined separately for each share acquisition.
- In the case of shares being sold in steps, the gain/loss on disposal is determined separately for each step of the sale and recognized in profit or loss. If the sale of shares in steps results in an equity investment or a financial asset (loss of control), the remaining portion is valued on a pro rata basis at the amount of net assets, taking into account the pro rata goodwill or negative goodwill. This concept also corresponds to the solution previously applicable under IFRS.
- In the case of purchases of minority interests, goodwill or negative goodwill is calculated as the difference between the acquisition cost and the proportional carrying amount of the minority interests. The acquisition of minority interests is therefore accounted for as a separate acquisition step and – unlike under IFRS – not as a shareholder transaction.



Recycling of foreign currency translation differences

- The loss of control over or significant influence on companies with financial statements in foreign currencies leads to derecognition through profit or loss of the cumulative foreign currency translation differences recognized in equity. An analogous rule applies to foreign currency translation differences on equity-like loans.
- If a subsidiary is sold in stages and there is no loss of control, the cumulative foreign currency translation differences are to be allocated on a pro rata basis to the minority interests with no effect on profit or loss. In the case of other disposals in stages (e.g. reduction of interest from 40% to 30%), the cumulative foreign currency translation differences are to be recognized on a pro rata basis in the profit/loss for the period.

Equity method

- The concept of "significant influence" is clarified. Significant influence is presumed to exist if the share of votes amounts to at least 20%, unless this can be disproved. If the share of votes is less than 20%, it is presumed that no significant influence exists, unless such influence can be proved.
- To include an investment using the equity method, the respective entity should prepare financial statements in accordance with Swiss GAAP FER. In the absence of such financial statements, at least the material items of the financial statements must comply with internal group accounting guidelines in accordance with Swiss GAAP FER.
- Upon initial recognition using the equity method, the net assets acquired are revalued at the current value. However, such revaluation is only necessary for those assets and liabilities whose current value differs significantly from the value that would have resulted if Swiss GAAP FER had always been applied. In the case of goodwill offsetting, previously unrecognized intangible assets are to be valued and recognized analogously to the requirements for acquisitions.
- Goodwill must be treated in the same way as for fully and proportionately consolidated companies.

Due to the far-reaching changes, various simplifications are provided for first-time adopters (transitional provisions). For example, the new rules on goodwill/negative goodwill and on derecognition of cumulative foreign currency translation differences through profit or loss will only apply to acquisitions or disposals after 1 January 2024 (expected effective date). If it is impracticable to determine the cumulative foreign currency translation differences for each subsidiary or associate as of 1 January 2024, these translation differences can be set to zero (known as a "fresh start").

Silvan Loser
Partner,
Department of Professional Practice (DPP)
KPMG Switzerland

+41 58 249 25 51
silvanloser@kpmg.com

Links to the consultation drafts

Government grants (→ Deadline for submissions expired)
www.fer.ch/projekte/zuwendungen-der-oeffentlichen-hand

Swiss GAAP FER 30 – Consolidated financial statements
(→ Deadline for submissions: 31 December 2021)
Swiss GAAP FER 30 – Consolidated financial statements – Swiss GAAP FER

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