The Swiss Law on Accounting and Financial Reporting

Accounting and financial reporting in foreign currencies

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3rd edition | Status: January 2024

Sources used/citations

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

- Swiss Auditing Manual, volume "Accounting and Financial Reporting", chapter II.3.4. EXPERTsuisse 2023 [hereinafter: *HWP BF&RL 2023*].
- Selected questions and answers on the law on accounting and financial reporting, question 8.1, illustrative example 4. EXPERTsuisse 2023 [hereinafter: *Q&A 2023, illustrative example 4*].

In the interest of readability, these sources 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 terminology is used in this brochure:

Foreign currency
Any currency that is not the functional currency.

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 as a whole in a foreign currency to Swiss francs.

01

Accounting and financial reporting in foreign currencies

[Basis: HWP BF&RL 2023, II.3.4]

1.1 Basics and preliminary remarks

Commercial accounting and financial reporting is regulated in the 32nd title of the Swiss Code of Obligations (CO). The law permits accounting/financial reporting either in Swiss francs or in the currency required for business operations (functional currency). However, if the national currency is not used for the annual financial statements, the figures must also be stated in Swiss francs. The corresponding provisions can be found in Article 957a para. 4 CO and Article 958d para. 3 CO:

B. Accounting	**Article 957a para. 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 para. 3 CO** 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.

With the revised company law, effective as of 01.01.2023, companies are also able to denominate the nominal value capital in the functional currency, provided this corresponds to a currency recognized by the Federal Council (GBP, EUR, USD or JPY). If this option is exercised, accounting and financial reporting must be carried out in the same currency. The corresponding provisions can be found in Article 621 CO:

B. Share capital	**Article 621 CO** 1 The share capital amounts to at least 100,000 francs. 2 A share capital in the foreign currency required for business operations is also permitted. At the time of foundation, this must have a value equivalent to at least 100,000 francs. If the share capital is in a foreign currency, the accounts must be kept and financial reports must be filed in the same currency. The Federal Council shall specify which currencies are permitted. 3 The general meeting may resolve to change the currency of the share capital at the start of any financial year. In such an event, the board of directors shall amend the articles of association. It shall establish that the requirements of paragraph 2 have been met, and specify the exchange rate applied. The resolutions of the general meeting and of the board of directors must be done as a public deed.

If the nominal value capital is denominated in a foreign currency, only the values in the functional currency are relevant for all commercial and company law issues.

This publication is intended to serve as a practical aid in connection with questions relating to the topic of "foreign currencies". A particular focus is placed on the steps involved in converting commercial accounting and/or financial reporting to a foreign currency, which are illustrated using examples.

1.2 Terms

Functional currency
The law does not define the term "the currency required for business operations" (cf. Article 957a para. 4 CO and Article 958d para. 3 CO). In line with recognized accounting standards, this is to be understood as the functional currency. The functional currency of a company is the currency of the primary economic environment in which the company operates and in which the cash flows mainly occur. The factors to be considered when determining the functional currency include:

- the currency in which the sales prices of goods and services are denominated and settled;
- the currency of the country whose market 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.

The law places no restrictions on the foreign currencies permitted for the functional currency. This means that, in principle, any foreign currency is permissible as a functional currency. In contrast, the law restricts the possible foreign currencies for denominating the nominal value capital (cf. section 1.3).

Accounting currency
The accounting currency is the currency in which the accounts are kept. According to Article 957a para. 4 CO, the accounting currency may be either Swiss francs or the currency required for business operations (functional currency).

As Article 957a para. 4 CO provides a choice, the accounting may always be in Swiss francs for commercial law purposes, even if the Swiss franc is not the currency required for business operations. Only the choice of a foreign currency must be justified.

Financial reporting currency
The financial reporting currency is the currency in which the annual financial statements are prepared in accordance with commercial law. Article 958d para. 3 CO defines the permissible financial reporting currencies as either Swiss francs or the currency required for business operations (functional currency).

As Article 958d para. 3 CO provides a choice, the financial reporting may always be prepared in Swiss francs for commercial law purposes, even if the Swiss franc is not the currency required for business operations. Only the choice of a foreign currency must be justified.

According to Article 621 para. 2 CO, it is permissible under certain conditions to denominate the nominal value capital in the currency required for business operations.

1.3 Possible currency combinations for accounting and financial reporting

Based on the explanations in the sections above, the following four combinations are available for accounting and financial reporting:

	Combination 1 **NVC in CHF** **ACC in CHF** **FR in CHF**	**Combination 2** **NVC in CHF** **ACC in fFC** **FR in CHF**	**Combination 3** **NVC in CHF** **ACC in fFC** **FR in fFC**	**Combination 4** **NVC in fFC** **ACC in fFC** **FR in fFC**
Chapter in brochure	n/a	Chapter 2	Chapter 3	Chapter 4
Nominal value capital	CHF	CHF	CHF	According to HRegV: GBP, EUR, USD or JPY
ACC currency	CHF	fFC	fFC	The same currency as the nominal value capital
FR currency	CHF	CHF	fFC	The same currency as the nominal value capital
Specification of CHF values pursuant to Article 958d para. 3 CO required?	n/a	n/a	Yes	Yes
CHF values relevant?	Yes (the AFS only show CHF values)	Yes (the AFS only show CHF values)	Yes, for corporate law aspects relating to equity (including distributability, return of capital contributions, capital loss)	No

NVC = nominal value capital; ACC = accounting; FR = financial reporting; fFC = functional foreign currency/ functional currency; AFS = annual financial statements

In addition to the four listed combinations of currencies for accounting and financial reporting, it would also be conceivable to carry out the accounting in Swiss francs and the financial reporting in the functional currency (nominal value capital in Swiss francs). Due to its lack of practical relevance, this combination is not included in the table.

