Accounting and Reporting Recommendations

Status: 1 January 2020

SWISS GAAP FER

Foundation for accounting and reporting recommendations

Accounting and Reporting Recommendations

Status: 1 January 2020

Editor:
SWISS GAAP FER, Foundation for Accounting and Reporting Recommendations

Information on the current edition and future new editions are published online:
www.fer.ch/ueber-uns/publikationen/

Foundation for Accounting and Reporting Recommendations Swiss GAAP FER
Tigerbergstrasse 9
9000 St. Gall
www.fer.ch

ISBN 978-3-286-30278-5

The digital version is also available separately
(ISBN 978-3-286-10658-1).

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 entities and groups with a national reach. Further users are non-profit organisations, pension funds, insurance entities, real estate and health insurers. Those entities thus dispose of a suitable basis for meaningful accounting that provides a true & 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 entities will be facilitated simultaneously.

3.2 Concept

The concept is modularly built and consists of four elements: the framework, core FER, further Recommendations and Swiss GAAP FER 30 for groups of entities.
For small entities (criteria according to figure 1) the possibility exists to apply only the framework and selected key 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 Swiss GAAP FER (see figure 2). Medium-sized entities have to apply core FER as well as further Swiss GAAP FER.
Groups of entities have to additionally apply Swiss GAAP FER 30, "Consolidated financial statements". This Recommendation consists of all regulations concerning consolidation. Small groups of entities (criteria according to 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 entities are also required to comply with Swiss GAAP FER 31 "Complementary Recommendation for listed entities".

Smaller entities 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 full-time employees on average per year.

Figure 1: Criteria for the application of core FER

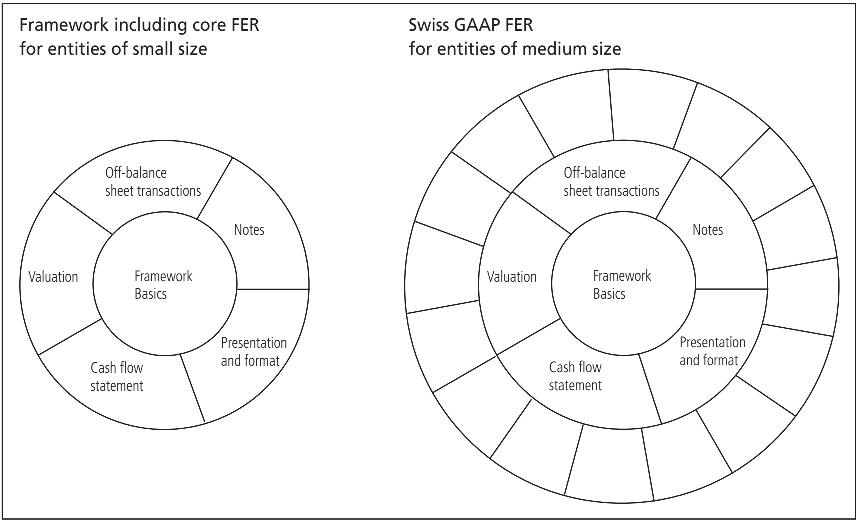

Figure 2: Modular structure of Swiss GAAP FER

The framework, binding for all entities, 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.

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, 40 and 41)

The core FER and further FER are applicable for financial statements of single entities as well as for consolidated financial statements. All questions solely referring to consolidated financial statements are separately addressed in Swiss GAAP FER 30 "Consolidated financial statements". Swiss GAAP FER 30 is therefore only relevant to groups of entities. Listed entities are also required to comply with Swiss GAAP FER 31 "Complementary Recommendation for listed entities".

3.5 Industry-specific Swiss GAAP FER

The following Recommendations apply specifically to certain industries:

- Swiss GAAP FER 14 "Consolidated financial statements of insurance entities" contains special provisions regarding the consolidated financial statements of insurance entities. Swiss GAAP FER 14 will be repealed as at 31 December 2020 due to the entry into force of Swiss GAAP FER 40.
- Swiss GAAP FER 21 "Accounting for charitable non-profit organisations" is addressed at charitable non-profit organisations.
- Swiss GAAP FER 26, "Accounting for pension plans" is to be applied by pension plans.
- Swiss GAAP FER 40 "Consolidated financial statements of insurance entities" contains specific provisions for insurance entities. The date of entry into force is 1 January 2021, whereby early adoption is permitted.
- Swiss GAAP FER 41 "Accounting for real estate insurers and health insurers" has to be applied by entities active in these markets.

