Accounting and Reporting Recommendations

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SWISS GAAP FER

Foundation for accounting and reporting recommendations

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Contents

3 Structure and contents of the recommendations

3.1 Users

The focus of Swiss GAAP FER is on the accounting of small and medium-sized organisations and groups with a national reach. Further users are non-profit organisations, pension funds, insurance companies, real estate and health insurers. Those organisations thus dispose of a suitable basis for meaningful accounting that provides a true and fair view of the financial position, the cash flows and the results of operations. Communication with investors, banks and other interested parties will also be raised, and the comparability of financial statements between organisations will be facilitated simultaneously.

3.2 Concept

The concept is modularly built and consists of four pieces: the framework, the core FER, further standards and Swiss GAAP FER 30 for groups of organisations.
For small organisations (criteria according to figure 1) the possibility exists to apply only the framework and selected central recommendations (core FER). The concept consists of a tailored selection of recommendations that provide a suitable basis for accounting and simultaneously help pave the subsequent path for full application of the Swiss GAAP FER (see figure 2).
Medium-sized organisations have to apply core FER as well as further Swiss GAAP FER. Groups of organisations have to additionally apply Swiss GAAP FER 30, consolidated financial statements. This standard consists of all regulations concerning the consolidation. Small groups of organisations (according to the criteria in Swiss GAAP FER 1 "basics", figure 1) apply core FER and Swiss GAAP FER 30 and groups of medium size apply core FER, further FER and Swiss GAAP FER 30, respectively. Listed companies are also required to comply with Swiss GAAP FER 31 "Complementary recommendation for listed companies".

Smaller organisations which do not exceed two of the following criteria in two consecutive years can confine themselves to the application of the core FER:
a) balance sheet total of CHF 10 million,
b) annual net sales from goods and services of CHF 20 million,
c) 50 fulltime employees on average per year.

Figure 1: Criteria for the application of core FER

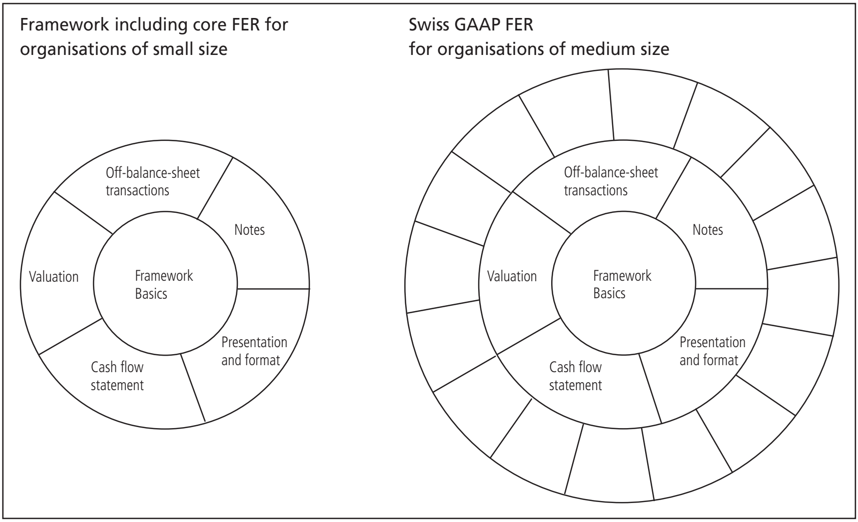


Figure 2: Modular structure of Swiss GAAP FER

The framework, binding for all organisations, contains the principles that form the basis for the accounting according to Swiss GAAP FER. The framework specifically contains the following elements: Purpose and content, objective of financial statements, basis of the financial statements, allowed valuation principles for assets and liabilities and qualitative requirements. Additionally, the principles of Swiss GAAP FER are named and the relationship to the tax law is described.

3.3 Core FER (Framework and Swiss GAAP FER 1–6)

The core FER consists of

- Framework
- Basics (Swiss GAAP FER 1)
- Valuation (Swiss GAAP FER 2)
- Presentation and format (Swiss GAAP FER 3)
- Cash flow statement (Swiss GAAP FER 4)
- Off-balance-sheet transactions (Swiss GAAP FER 5)
- Notes (Swiss GAAP FER 6).