If the legal requirements for the use of a foreign currency for accounting and/or financial reporting purposes are no longer met, the accounting or financial reporting currency must be adjusted. The adjustment must be made at the beginning of the following financial year and explained in the notes to the financial statements (in the year in which the change is made). The comparative figures for the previous year remain in the currency that was the functional currency in the previous year.

1.4 Company codes/branch offices with different currencies

Accounting for a legal entity can be carried out in several company codes, whereby each company code must be maintained in its functional currency or in Swiss francs. The most common use cases are the foreign branch office, which does not form an independent legal entity and is therefore not recognized as an investment, and company codes that represent business areas within a legal entity.

These company codes can be translated into the currency of the annual financial statements under commercial law using the modified current/non-current method or the modified closing rate method (cf. section 2.1).

02

Nominal value capital in Swiss francs, accounting in foreign currency, financial reporting in Swiss francs

[Basis: HWP BF&RL 2023, II.3.4.2]

2.1 General information

According to the Swiss Code of Obligations, it is possible to use the functional currency for accounting purposes but to prepare the financial statements in Swiss francs (financial reporting currency). The accounting currency on which the annual financial statements are based should not affect the annual financial statements in Swiss francs, i.e. the annual financial statements must be presented as if the accounts had been kept in Swiss francs. This also means that only the values in Swiss francs are relevant for company law issues (all capital-related aspects such as creation of reserves, resolutions on the distribution of a dividend or the repayment of legal capital reserves, return of capital contributions and determination of a capital loss).

In practice, the following two translation methods are usually used to determine the values in Swiss francs in the financial statements for commercial law purposes:

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 non-monetary non-current liabilities at historical rates
- Translation of shareholders' equity at historical rates
- Translation of the income statement at the average rate for the period
- Recognition of translation differences in the income statement, taking into account the imparity principle (deferral of unrealized gains)

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 average rate for the period
- Recognition of translation differences in the income statement, taking into account the imparity principle (deferral of unrealized gains)

Translation losses recognized in the income statement in previous years may be reversed in subsequent years to the extent that the exchange rates have recovered.

From a tax perspective, according to the Federal Supreme Court decision BGE 136 II 88 et seq. translation differences are not to be taken into account when determining the taxable profit. The Federal Supreme Court's decision not to take into account the translation differences from the financial statements in Swiss francs for the tax assessment purposes is intended as the economic consequence of calculating back to the "real profit" and reflecting the company's actual financial position as shown in the annual financial statements in the functional currency.

2.2 Appropriation of available earnings and repayment of capital

If the financial statements are prepared in Swiss francs, the proposed appropriation of available earnings as well as the proposed repayment of legal capital reserves must also be presented in Swiss francs. The assessment of the ability to distribute or repay is based solely on the values in Swiss francs.

A distribution or repayment resolved in Swiss francs can be recognized in the accounting currency at the transaction rate (date of the resolution by the Annual General Meeting or date of payment) or at the average historical rate of the equity components to be distributed. If, for accounting purposes, the exchange rate on the payout date is not used, foreign currency differences arise from the valuation of the dividend/repayment liability between the date of the resolution by the Annual General Meeting and the payout date, which are to be recognized in the income statement. The chosen procedure must be disclosed in the notes to the financial statements as an applied accounting principle (Article 959c para. 1 no. 1 CO).

03

Nominal value capital in Swiss francs, accounting in foreign currency, financial reporting in foreign currency

[Basis: HWP BF&RL 2023, II.3.4.3]

3.1 General information

In the case of accounting and financial reporting in foreign currencies, the provisions of the Swiss Code of Obligations concerning accounting and financial reporting are to be applied to the values in the functional currency.

The purpose of financial reporting, i.e. to present the company's economic position in such a way that third parties can make a reliable assessment of the same (Article 958 para. 1 CO), can only be fulfilled by the annual financial statements in the currency required for business operations, but not by the values in national currency, which must also be disclosed (Article 958d para. 3 CO). The disclosure of the values in Swiss francs is intended purely for indicative purposes and cannot necessarily be used for the "reliable assessment". In particular, due to the lack of historical exchange rates, it cannot be expected that the annual financial statements in local currency give the impression that the company has always kept its accounts in Swiss francs.

As long as the nominal value capital is not denominated in the functional currency, the Swiss franc remains relevant for the assessment of company law aspects. The legal provisions on equity pertain to the capital in Swiss francs. Depending on the translation method, equity items in the functional currency may differ from those in Swiss francs due to (cumulative) translation differences. This has consequences in particular for the appropriation of available earnings/repayment of capital and for the determination of the relevant reference values for a capital loss and a return of capital contributions:

Appropriation of available earnings and repayment of capital	**Capital loss**	**Return of capital contributions**
The proposal of the Board of Directors regarding the appropriation of available earnings and the repayment of legal capital reserves must be presented not only in the functional currency but also in Swiss francs, whereby the Swiss franc calculation remains decisive for the maximum distribution/repayment. For further details, cf. section 3.3.	For reasons of prudence, the provision regarding capital loss (Article 725a CO) must be observed both in Swiss francs and in the functional currency, i.e. the breach is triggered by the currency in which the critical value is first exceeded.	For reasons of prudence, the provision regarding return of capital contributions (Article 680 para. 2 CO) must be observed both in Swiss francs and in the functional currency, i.e. the breach is triggered by the currency in which the critical value is first exceeded.

