Swiss GAAP FER 30 adopted

Fundamentally revised recommendation on consolidated financial statements

At its meeting in mid-May 2022, the FER Commission adopted the revised recommendation Swiss GAAP FER 30 with entry into force as of 1 January 2024. This article sets out the most important new provisions in the core areas.

History and background

After initializing the review process in June 2017, the FER Commission passed a resolution to revise Swiss GAAP FER 30 in June 2018 and mandated the FER Executive Committee to prepare a respective draft. The FER Commission approved the submitted draft for consultation at its meeting on 29 June 2021. A total of 42 comments were received as part of the consultation process, which ran from 1 September to 31 December 2021, and these were subsequently evaluated and incorporated into the draft. At its meeting of 27 April 2022, the FER Commission then once again examined the proposed changes in detail. The final draft was put to the vote at the meeting of 24 May 2022, where it was adopted effective as of 1 January 2024 with 25 votes in favor, one against and two abstentions.

Key changes

The main objective of the revision of Swiss GAAP FER 30 was to close regulatory gaps and scope for interpretation in core areas, enabling better comparability of consolidated financial statements prepared in accordance with Swiss GAAP FER. The material changes and amendments primarily relate to the following four core areas:

Goodwill/negative goodwill

- The existing option to *offset goodwill against equity* at acquisition without affecting profit or loss is retained, but further developed. In future, companies that offset goodwill (but not those that capitalize and amortize goodwill) will also have to measure and recognize at acquisition intangible assets of the acquired subsidiary that were not previously recognized and that were relevant to the decision to acquire control. This will reduce the amount of goodwill that can be offset.

- Capitalized goodwill is to be amortized on a pro rata basis (normally linearly) over its *useful life*, which may not exceed 20 years. If the useful life cannot be determined, goodwill is to be amortized over a period of five years.
- *Negative goodwill* is determined and treated in the same way as goodwill: if the company has opted to offset goodwill against equity, negative goodwill is also offset against equity; if the company has opted to capitalize and amortize goodwill, negative goodwill must be recognized as a liability and released to profit or loss over a maximum of five years.
- As already the case previously, when a subsidiary or part of a business is sold, any goodwill or negative goodwill offset against equity is recognized in profit or loss at the original cost (entry: gain on disposal / equity). It is now stated that *closure* or *liquidation* is equivalent to a disposal. In addition, in the case of a disposal in stages, the amounts should be recycled on a pro rata basis.
- *Earn-out provisions* must be taken into account when determining the acquisition cost at the acquisition date if an outflow of funds is probable. Subsequent measurement of such contingent purchase price components is performed as of each balance sheet date, with changes resulting in an adjustment to goodwill or negative goodwill (capitalized or offset against equity). Compensation for future work performed by the seller is not included in the purchase price components.
- Goodwill or negative goodwill items offset against equity must be presented as a separate component (column) in the *statement of changes in equity*.

Acquisitions/disposals in stages

- New provisions are in place to govern *stepwise acquisition and disposal of interests* (e.g. increase of the share in a company from 30% to 80%, triggering a change from the equity method to full consolidation). Control is assumed unchanged if a company holds more than half of the voting rights in a subsidiary.
- If *equity interests are acquired in stages*, goodwill or negative goodwill is determined separately for each step of the acquisition. The net assets acquired are to be measured at their fair value at the date when control is obtained (with the difference between the fair values and the carrying amounts on existing shares recognized in equity). Thus, the acquired net assets are included in the consolidated financial statements at their full fair value at the date when control is obtained. The useful life of goodwill or negative goodwill is determined separately for each acquisition step.
- If *equity interests are disposed of in stages*, the profit/loss is calculated separately for each step and recognised in profit or loss. If the disposal in stages results in an associated entity or a financial asset (loss of control or loss of significant influence), the remaining equity interest is measured on the basis of the pro rata net assets, taking into account the pro rata goodwill or negative goodwill.
- For the *purchase of minority interests*, goodwill or negative goodwill is calculated as the difference between the acquisition cost and the proportional carrying amount of the minority interest. The acquisition of minority interests is thus accounted for as a separate acquisition step and not as a transaction with shareholders.
- The regulations on the acquisition and disposal of equity interests in stages and the treatment of minority interests differ from the currently applicable IFRS requirements, but are based on previously applicable IFRS provisions.