3.4 Further Swiss GAAP FER (Swiss GAAP FER 10–41, without FER 14, 21, 26 and 41)

The core FER and further FER are applicable for financial statements of single organisations as well as for consolidated financial statements. All questions solely referring to consolidated financial statements are separately reglemented in Swiss GAAP FER 30 "consolidated financial statements". Swiss GAAP FER 30 is therefore only relevant to groups of organisations. With Swiss GAAP FER 30 any incertitude to what extent recommendations relate to single organisations or to groups of organisations are eliminated. Listed companies are also required to comply with Swiss GAAP FER 31 "Complementary recommendation for listed companies".

3.5 Industry-specific Swiss GAAP FER

Concerning the scope of Swiss GAAP FER 14 "Consolidated financial statements of insurance companies" and Swiss GAAP FER 41 "Accounting for real estate insurers and health insurers":
The basis for the new industry-specific standard Swiss GAAP FER 41 "Accounting for real estate insurers and health insurers" was the project to revise Swiss GAAP FER 14 "Consolidated financial statements of insurance companies" which was enacted January 1, 1996. Participants in this project were larger, nationally oriented insurance organisations (private insurers, health insurers, cantonal real estate insurers including their re-insurers). The authorities (Federal Office of Private Insurance FOPI, which was merged with the Swiss Financial Market Supervisory Authority FINMA and the Federal Office of Public Health FOPH) have accompanied the project group as observers.
In 2008 a consultation took place and resulted in inconsistent perceptions. It has been criticised that the single as well as the consolidated financial statements should be regulated by one Swiss GAAP FER, only. Additionally, it was pointed out that the IFRS for insurance contracts was not yet completed and that the concept for valuation of the investments does not comply with the actual IFRSs. There was a fear that fundamental differences between IFRS and Swiss GAAP FER may lead to an additional revision of Swiss GAAP FER 14 (revised).
Swiss GAAP FER 14 "Consolidated financial statements of insurance companies" contains special dispositions regarding consolidated financial statments of insurance companies.
Swiss GAAP FER 21 "Accounting for charitable non-profit organisations" is addressed to charitable non-profit organisations.
Swiss GAAP FER 26, "Accounting for pension plans" is to be applied by pension plans.
Swiss GAAP FER 41 "Accounting for real estate insurers and health insurers" has to be applied by organisations active in these markets.

4 Services

Homepage: www.fer.ch

Users and further interested parties may wish to consult the homepage to inform themselves of the current Swiss GAAP FER developments. The homepage includes drafts currently submitted for approval as well as the newly approved standards in original text (until the publication of the next Swiss GAAP FER-brochure). Summaries of the remaining Swiss GAAP FER standards are available on the homepage

Publications

The brochure is issued annually or every second year, includes a conceptual introduction to the individual Swiss GAAP FER; it is the only official publication of Swiss GAAP FER. Order and delivery are handled by the SKV-Verlag (see www.fer.ch)

User comments

Swiss GAAP FER has limited personnel resources. Therefore, interpretation and application questions cannot be answered individually. Questions of major importance will be addressed to the Swiss GAAP FER Commission, who will decide whether actions and related procedures are necessary. During the annual Swiss GAAP FER-seminar answers shall be given for the most important questions. Comments regarding existing or possible future standards can be submitted to Swiss GAAP FER as suggestions.

Swiss GAAP FER Framework

Revised: 2014
Enacted: January 1, 2016
(Earlier adoption is allowed)

Purpose and content of the framework

1 The framework defines the accounting principles.
- Accounting according to Swiss GAAP FER follows the objective of providing a true and fair view of the financial position, the results of operations and the cash flows.
- The framework is the basis for future standards.
- With the accounting principles, the framework covers what is not (yet) covered in detail by one of the existing standards.
- The prescriptions of a separate standard precede the framework.
- The framework enumerates the elements of the annual report.

2 The framework treats the:
- Objective of the financial statements
- Classification of the annual report
- First time adoption of Swiss GAAP FER
- Basis of the financial statements
- Definition of assets, liabilities and shareholders' equity
- Definition of income, expenses and result
- Allowed valuation principles for assets and liabilities
- Qualitative requirements
- Management report (actual situation and outlook).