3.2 Disclosure of values in Swiss francs

3.2.1 Translation methods

Neither the law nor the dispatch contain any information on determining the values in Swiss francs for the additional disclosure. However, the suitability of a translation method must be assessed not only from a financial reporting perspective, but also from a broader perspective, in particular from a tax and company law point of view.

With this in mind, there are basically two possible translation methods:

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

3.2.1.1 Method 1: closing rate method, equity at historical rates

a) Translation

Under this method, equity items are translated at historical rates. The other balance sheet items are translated at the closing rate, while the items in the income statement 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 shown directly in equity (as a separate component of available earnings) via a "translation difference" item.

Notes that are directly related to an item in the financial statements are translated at the same rate as that item. Disclosures in the notes that are independent of other items are translated appropriately at either the closing rate or the average rate.

b) Legal aspects

The changes in the equity items, with the exception of the translation difference, are easily comprehensible in the local currency by applying historical exchange rates. The equity item "translation difference" is allocated to the available earnings.

The individual equity positions in functional currency and in Swiss francs may differ significantly over time.

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

Illustrative example 1

- Disclosure of values in Swiss francs
- Method 1: Closing rate method, equity at historical rates
  [figures from illustrative example 6]

Exchange rates: historical EUR = 2.00 CHF, closing rate EUR = 3.00 CHF, average EUR = 2.50 CHF

Balance sheet	Closing balance sheet 31.12.20x1 EUR	Exchange rate	Values in 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	2.00	150.0
• Available earnings			
– Results carried forward	25.0	2.00	50.0
– Net profit/loss for the year	300.0		750.0
– Translation difference	n/a	n/a	250.0
Total liabilities and shareholders' equity	**550.0**		**1,650.0**

Income statement	Income statement 20x1 EUR	Exchange rate	Values in CHF
Profit/loss excluding foreign currency result	100.0	2.50	250.0
Foreign currency result	200.0	2.50	500.0
Net profit/loss for the year	**300.0**		**750.0**

The translation difference recognized in availables earnings is composed as follows:

	EUR	Exchange rate	CHF
Shareholders' equity in EUR as at 1.1.20x1, translated at the exchange rate as at 31.12.20x1	100.0	3.00	300.0
./. Shareholders' equity in EUR as at 1.1.20x1, translated at the exchange rate as at 1.1.20x1	–100.0	2.00	–200.0
Profit 20x1, translated at the exchange rate as at 31.12.20x1	300.0	3.00	900.0
./. Profit 20x1, translated at the average rate 20x1	–300.0	2.50	–750.0
Total translation difference			**250.0**

3.2.1.2 Method 2: translation at the closing rate, equity valued in the foreign currency balance sheet

The “translation at the closing rate, equity valued in the foreign currency balance sheet” method (cf. example in Buchmann, René / Duss, Fabian / Handschin, Lukas (2013): Rechnungslegung in Fremdwährung, Probleme und Lösungsansätze aus buchhalterischer, handelsrechtlicher und steuerlicher Sicht. In: EXPERT FOCUS 11/2013, p. 823-835) has not become established in practice, which is why it will not be discussed further here. However, the method is considered to be a permissible translation method.

3.2.2 Disclosure

3.2.2.1 Disclosure of the values in Swiss francs

Disclosure in Swiss francs is required for all components of the financial statements. This explicitly also applies to the disclosures in the notes.

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

	Reporting year		Previous year	
Balance sheet item	EUR	Values in CHF	EUR	Values in CHF

Other forms of disclosure are also possible (for example, the complete presentation of the financial statements converted into Swiss francs in a separate note).

All values in the annual financial statements must also be stated in full in local currency, i.e. all individual items.

3.2.2.2 Disclosure of the translation method applied and the exchange rates used

If the financial statements are prepared in the currency required for business operations (functional currency), the exchange rates used for the disclosures in Swiss francs must be disclosed in the notes and explained if necessary (Article 958d para. 3 CO). In addition to the mere disclosure of the exchange rates used, the translation method used must also be disclosed, for example closing rates for balance sheet amounts and average rates for transaction amounts.

3.3 Appropriation of available earnings and repayment of capital

3.3.1 Distributions from available earnings

As explained in section 3.1, both the values in the functional currency and in Swiss francs are relevant for the dividend distribution. The translation difference increases or reduces the distributable equity in Swiss francs.

The Board of Directors' proposal for the appropriation of available earnings must be presented not only in the functional currency, but also in Swiss francs, whereby the Swiss franc view remains decisive for the maximum distribution. However, the proposed appropriation of available earnings in Swiss francs may not exceed distributable equity elements in the functional currency. Furthermore, the development of exchange rates must be monitored up to the time of the distribution resolution so that available earnings that have already been depleted by unfavorable exchange rate developments are not distributed.