Recycling of foreign currency differences

- The *loss of control* (< 50%) or the *loss of significant influence* (< 20%) over companies whose financial statements are prepared in a foreign currency requires the reclassification to profit or loss of the accumulated foreign currency differences recognised in equity. An analogous rule applies to foreign currency translation differences on loans with equity character.
- If *equity interests are sold in stages* and there is no loss of control (e.g. from 100% to 80%), the cumulative foreign currency differences are to be allocated proportionately to the minority interests with no effect on profit or loss. In the case of other disposals in stages (e.g. reduction in equity interest from 40% to 30%), accumulated foreign currency differences are to be recognized in profit or loss on a pro rata basis.
- In the event of any *repayment of intragroup loans with equity character*, the accumulated foreign currency differences can either be reclassified to profit or loss on a pro rata basis or be left in equity (accounting policy choice).

Equity method

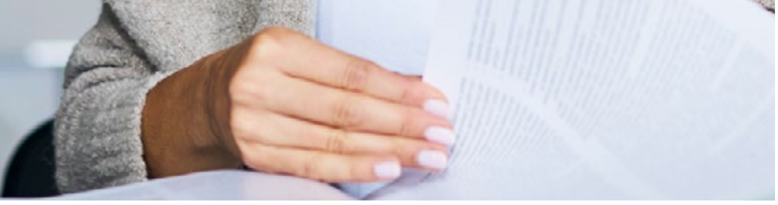
- The concept of *significant influence* is clarified. Significant influence is presumed to exist if the share of voting rights is at least 20%, unless it can be demonstrated that this is not the case. If the share of votes is less than 20%, it is presumed that there is no significant influence, unless it can be demonstrated that this is the case.

- When including an investment using the equity method, this should be based on *financial statements* for that company prepared in accordance with Swiss GAAP FER. If no such financial statements are prepared, at least the material items of the financial statements must comply with group accounting guidelines in line with Swiss GAAP FER.
- At the time of *initial recognition under the equity method*, the net assets acquired are revalued at fair value. However, such a revaluation is only necessary for assets and liabilities whose fair value deviates significantly from the value that would have resulted had Swiss GAAP FER always been applied. In the case of goodwill offsetting, previously unrecognized intangible assets are to be measured and recognized analogously to the requirements for acquisitions.
- The *treatment of goodwill* is identical to that for entities which are fully or proportionately consolidated. If goodwill is recognised as an asset, it is to be reported in the balance sheet within "Investments in associated entities". The amortization of goodwill is part of the result from associated entities.

Initial application

The revised standard is effective for reporting periods beginning on or after 1 January 2024, with early adoption permitted. The previous year's figures and disclosures are to be restated retrospectively in accordance with section 30 of the FER Framework. The transitional provisions grant users two significant simplifications:

- No restatement is necessary with regard to the acquisition and disposal of interests in companies that were concluded before 1 January 2024.
- If the allocation of existing accumulated foreign currency differences as of 1 January 2024 to subsidiaries, associated entities and loans with equity character is impracticable, these translation differences may be set to zero ("fresh start").



Conclusion

With the adoption of the new version of Swiss GAAP FER 30, the FER Commission has successfully completed a project initiated back in mid-2017. Complex technical and strategic issues have led to this long project duration. The feedback from the consultation was analyzed in detail and has been incorporated into the recommendation. The FER Commission was careful to consider the concerns of privately held, non-listed companies in particular. The new provisions close gaps in a pragmatic manner in a few, but central areas, while retaining tried-and-tested concepts. At the same time, the changes support users in answering difficult accounting questions, while still maintaining the favorable cost-benefit balance that Swiss GAAP FER 1 seeks to achieve.

Implications for the board of directors
Even though the revised provisions on consolidated financial statements are not applicable until 2024, it is advisable to analyze the effects at an early stage. In particular, large business combinations may have a significant impact on the presentation of the consolidated financial statements. Companies should therefore consider whether early adoption of the revised recommendation could be beneficial.

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Link to the standard as well as to the synopsis (comparison of old and revised standard)
https://www.fer.ch/en/projects/swiss-gaap-fer-30-consolidated-financial-statements/

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