Since the content of Swiss GAAP FER 14 is no longer up-to-date and that this Recommendation was not embedded in the FER's modular structure, the Commission appointed in 2015 a project group tasked with the preparation of a new Recommendation. Following a positive consultation procedure, the Commission approved in June 2018 the new Recommendation Swiss GAAP FER 40 "Consolidated financial statements of insurance entities" with an entry into force as at 1 January 2021. Swiss GAAP FER 40 applies to accounting for insurance entities as a whole (and not to individual insurance contracts as in the IFRS) and is aimed explicitly at insurance entities with national significance.
Swiss GAAP FER 40 states that investments must be measured at current values, although the amortised cost method may also be used for fixed-interest investments. The valuation of provisions follows the regulatory requirements, whereby equalisation provisions and security provisions are also permitted in addition to the actuarial provisions.
The minimum classifications have been complemented with descriptions and positions that are common in the industry. Disclosures have been considerably extended in order to increase the financial reporting's transparency. Lastly, Swiss GAAP FER 40 also contains supplementary provisions on consolidated financial statements (segment reporting

[within the meaning of Swiss GAAP FER 31], information regarding claims expenses and the procedure for the release of insurance provisions).

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 Recommendations in original text (until the publication of the next Swiss GAAP FER-brochure). Summaries of the remaining Swiss GAAP FER Recommendations are available on the homepage.

Publications

The brochure includes a conceptual introduction besides the individual Swiss GAAP FER Recommendations. 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 can be addressed to the Swiss GAAP FER Commission, who will decide whether actions and related procedures are necessary. During the annual Swiss GAAP FER conference, answers are provided for the most important questions. Comments regarding existing or possible future Recommendations can be submitted to Swiss GAAP FER as suggestions.

Presentation and format

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

Recommendation

1 This Recommendation regulates the minimum format of the balance sheet, the income statement and the statement of changes in equity. The financial statements may be presented in the following or another appropriate form.

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

Assets

A Current assets
- cash
- securities
- receivables from goods and services
- other short-term receivables
- inventories
- prepayments and accrued income

B Non-current assets
- tangible fixed assets
- financial assets
- intangible assets

Liabilities and equity

C Current liabilities
- short-term financial liabilities
- payables for goods and services
- other short-term liabilities
- short-term provisions
- accrued liabilities and deferred income

D Non-current liabilities
- long-term financial liabilities
- other long-term liabilities
- long-term provisions

E Equity
- capital of the entity
- capital of the entity not paid in (negative amount)
- capital reserves

- own shares/own units of the capital of the entity (negative amount)
- retained earnings (profits) or accumulated losses

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

Under receivables
- amounts due from related parties

Under tangible fixed assets
- undeveloped property
- land and buildings
- equipment and facilities
- tangible fixed assets under construction
- other tangible fixed assets

Under financial assets
- securities
- deferred tax assets
- investments
- amounts due from related parties
- other financial assets

Under intangible assets
- acquired intangible assets
- intangible assets generated internally (especially, capitalised development expenses)

Under liabilities
- amounts due to related parties

Under provisions
- tax provisions (for deferred taxes)
- provisions from employee benefit obligations
- restructuring provisions
- other provisions

Under equity
- amounts of each category of capital of the entity.

Other significant items are to be separately disclosed.

4 The changes in the individual positions of equity between the beginning and the end of a reporting period are to be reported separately in the statement of changes in equity.

5 Value adjustments applied to positions in the current assets and to positions in the financial assets are to be disclosed in the notes. If the indirect method is applied, the accumulated depreciation for positions in the tangible fixed assets is to be reported separately, either under the appropriate assets or in the notes.

6 The income statement can be presented by nature of expense ("Produktionserfolgsrechnung") or by function of expense ("Absatzerfolgsrechnung").

7 The income statement by nature of expense is presented as follows:

Net sales from goods and services
Other operating income
Change in inventory of finished and unfinished goods as well as unbilled goods and services
Raw material expense
Personnel expense
Depreciation on tangible fixed assets
Amortisation on intangible assets
Other operating expense
= Operating result
Financial result
= Ordinary result
Non-operating result
Extraordinary result
= Profit/loss before income taxes
Income taxes
= Profit/loss

8 The income statement by function of expense is presented as follows:

Net sales from goods and services
Cost of goods or services sold
Administrative expense
Selling expense
Other operating income
Other operating expense
= Operating result
Financial result
= Ordinary result
Non-operating result
Extraordinary result
= Profit/loss before income taxes
Income taxes
= Profit/loss

9 The following items must be disclosed separately in the income statement or in the notes and explained in the notes:

- financial expense and income
- non-operating expense and income
- extraordinary expense and income

10 The following items must be disclosed in the notes if the income statement is presented by function of expense:

- personnel expense
- depreciation on tangible fixed assets
- amortisation on intangible assets

Explanations

ad paragraph 2

11 Industry-specific terms generally used may be chosen in the presentation of financial statements if relevance can thus be increased. Further breakdown is acceptable.
12 The presentation format may be by the account or the vertical report form. It is unimportant whether the current assets or the non-current assets or the liabilities or the equity are presented first.
13 Only reserves paid in (agio, grants from shareholders etc.) are to be reported as capital reserves. The retained earnings are composed of retained profit and revaluation reserves.