Illustrative example 2 shows how the proposal for the appropriation of available earnings can be presented:

Nominal value capital in Swiss francs, accounting in foreign currency, reporting in foreign currency

Illustrative example 2
[Basis: Q&A 2023, illustrative example 4]

- Presentation of the proposal for the appropriation of available earnings for accounting and financial reporting in foreign currency [figures from illustrative example 1]

Proposal for the appropriation of available earnings 20x1

	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 earnings amount to	**325.0**	**1,050.0**

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

	EUR	CHF
Payment of a dividend in the amount of	100.0	300.0
Allocation to the legal retained earnings in the narrower sense	15.0	37.5
Balance to be carried forward		
• Results carried forward	210.0	462.5
• Translation difference	n/a	250.0
Total	**325.0**	**1,050.0**

The Board of Directors proposes a dividend distribution of EUR 100.0, but no more than CHF 300.0. The maximum amount of CHF 300.0 will be converted into EUR at the time of the resolution by the Annual General Meeting using the exchange rate applicable on that day. If the resulting amount is less than the EUR 100.0 proposed for distribution, the distribution will only be made in the amount of this lower amount.

Note:
In the above example with an intended dividend payout of EUR 100.0, the proposed dividend payout in the CHF column could be increased to a maximum of CHF 1,012.5 (available earnings of CHF 1,050.0 less minimum reserve allocation of CHF 37.5) in order to build in the largest possible buffer for any exchange rate fluctuations until the resolution is passed by the Annual General Meeting.

3.3.2 Repayment of capital contribution reserves

As explained in section 3.1, in the case of financial reporting in a foreign currency, the Board of Directors' proposal for the repayment of legal capital reserves must be presented not only in the functional currency but also in Swiss francs. The consideration in Swiss francs is decisive for the maximum repayment, but the proposed repayment in Swiss francs may not exceed the repayable legal capital reserves in the functional currency. Furthermore, possible changes in the exchange rates up to the time of the repayment resolution must be taken into account when presenting the repayment proposal.

The Swiss Federal Tax Administration (SFTA) maintains the capital contribution reserves (CCR) in the currency of the nominal value capital (in this case Swiss francs) regardless of the reporting currency used (cf. SFTA Circular No. 29c). For the roll-forward and determination of the CCR, the SFTA converts a distribution made in a foreign currency into Swiss francs at the daily exchange rate valid at the time of payment.

Due to this practice of the SFTA, there is the problem with regard to the appropriation of available earnings that the CCR deduction is made at a rate that is not yet known at the time of the resolution by the Annual General Meeting.

The illustrative example 3 shows a possible presentation variant that can be used to take into account the SFTA's practice.

Depending on the exchange rate development between the balance sheet date and the payment date, the following constellations may occur in the case of financial reporting in foreign currency and repayments from the CCR (assumption: existing CCR are to be distributed in full):

- Falling foreign currency exchange rates: the CCR in foreign currency amount to 0, with a residual amount in Swiss francs;
- Rising foreign currency exchange rates: the CCR in Swiss francs amount to 0, with a residual balance in foreign currency.

As equity is translated at historical rates for the disclosure of values in Swiss francs (cf. section 3.2.1.1), the CCR holdings in foreign currency accounting must be adjusted in the above constellations (transfers between CCR and other reserve items, as a foreign currency holding of 0 cannot result in a positive Swiss franc holding regardless of the historical rate used, and a positive foreign currency holding cannot result in a Swiss franc holding of 0 regardless of the historical rate used). In principle, such reclassifications should not exist if financial reporting is performed in a foreign currency, because the Code of Obligations rules on financial reporting must be applied to the values in foreign currency (cf. section 3.1). However, as the CCR remain denominated in Swiss francs despite financial reporting in foreign currency, the adjustments mentioned cannot be avoided.

Nominal value capital in Swiss francs, accounting in foreign currency, reporting in foreign currency

Illustrative example 3

- Presentation of the proposal for repayment of legal capital reserves

X Ltd. uses EUR for its accounting and financial reporting. As at 31 December 20x1, the balance sheet of X Ltd is presented as follows:

Balance sheet as at 31.12.20x1	**EUR**	**Exchange rate**	**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 reserves (= Reserves from capital contributions)	100.0	2.0	200.0
• Legal retained earnings	50.0	2.0	100.0
• Available earnings			
– Results carried forward	0.0	2.0	0.0
– Net profit/loss for the year	0.0		0.0
– Translation difference	n/a	n/a	0.0
Total liabilities and shareholders' equity	**250.0**		**500.0**

The Board of Directors would like to distribute resp. repay all of the capital contribution reserves existing as at 31.12.20x1. The relevant proposal may be presented as follows:

Proposed repayment of legal capital reserves 20x1

	EUR	**CHF**
Legal capital reserves	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 repayment of legal capital reserves:

	EUR	**CHF**
Repayment of legal capital reserves	100.0	200.0
Balance to be carried forward	0	0
Total	**100.0**	**200.0**

The Board of Directors proposes a repayment of legal capital reserves of EUR 100.0, 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 repayment, the repayment will only be of this lower amount. The due date for the repayment will be set for [DATE].