3 The framework is valid for all organisations presenting their financial statements and/or interim report in accordance with Swiss GAAP FER.

Application of the framework

4 An organisation applying Swiss GAAP FER has – except for legal and regulatory requirements – the following possibilities:
- Compliance with Swiss GAAP FER for small organisations (core FER)
- Compliance with Swiss GAAP FER as a whole

It has to be disclosed, whether the organisation complies with core FER or with Swiss GAAP FER as a whole.

Under Swiss GAAP FER, all information required by core FER or by Swiss GAAP FER as a whole are to be disclosed without exception.
Accounting principles not complying with Swiss GAAP FER cannot be justified by a corresponding disclosure.

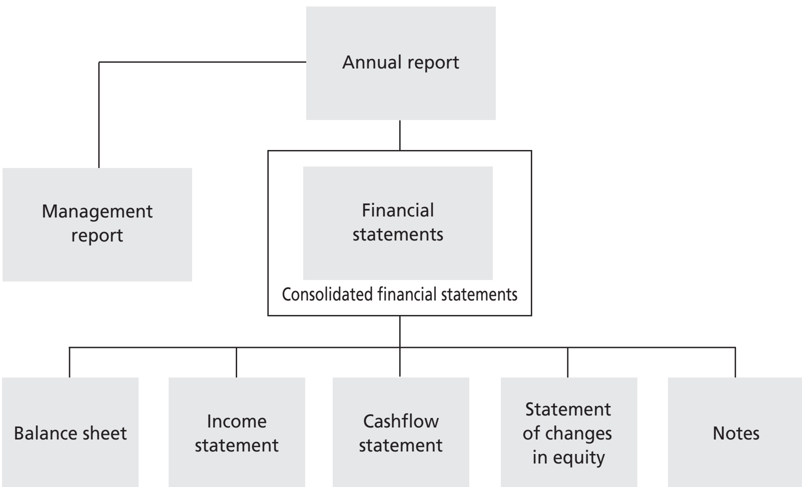
Objective of financial statements

5 The objective of financial statements is to give information about the financial position, the cash flows and the results of operations of organisations in a structured way. This information supports the users of financial statements in their decision-making process.
Financial statements also document the accountability of the responsible body.

6 The fundamental purpose of financial statements is to give a true & fair view.
True & fair view requires that all information of an organisation
- reflects the economic facts and is thus free of deception and manipulation
- is reliable and
- is directed to the needs of the recipients.

Structure of annual reports

7 The structure of annual reports consists at least of:



First time adoption of Swiss GAAP FER

8 An organisation adopting core FER or Swiss GAAP FER as a whole for the first time or converting from core FER to Swiss GAAP FER as a whole is required to present the prior year balance sheet in compliance with the new intended regulations.

Basis of the financial statements

9 Going concern principle
The financial statements are based on the assumption that it is possible for an organisation to continue as a going concern for the foreseeable future, but, at least, for twelve months after the balance sheet date. If this applies, the going concern values are to be used as the basis for valuation. If there are significant doubts related to the status of an organisation as a going concern, this fact is to be disclosed. The going concern of an organisation can no longer be assumed if its liquidation is intended or – with a high probability – cannot be averted. If there is such an intention or necessity, the financial statements must be prepared on the basis of liquidation values. The valuation at liquidation values has to be disclosed and explained in the notes.

10 Substance over form
For financial statements according to Swiss GAAP FER, the real economic circumstances have precedence over the legal form.

11 Accrual principle
The financial statements are to be established on the basis of the periodic accrual principle. According to this principle, the effects of transactions and other events are recognised at their occurrence and not when cash or cash equivalents are received or paid.
In terms of timing, this means that expenses and income that occur in a given period are accrued and recognised in that period.

12 Matching of cost and revenue
Factually, this means that all expenses related to generating a given income are recognised according to the occurrence of the income. Income must be recognised if a service has been performed or a tangible or intangible asset has been delivered and benefits and risks as well as the authority to dispose of the property have been assigned to the purchaser.
In the event of business transactions involving discrete components, these must be recognised and valued separately. “Discrete components” can be understood, for instance, to be the sale of products and their associated services.