ad paragraph 3

14 Tangible fixed assets: Vehicles and furniture are to be included in other tangible fixed assets.
15 Financial assets: The ownership of at least 20% of the shares of other entities is classified as an investment.
16 Equity: Categories include, for example, registered and bearer shares, preferred and common shares or participation certificates.

ad paragraphs 7 and 8

17 Net sales from goods and services are deemed to be those revenues that result from usual business activity.
18 Net sales comprise the value of the work performed less sales reductions such as trade discounts and rebates.
19 In the event of agency transactions, only the value of the service rendered by the contractor itself is to be recognised.
20 The (sub-) totals are to be designated appropriately.

ad paragraph 9

21 Non-operating result is expense and income which arise from events or transactions that clearly differ from the usual business activities of the entity. Expense and income from non-operating tangible fixed assets also form part of the non-operating result.

Consolidated financial statements of insurance entities

Revised: 2001
Enacted: 1 January 2002
Withdrawn: 31 December 2020

Basic principle (Introduction)

As a supplement and partial amendment to the other Swiss GAAP FER, the following Recommendation specifically concerns the consolidated financial statements of insurance entities.

I. Presentation and Format of the Consolidated Financial Statements

Recommendation

1 The consolidated financial statements of insurance entities 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/Tangible fixed assets
- Receivables
- Cash and cash equivalents
- 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 share of surplus
– Other non-technical (financial) provisions
– Deposits received from reinsurers
– 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 entities
– from non-consolidated entities 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 entities
– loans to non-consolidated entities and other related parties
– shares
– own shares
– fixed-income and debt securities
– mortgages
– time deposits and similar investments
– other investments
– funds deposited related to reinsurance activities

Other assets comprise:
– formation expense
Technical provisions are separated into:
– gross amount
– reinsurer's share
– net amount for own account
Net technical provisions are separated into:
– provision for unearned premiums
– life insurance provision
– provision for claims outstanding
– mandatory equalisation provision
– provision for credited policyholder share of surplus
Non-technical (financial) provisions
– income taxes
– provision for pensions
Long-term liabilities
– due to non-consolidated entities and other related parties
Short-term liabilities
– due to creditors arising out of insurance operations
– due to non-consolidated entities 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 reinsurance 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 share of surplus
– Technical costs
– Other technical costs
– 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 costs
- Other technical costs
- Expense arising from policyholder share of surplus
- 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
- reinsurer's share
- net amount

Investment income

- income from land and buildings
- income from non-consolidated entities
- income from loans to non-consolidated entities and other related parties
- income from securities
- other financial income
- interest income on funds deposited
- 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) reinsured life insurance business can be disclosed in the non-life insurance technical account provided that the reinsurer 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 entity for its own activities must be disclosed separately if adequate imputed rent is not charged.

11 Insurance entities 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 entities 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

Reinsurance acceptances
- life insurance
- non-life insurance

Explanations to I.

ad paragraph 1

14 This Recommendation is also valid for entities (holding entities) whose main purpose is to hold investments in group entities 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 If one or several group entities 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 revaluations includes the reversal of provisions and allowances no longer necessary.

II. Valuation

Recommendation

22 Valuation principles in the consolidated financial statements of insurance entities 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 entities 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, 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, provisions for claims outstanding or provisions for profit sharing (provision for credited policyholder share of surplus) 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 entities and loans to other related parties, as well as intangible assets.
- The increase and decrease of the following items:
  - Technical provisions
  - Credited policyholder share of surplus
  - Provision for future policyholder share of surplus
  - 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.

36 The fund flow statement must present the flow of funds from investing activities separately, in particularly for land and buildings and non-consolidated entities and loans to other related parties as well as for intangible assets. Increases and decreases of these positions can be shown as a net amount each.

37 The fund flow from financing activities must be disclosed on a gross basis.

38 The insurance entities must define cash and cash equivalents as funds.

39 Differences from foreign currency translation do not have to be disclosed separately or explained in the notes.

Explanations to III.

40 Changes in investing activities can be disclosed as net amounts.

41 Financing activities have to be shown as gross amounts.

IV. Interim reporting

Recommendation

42 If an insurance entity that publishes consolidated annual financial statements cannot present interim reporting in a consolidated form, then the basis for the reported figures and disclosures must be explained.

43 If an insurance entity does not present interim premium and result figures on an accrual basis, then it must at least disclose the written premiums separately by non-life business and life business and according to the most important geographical markets. Figures and explanations must also be disclosed for technical expenses, in particular claims and technical expense and for the non-technical account (profit and loss on investments).