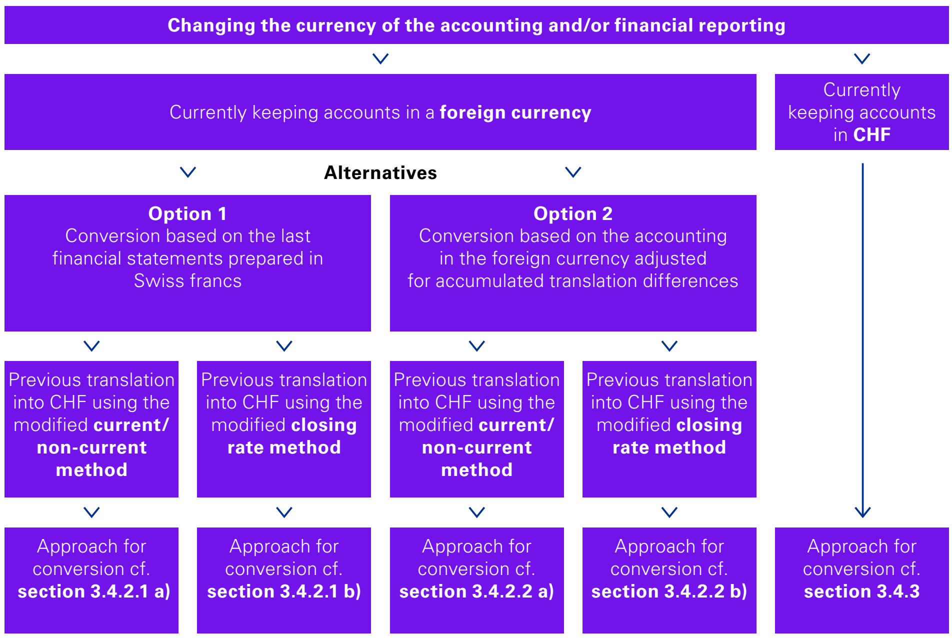
3.4 Conversion of the accounting and/or financial reporting currency

3.4.1 Overview

If *the accounts are currently kept in a foreign currency,* a company may choose between two options for changing the financial reporting to its functional currency. 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 2.1).

If *the accounts are currently kept 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 option as well as the current method used for the translation of the financial statements, the following figure outlines the approaches for the currency conversion recognized by the auditing profession, using illustrative examples:



After a change in the accounting and/or financial reporting currency, a description of the change and a reconciliation of the equity items in the notes to the financial statements are required for all variants respectively approaches (Article 959c para. 1 no. 1 and 2 CO). A possible presentation for the reconciliation of equity items can be found in illustrative example 7.

3.4.2 Current accounting in foreign currency

3.4.2.1 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

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 at the closing rate on the date of the conversion. (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 in foreign currency (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 also be released through the income statement. If such a provision is not released, it constitutes a hidden reserve going forward.

Nominal value capital in Swiss francs, accounting in foreign currency, reporting in foreign currency

Illustrative example 4

- 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

20x0 financial statements (= starting base, accounting in EUR/financial reporting in CHF)
Exchange rates: historical EUR = 1.00 CHF, closing rate EUR = 2.00 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	n/a	n/a	0.0
Shareholders’ equity			
• Share capital	150.0	1.00	150.0
• Available earnings			
– Results carried forward	100.0	1.00	100.0
– Net profit/loss 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)	0.0		–125.0
Net profit/loss for the year	**50.0**		**–50.0**

Nominal value capital in Swiss francs, accounting in foreign currency, reporting in foreign currency

Illustrative example 4 – continuation

20x1 financial statements (conversion to accounting and financial reporting in EUR as at 1.1.20x1)

	Opening balance sheet 1.1.20x1			Period (adjustment opening balance sheet)	Period (operating activities)	Closing balance sheet 31.12.20x1/ Income statement 20x1
Balance sheet	**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
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
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
• Available earnings						
– Results carried forward	50.0	2.00	25.0			25.0
– Net profit/loss for the year				100.0	100.0	200.0
Total liabilities and shareholders' equity	**500.0**		**250.0**			**450.0**

Income statement	**CHF**	**Exchange rate**	**EUR**	**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 profit/loss for the year				**100.0**	**100.0**	**200.0**

Step 1: Conversion of the last CHF annual statement at the closing rate
Step 2: Adjustment of non-current monetary items to their nominal value in foreign currency through the income statement
Step 3: Reversal of the provision for unrealized translation gains through the income statement

Note:
The balance sheets/income statements shown in the illustrative examples are limited to the information relevant for illustrating the steps and therefore do not comply with the minimum classification requirements of accounting law.

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, where the previous financial statements had 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 at the closing rate on the date of the conversion.

Step 2:
Existing provisions for unrealized translation gains converted using the closing rate, must be released through the income statement. If such a provision is not released, it constitutes a hidden reserve going forward.

Nominal value capital in Swiss francs, accounting in foreign currency, reporting in foreign currency

Illustrative example 5

- 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

20x0 financial statements (= starting base, accounting in EUR/financial reporting in CHF)
Exchange rates: historical EUR = 1.00 CHF, closing rate EUR = 2.00 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	n/a	n/a	275.0
Shareholders' equity			
• Share capital	150.0	1.00	150.0
• Available earnings			
– Results carried forward	100.0	1.00	100.0
– Net profit/loss 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		0.0
Net profit/loss for the year	**50.0**		**75.0**

Nominal value capital in Swiss francs, accounting in foreign currency, reporting in foreign currency

Illustrative example 5 – continuation

20x1 financial statements (conversion to accounting and financial reporting in EUR as at 1.1.20x1)

Balance sheet	Opening balance sheet 1.1.20x1 CHF	Exchange rate	EUR	Period (adjustment opening balance sheet) EUR	Period (operating activities) EUR	Closing balance sheet 31.12.20x1/ Income statement 20x1 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
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
• Available earnings						
– Results carried forward	175.0	2.00	87.5			87.5
– Net profit/loss for the year				137.5	100.0	237.5
Total liabilities and shareholders' equity	**900.0**		**450.0**			**550.0**

Income statement	CHF	Exchange rate	EUR	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 profit/loss for the year				**137.5**	**100.0**	**237.5**

Step 1: Conversion of the last CHF annual financial statement at the closing rate
Step 2: Reversal of the provision for unrealized translation gains through the income statement

3.4.2.2 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

In contrast to option 1 shown in section 3.4.2.1 a), in option 2 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 in the statutory financial reporting 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 at the closing rate on the date of the conversion.