13 Prudence
The prudence principle mainly relates to valuation issues. The prudence principle may not be used consciously to build discretionary hidden reserves. Prudence in valuation does not allow to be deliberately valued assets too low or liabilities too

Consolidated financial statements of insurance companies

Revised: 2001
Enacted: January 1, 2002

Basic principle (Introduction)

As a supplement and partial amendment to the other Swiss GAAP FER, the following recommendations specifically concern the consolidated financial statements of insurance companies.

I. Presentation and Format of the Consolidated Financial Statements

Recommendation

1 The consolidated financial statements of insurance companies include the balance sheet, income statement (profit and loss account), fund flow statement (cash flow statement) and the notes.

2 This recommendation provides for the minimum structure for the balance sheet and the income statement, and the minimum content of the fund flow statement and the notes. The financial statements may be presented in the following or another appropriate form. The income statement must at least be broken down into the non-life insurance and life insurance business.

3 The following items must be separately disclosed in the consolidated balance sheet:

Assets
- Investments
- Investments for the benefit of life insurance policyholders who bear the investment risk
- Intangible assets
- Other assets
- Receivables
- Liquid assets
- Prepayments and accrued income

Liabilities
Shareholders' equity
– Share capital
– Capital reserves
– Capital not paid in (negative amount)
– Own shares (negative amount)
– Revaluation reserves
– Retained earnings
– Profit/loss
– Minority interests
Liabilities
– Technical provisions
– Provisions for life insurance policies where the investment risk is borne by the policyholders
– Provision for future policyholder dividends
– Other non-technical (financial) provisions
– Deposits received from re-insurers
– Subordinated liabilities
– Bonds
– Other long-term liabilities
– Other short-term liabilities
– Accrued liabilities and deferred income

4 The following items must be disclosed separately in the balance sheet or in the notes under the following captions:
Accounts receivable
– from policyholders
– from intermediaries and agents
– from insurance companies
– from non-consolidated companies and other related parties
Intangible assets
– goodwill
Investments and investments for the benefit of life insurance policyholders who bear the investment risk
– land and buildings
– investments in group companies
– loans to non-consolidated companies and other related parties
– shares
– own shares
– fixed-income and debt securities
– mortgages
– time deposits and similar investments
– other investments
– funds deposited with ceding companies

Other assets comprise:
– formation expense
Technical provisions are separated into:
– gross amount
– re-insurer's share
– net amount
Net technical provisions are separated into:
– provision for unearned premiums
– life insurance provision
– provision for claims outstanding
– mandatory equalisation provision
– provision for credited policyholder dividends
Non-technical (financial) provisions
– income taxes
– provision for pensions
Long-term liabilities
– due to non-consolidated companies and other related parties
Short-term liabilities
– due to creditors arising out of insurance operations
– due to non-consolidated companies and other related parties
Share capital
– amount of shares in each share category

5 The following items must be disclosed separately in the consolidated income statement.
Technical account for non-life insurance business
– Gross premiums written
– Outward re-insurance premiums
– Net change in provision for unearned premiums
– Allocated investment return transferred from the non-technical account
– Other technical income
– Claims paid
– Change in provision for claims outstanding
– Expense arising from policyholder dividends
– Technical cost
– Other technical cost
– Balance on the technical account for non-life insurance business
Technical account for life insurance business
– Gross premiums written
– Outward re-insurance premiums
– Net change in provision for unearned premiums
– Other technical income
– Claims paid
– Change in provision for claims outstanding

- Change in life insurance provision
- Technical cost
- Other technical cost
- Expense arising from policyholder dividends
- Investment income
- Investment expense
- Allocated investment return transferred from/to the non-technical account
- Unrealised gains on investments for life insurance policyholders who bear the investment risk
- Unrealised losses on investments for life insurance policyholders who bear the investment risk
- Balance on the technical account for life insurance business

