Swiss GAAP FER – important Changes to the Swiss true and fair view accounting standard

For many years, Swiss GAAP FER has provided medium-sized Swiss corporate groups and Swiss SMEs with an accounting standard that is geared towards them. It has been spared major changes over recent years. As of today, however, the standard setter has adopted significant changes and additions in two areas. In this article, we explain and discuss the new aspects that need to be considered.

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Swiss GAAP FER aims to provide a basis for meaningful accounting according to the true and fair view principle. Valuations are based on fair values or the lower-of-cost-or-market principle. Consequently, there is basically no room for hidden reserves – as in the annual financial statements under the Swiss Code of Obligations.

The standard takes into account the specifics of Swiss companies, be it in the recognition of pension benefit obligations or in industry-specific topics in the insurance or non-profit sectors. Numerous options also allow for accounting tailored to each individual preparer of financial statements.

Recently significant clarifications and changes have been communicated. The commission responsible has adapted the existing regulations on consolidated financial statements, and precise accounting guidelines for government grants have been issued for the first time. The amendments shall apply on a mandatory basis from 1 January 2024. They can have a significant impact on the future balance sheet and should therefore be taken into account at an early stage when preparing the financial statements.

Consolidated financial statements – goodwill as a sticking point

The consolidated financial statements include the financial statements of the par-ent entity (holding) and its subsidiaries, as well as those of joint ventures and associated entities. Subsidiaries are fully consolidated. In the event of an acquisition, assets acquired and liabilities assumed are to be recognised as of the date when control is obtained and measured at their acquisition-date fair values. Under certain conditions, intangible assets, which have not been recognised previously in the acquired entity, but were relevant to the decision to obtain control, are also to be identified and recognised. These can be brand names or recipes, for example.

Any positive difference between the acquisition cost and the revalued net assets acquired is to be recognised as goodwill. It is still permissible to offset goodwill against equity – but only at the acquisition date. Offsetting leads to a reduction in equity, but subsequently no longer has a negative impact on group profit, as the corresponding goodwill amortisation no longer applies. According to Swiss GAAP FER, goodwill must usually be amortised over a period of 5 years, up to a maximum of 20 years in exceptional cases.

Offsetting goodwill against equity – yes or no?

If goodwill is offset against equity, however, the previously unrecognised intangible assets that were relevant to the

decision to acquire control must first be identified and recognised.

This can only be waived if goodwill is not offset against equity, i.e. if the full amount of goodwill is capitalised. From a company's point of view, the question of which option to choose is therefore highly relevant.

Even in the SME segment, the purchase price of an acquisition is sometimes linked to future events and may therefore change at a later date. According to Swiss GAAP FER, purchase price components that are contingent on future events (e.g. earnouts) are part of the acquisition costs at the acquisition date provided that cash outflows to the seller are likely. Conditional purchase price components are subsequently measured at each balance sheet date, with changes resulting in the adjustment of goodwill. In addition, deferred and off-balance sheet purchase price components must be disclosed in the notes.

Government grants – impact on the balance sheet

Even in pre-corona times the federal government alone paid out subsidies amounting to 42 billion Swiss francs (2019 accounts). These subsidies represent 59 percent of annual federal expenditure.

Just under half of these funds are allocated to the area of social welfare in the form of compensation, financial aid, grants or subsidies. In addition, considerable government grants are paid into the areas of education and research, (public) transport and agriculture. Government grants increased sharply during the corona pandemic, for example due to hardship payments made to companies and sectors that were particularly badly affected.

Swiss GAAP FER has now for the first time published rules for the treatment of such grants in the annual financial statements. A distinction is made between grants related to assets and grants related to income.

Government grants – differences

Asset-based grants are conditional on investments being made by the company. The grant must therefore either be offset against the investment or allocated to deferred income. In the second case, the investment is recognised at its full value. Non-monetary government grants related to assets (e.g. land) must be measured at fair value at the time of initial recognition.

Government grants related to income are, for example, expense allowances or compensations. They are to be disclosed as other operating income over the periods during which the organisation recognises the corresponding expenses. It is therefore often not possible to recognise income directly at the time the costs are approved.

In some cases, government grants are also made in kind. These non-monetary benefits must also be taken into account, explained in the notes, and the value of the benefits received must be disclosed.

CONCLUSION

Swiss GAAP FER is a stable true and fair view accounting framework with numerous options. The option to offset goodwill of an acquisition against equity continues to apply when preparing the consolidated financial statements. But in this case, it should be noted that the previously unrecognised intangible assets that were relevant to the decision to acquire control must first be identified and recognised.

Government grants have increased, not least during the corona pandemic. Swiss GAAP FER provides guidance on the treatment of subsidies, contributions or allowances in the annual financial statements. Depending on the chosen accounting treatment of asset-related subsidies, there are differences in key figures such as the equity ratio. When recognising income-related grants, care must be taken to ensure that they do not directly represent income, but are distributed over the period during which the corresponding expenses are incurred by the company.