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 financial reporting 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 closing rate must be released through the income statement. If such a provision is not released, it constitutes 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 reporting currency, however, is a "normal" transaction in the statutory financial statements that must be recognized according to the principles of orderly accounting and financial reporting. Recognizing the conversion gain or loss directly in the equity is therefore not permissible.

Nominal value capital in Swiss francs, accounting in foreign currency, reporting in foreign currency

Illustrative example 6

- 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

20x0 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	n/a	n/a	0.0
Shareholders’ equity			
• Share capital	150.0	1.00	150.0
• Available earnings			
– Results carried forward	100.0	1.00	100.0
– Net profit/loss 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)	0.0		–125.0
Net profit/loss for the year	**50.0**		**–50.0**

Nominal value capital in Swiss francs, accounting in foreign currency, reporting in foreign currency

Illustrative example 6 – continuation

20x1 financial statements (conversion to accounting and financial reporting in EUR as at 1.1.20x1)

	Opening balance sheet 1.1.20x1			Period (adjustment opening balance sheet)	Period (operating activities)	Closing balance sheet 31.12.20x1/ Income statement 20x1
Balance sheet	**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
• Available earnings						
– Results carried forward	50.0	2.00	25.0			25.0
– Net profit/loss for the year				200.0	100.0	300.0
Total liabilities and shareholders' equity	**500.0**		**250.0**			**550.0**
Income statement	**CHF**	**Exchange rate**	**EUR**	**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 profit/loss for the year				**200.0**	**100.0**	**300.0**

Step 1: Conversion of the last CHF annual statement at the closing rate
Step 2: Adjustment of non-current items to their historical carrying amounts in foreign currency through the income statement
Step 3: Reversal of the provision for unrealized translation gains through the income statement

In accordance with Article 959c para. 1 no. 1 and 2 CO, a description of the conversion and a reconciliation of the equity items in the notes to the financial statements are required after the conversion of the accounting and/or financial reporting currency. A possible presentation can be found in the illustrative example 7.

Illustrative example 7

- Presentation of the reconciliation of equity items in the notes to the financial statements [figures from illustrative examples 6 and 1]

Based on the figures from the illustrative example 6 and the resulting values in Swiss francs according to the illustrative example 1, the reconciliation of equity items in the notes to the annual financial statements can be presented as follows:

	EUR			Values in CHF		
Reconciliation of equity items	**Share capital**	**Available earnings**	**Total shareholders' equity**	**Share capital**	**Available earnings**	**Total shareholders' equity**
Amounts in CHF according to financial statements 31.12.20x0	n/a	n/a	n/a	150.0	50.0	200.0
Amounts in CHF according to financial statements of 31.12.20x0, 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 of the financial reporting currency to EUR (recorded in the income statement)		200.0	200.0		500.0	500.0
Net profit for the year 20x1 (excluding foreign currency result from the change of the financial reporting currency to EUR)		100.0	100.0		250.0	250.0
Translation differences from the translation of the financial statements to Swiss francs	n/a	n/a	n/a		250.0	250.0
Total	**75.0**	**325.0**	**400.0**	**150.0**	**1,050.0**	**1,200.0**

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 5 in section 3.4.2.1 b).

3.4.2.3 Side note: continuation of accounting data in the foreign currency (without any further adjustments) as a not permissible option

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 financial 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 3.2) would have a directly traceable connection to the last statutory financial statements in Swiss francs that were approved by the Annual General Meeting. Reconciliation 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. section 3.4.2.2.

Illustrative example 8

- 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 8 is only to illustrate the conceptual differences compared to option 2 presented in section 3.4.2.2, which is the permissible option to continue the existing accounting data in a foreign currency.

20x0 Financial Statements (= starting base, accounting in EUR/financial reporting in CHF)
Exchange rates: historical EUR = 1.00 CHF, closing rate EUR = 2.00 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	n/a	n/a	0.0
Shareholders' equity			
• Share capital	150.0	1.00	150.0
• Available earnings			
– Results carried forward	100.0	1.00	100.0
– Net profit/loss 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)	0.0		–125.0
Net profit/loss for the year	**50.0**		**–50.0**

Illustrative example 8 – continuation

20x1 financial statements (conversion to accounting and financial reporting in EUR as at 1.1.20x1)

	Opening balance sheet 1.1.20x1			Period (adjustment opening balance sheet)	Period (operating activities)	Closing balance sheet 31.12.20x1/ Income statement 20x1
Balance sheet	**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
• Available earnings						
– Results carried forward			150.0			150.0
– Net profit/loss for the year				0.0	100.0	100.0
Total liabilities and shareholders' equity			**450.0**			**550.0**
Income statement	**CHF**	**Exchange rate**	**EUR**	**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		0.0
Net profit/loss for the year				**0.0**	**100.0**	**100.0**

Compared to the permitted conversion option 2 shown in illustrative example 6, 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 result.