Non-technical (financial) income statement
- Investment income
- Investment expense
- Allocated investment return transferred from/to the life insurance technical account
- Technical interest for the non-life insurance business
- Other income
- Other expense
- Extraordinary income
- Extraordinary expense
- Profit/loss before income taxes
- Income Taxes
- Profit/loss allocable to minority shareholders
- Profit/loss

6 The following items must be disclosed separately in the income statement or in the notes under the following captions:

Change in provision for unearned premiums, claims paid, change in claims outstanding, change in life insurance provision and technical expense must each include
- gross amount
- re-insurer's share
- net amount

Investment income
- income from land and buildings
- income from non-consolidated companies
- income from loans to non-consolidated companies and other relate parties
- income from securities
- other financial income
- interest income on funds deposited with ceding companies
- income from revaluation of investments
- gain on the sale of investments

Investment expense
– administrative expense
– interest expense
– depreciation and amortisation of investments
– losses on the sale of investments
The basis for the transfer of investment returns to or from the non-technical account/life insurance technical account or non-life insurance technical account must be disclosed in the notes.

7 Ceded (indirect) life insurance business can be disclosed in the non-life insurance technical account provided that the re-insurer does not underwrite direct life insurance business.

8 The gross amount of the technical cost must be allocated according to appropriate criteria (e.g. origin, functions or type of cost).

9 Deferred or capitalised acquisition cost must be disclosed in the notes.

10 Buildings occupied by the insurance company for its own activities must be disclosed separately if adequate imputed rent is not charged.

11 Insurance companies active in both the life insurance and non-life insurance business may disclose investment income solely in the non-technical account. In such a case, at least the share from the technical account for the life insurance business must be transferred in full (allocated investment return) and the breakdown into life insurance and non-life insurance business must be disclosed in the notes.

12 The notes must include a fixed-asset movement schedule of the gross value of the following items: intangible assets, land and buildings as well as the non-consolidated companies and loans to other related parties.

13 The notes must contain a breakdown of gross premiums by insurance class and geographical areas. Gross premiums are disclosed separately for each of the following groups of classes:
Non-life
– accident and health
– motor
– marine, aviation and transport
– fire and other damage to property
– third-party liability
– credit and surety
– miscellaneous
Life
– life insurance
– life insurance where the investment risk is borne by the policyholders
Re-insurance acceptances
– life insurance
– non-life insurance

Explanations to I.

ad paragraph 1

14 This recommendation is also valid for companies (holding companies) whose main purpose is to hold investments in group companies so long as these subsidiaries are either exclusively or mainly engaged in the insurance business.

15 The income statement consists of a technical and a non-technical (financial) section. The technical section comprises the technical account for non-life insurance business and life insurance business.

ad paragraph 4

16 Provisions for unexpired risks and aging reserves for the non-life insurance business must either be added to the provision for unearned premiums or disclosed separately. Provisions for incurred but not reported losses (IBNR) must be added to the provision for claims outstanding.

17 Inasmuch as one or several group companies are required by the supervisory authorities to create an equalisation provision, this provision must be separately disclosed in the balance sheet or in the notes.

18 If a distinction between receivables from policyholders and receivables from intermediaries is practically impossible, then the latter must be disclosed as part of the receivables from policyholders; the item must be described accordingly.

ad paragraph 5

19 Differences arising from foreign currency transactions must be disclosed under other non-technical income or other non-technical expense.

20 Other non-technical income can include, for example, interest received on current account balances.

ad paragraph 6

21 Income from re-valuations includes the reversal of provisions and allowances no longer necessary.

II. Valuation

Recommendation

22 Valuation principles in the consolidated financial statements of insurance companies can be based either on historical cost or current values. If investments are shown at their current value, the historical cost for the individual items must be disclosed in the notes. If investments are valued based on their historical cost (acquisition cost or production cost), the current value (market value or replacement cost) for the individual items must be disclosed in the notes.

23 The current value of land and buildings is calculated in accordance with generally accepted valuation methods.

24 The current value of shares in real estate companies not classified as investment in the balance sheet must be calculated in accordance with generally accepted valuation methods (market value).