3.4.3 Current accounting in Swiss francs

With current 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 values (if applicable, less accumulated depreciation and impairment losses), and the applicable exchange rate (closing rate at the date of the 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 at the closing rate on the date of the conversion.

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 financial reporting currency.

Step 3:
Existing provisions for unrealized exchange rate gains, converted using the closing rate at the date of the conversion, must be released through the income statement (with the exception of any unrealized translation gains related to a third currency). If such a provision is not released, it constitutes a hidden reserve going forward.

Illustrative example 9

- Current accounting in Swiss francs

20x0 Financial Statements (= starting base, accounting/financial reporting in CHF; only monetary items denominated in a foreign currency are subject to translation)

Exchange rates: historical EUR = 1.00 CHF, closing EUR = 2.00 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
• Available earnings			
– Results carried forward			100.0
– Net profit/loss 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 profit/loss for the year			**–50.0**

Illustrative example 9 – continuation

20x1 financial statements (conversion to accounting and financial reporting in EUR as at 1.1.20x1)

	Opening balance sheet 1.1.20x1			Period (adjustment opening balance sheet)	Period (operating activities)	Closing balance sheet 31.12.20x1/ Income statement 20x1
Balance sheet	**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
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	2.00	75.0			75.0
• Available earning						
– Results carried forward	50.0	2.00	25.0			25.0
– Net profit/loss for the year				100.0	100.0	200.0
Total liabilities and shareholders' equity	**500.0**		**250.0**			**450.0**

Income statement	**CHF**	**Exchange rate**	**EUR**	**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 profit/loss for the year				**100.0**	**100.0**	**200.0**

Step 1: Conversion 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.*)]

*) If financial reporting is 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 20x0 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.

3.4.4 Summary of the principles

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

1. The starting basis 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 para. 1 no. 1 and 2 CO). A possible presentation for the reconciliation of equity items can be found in the illustrative example 7.

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 3.2 as well as the illustrative example 7).

04

Nominal value capital in foreign currency, accounting in foreign currency, financial reporting in foreign currency

[Basis: HWP BF&RL 2023, II.3.4.4]

4.1 General information

According to Article 621 para. 2 CO, the nominal value capital (share capital in the case of a public limited company) can be denominated in a foreign currency. If this option is used, accounting and financial reporting must be carried out in the same currency and the currency must correspond to a currency determined by the Federal Council (and be the functional currency). In addition to the Swiss franc, Article 45a in conjunction with Annex 3 of the Commercial Register Ordinance (HRegV) specifies the following currencies as permissible for the nominal value capital: GBP, EUR, USD, JPY.

The nominal value capital can either be determined in the functional currency directly at the time of incorporation or it can be changed at a later date as per the beginning of each financial year from Swiss francs to the foreign currency required for business operations. If the decision to change the currency of the nominal value capital is made later, it is the responsibility of the General Meeting to make this decision (Article 621 para. 3 CO). It is possible to pass the resolution to change the currency of the nominal value capital retroactively for the current financial year. It should be noted that retroactive effectiveness can only apply for financial reporting purposes, and possibly to a limited extent, but not under company law. Effectiveness under company law only takes place with the constitutive entry in the commercial register. This means that, for example, a dividend that is approved at the same General Meeting as the currency conversion of the nominal value capital must still be assessed in the previous currency of the share capital.

If a corporation changes its nominal value capital into the foreign currency required for business operations at the beginning of a financial year, the amount of CCR confirmed by the SFTA must also be converted at the exchange rate in accordance with Article 621 para. 3 CO. The amount of CCR calculated in this way must be reported to the SFTA using the ordinary procedure and shown accordingly in the annual financial statements.

4.2 Disclosure of values in Swiss francs

4.2.1 Translation methods

Even if the nominal value capital is denominated in the functional currency, Article 958d para. 3 CO remains unchanged, according to which the values must also be disclosed in the national currency if the financial statements are prepared in a foreign currency. However, since only the values in the functional currency are relevant for all questions of commercial and company law and the disclosure of Swiss francs is purely for information purposes, all disclosures in Swiss francs (balance sheet, income statement, cash flow statement if applicable, notes) can be made by translation at the closing rate. Of course, one of the translation methods described in section 3.2.1 may also be used.

4.2.2 Disclosure

Disclosure is made in the same way as described in section 3.2.2.

4.3 Appropriation of available earnings and repayment of capital

4.3.1 Distributions from available earnings

If accounting and financial reporting as well as the nominal value capital are kept in the same currency, there are no difficulties with the appropriation of available earnings. The appropriation of available earnings is decided by the Annual General Meeting in the functional currency, which is also the accounting and financial reporting currency, and recorded in the same currency (results carried forward to dividend liability). If the dividend is distributed in a foreign currency (e.g. in Swiss francs), the foreign currency valuation of the dividend liability is recognized in the income statement.

4.3.2 Repayment of capital contribution reserves

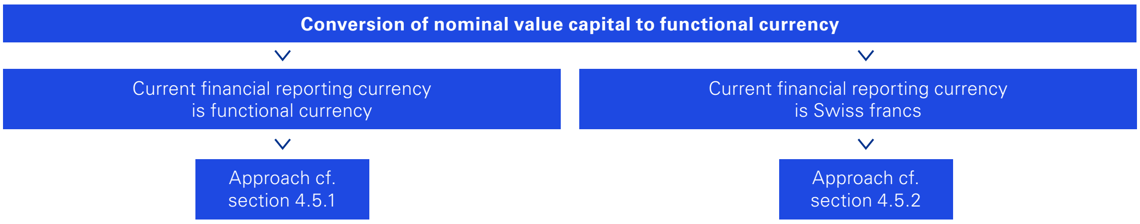
For companies with a nominal value capital in foreign currency, the SFTA also maintains and confirms the CCR in the functional currency of the company (cf. SFTA circular no. 29c). Therefore, no difficulties arise in the case of repayments. The repayment is decided by the Annual General Meeting in the same way as the distribution from available earnings in the functional currency and this amount reduces the CCR reported to the SFTA.

4.4 Conversion of the accounting and/or financial reporting currency

The approach is carried out in the same way as described in section 3.4.

4.5 Conversion of nominal value capital

The presentation of the first-time conversion from a nominal value capital in Swiss francs to the functional currency depends on whether the financial reporting currency was already in the functional currency or in Swiss francs prior to the conversion:



4.5.1 Current financial reporting in foreign currency

If the financial reporting currency was already the functional foreign currency before the conversion, the nominal value capital is converted in two steps:

Step 1:
The equity items contained in the CHF column are converted into the functional currency at the closing rate. This also applies to the translation difference in Swiss francs.

Step 2:
In a second step, the existing translation difference is transferred to the results carried forward.

Illustrative example 10

Balance sheet	Closing balance sheet as at 31.12.20x0 EUR	Exchange rate	Values in CHF	Exchange rate	Adjusted opening balance sheet as of 01.01.20x1 Step 1 Conversion to EUR	Step 2 Transfer translation difference	Total EUR
Cash and cash-equivalents	150.0	3.00	450.0	3.00	150.0		150.0
Long-term loans	200.0	3.00	600.0	3.00	200.0		200.0
Investments	80.0	3.00	240.0	3.00	80.0		80.0
Property, plant and equipment	120.0	3.00	360.0	3.00	120.0		120.0
Total assets	**550.0**		**1,650.0**		**550.0**		**550.0**
Long-term loans payable	150.0	3.00	450.0	3.00	150.0		150.0
Shareholders' equity							
• Share capital	75.0	2.00	150.0	3.00	50.0		50.0
• Available earnings							
– Results carried forward	325.0		750.0	3.00	250.0	100.0	350.0
– Translation difference	n/a	n/a	300.0	3.00	100.0	–100.0	0.00
Total liabilities and shareholders' equity	**550.0**		**1,650.0**		**550.0**		**550.0**

4.5.2 Current financial reporting in Swiss francs

The procedure is based on the explanations in section 3.4.3.

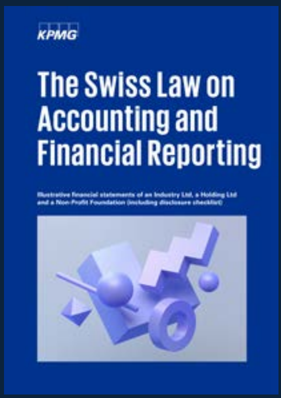
4.6 Subsequent change of the currency of the nominal value capital

If the statutory requirements for maintaining the nominal value capital in a certain foreign currency are no longer met, the currency must be changed. This can be triggered, for example, by a subsequent change in the foreign currency required for business operations or a subsequent change in the permissible currencies for the nominal value capital specified by the Federal Council in the HRegV.

The conversion to the new currency is carried out as described in section 3.4. However, it should be noted that at the time of conversion, the nominal value capital must be at least the Swiss franc equivalent, which is defined as the statutory minimum capital (CHF 100,000 in the case of a public limited company). If the CHF 100,000 are not covered at the time of the conversion, the Board of Directors must propose to the General Meeting not only the planned change of currency (Article 621 para. 3 CO) but also a corresponding capital increase (e.g. by means of conversion through freely available equity), provided that a capital increase could not take place within the framework of the capital band. If the General Meeting rejects the corresponding proposals of the Board of Directors (a change in the currency of the nominal value capital requires a qualified majority in accordance with Article 704 para. 1 no. 9 CO), the currency cannot be changed. In this case, the currency required for business operations must be disclosed in the notes to the annual financial statements.

The change in financial reporting currency means that the comparative figures for the previous year are not presented in the annual financial statements in the same currency as the figures for the current year in accordance with Article 958d para. 2 CO. To ensure that the two years are presented in the same currency and are therefore comparable, two approaches are conceivable: Preferably, the previous year's figures are additionally shown in the current presentation currency. Alternatively, the figures for the current financial statements can additionally be shown in the previous presentation currency. These comparative figures require a clear explanation that they are additional information solely for the purpose of comparability and therefore have no legal consequences respectively effect on the figures for the reporting year.

Publications



The Swiss Law on Accounting and Financial Reporting
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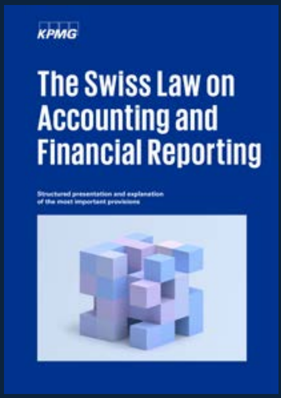

The Swiss Law on Accounting and Financial Reporting
Structured presentation and explanation of the most important provisions

Published by

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