25 The current value of securities must be calculated at market prices on the balance-sheet date (market value).

26 If investments valued at current value show an increase over their historical cost, then this increase in value must be allocated to the revaluation reserve with no effect on the income statement. Any increase in value (compared with the historical cost) arising from the realisation of an investment must be booked as profit from the sale of investments (capital gains). If investments valued at current value show a decline compared with their historical cost, then the corresponding devaluation must be disclosed as an expense for investments in the income statement for those investments where the preconditions or indicators for impairment are given. If an increase over historical cost was recorded in a previous accounting period for this investment valued at current value, then the revaluation reserve must be debited by the difference between the previous current value and the historical cost. For investments recognised at current values, where the preconditions or indicators for impairment are not given and that are not held for trading purposes with the purpose of trading, any amortisation below the historical cost may be recognised directly as a debit in the revaluation reserve of the equity, thus with no effect on the income statement. Subsequent increases in current values have – in these cases – to be recognised directly, too, as a credit in the revaluation reserve. Realised gains from the divestment of such investments must be credited to the revaluation reserve up to the amounts previously debited. Only remaining surpluses can be reported in the income statement. If – in case of a disposal – the amortisation recognised earlier in the revaluation reserve cannot be offset, the remaining negative revaluation reserve must be recognised in the income statement.

The assessment of whether or not an impairment exists has to be performed and documented on the basis of written criteria for each investment. If the assessment of impairment is rejected even though the current value is below the historical cost of an investment, the difference between the current value and the historical cost has to be recognised in the income statement when the current value of this investment is still below its historical cost after 12 months.

The amortisation recognised as a negative change in the revaluation reserve on financial assets as well as the released negative revaluation reserve (as a consequence of disposal) have each to be disclosed separately.

These regulations apply also for interim statements.

27 With fixed-income investments (securities, debt securities, loans) the amortised cost method may be used. In this case, the difference between the acquisition cost and the redemption value must be systematically allocated over the residual term. The pro rata difference must be allocated to investment income from securities. The market value for these investments must also be disclosed in the notes.

28 Allowances, depreciation and other value adjustments set up in previous years but which are no longer necessary at the balance sheet date must be dissolved. The corresponding increase must be disclosed as revenue in the income statement if the value adjustment was credited as an expense in the income statement in previous years.

29 Technical provisions such as provisions for unearned premiums, life insurance provisions, provision for claims outstanding or provisions for profit sharing (provision for credited policyholder dividends) must in principle be computed individually, i.e. for each insurance contract or claim incurred. Statistical or mathematical methods of computation may be used as long as they correspond with and are permitted by local supervisory regulations and if their result approximates the results of the individual computations.

Explanations to II.

ad paragraphs 23 and 24

30 Valuations are mainly based on earnings value. The potential price realisable by selling to an independent third party at the time of the valuation also may be used as current value.

ad paragraph 26

31 Increases or decreases in the value of investments compared to the historical cost (so-called unrealised gains or losses) for investments for the benefit of life insurance policyholders who bear the investment risk are neutralised by a corresponding adjustment of the technical provision for these life insurance policies; they have no effect on either the revaluation reserve or the result of the period.

32 The historical costs are to be determined on the basis of averages and considering any hedges.

ad paragraph 29

33 Liabilities (including related other positions in the consolidated financial statements) which have to be calculated in accordance with supervisory regulations do not have to be uniformly valued for the entire group, inasmuch as these regulations may differ from country to country. This is also true for deferred (capitalised) acquisition cost. The different principles must be disclosed in the notes.

34 Any discounting of provisions for claims outstanding for the non-life insurance business must be disclosed in the notes.

III. Fund flow statement

Recommendation

35 The cash flow from operations must be defined. If it is presented using the indirect method (based on the consolidated financial statements) then at least the following items must be disclosed separately:

- The depreciation and amortisation of investments, in particularly of land and buildings, non-consolidated companies and loans to other related parties, as well as intangible assets.
- The increase and decrease of the following items:
  - Technical provisions
  - Credited policyholder dividends
  - Provision for future policyholder dividends
  - Accounts receivable arising out of insurance operations
  - Accounts payable arising out of insurance operations
  - Non-technical (financial) provisions
  - Prepayments and accrued income
  - Accrued liabilities and deferred income.