Swiss GAAP FER

‘Separate financial statements: first-time adoption and BEPS Pillar 2 considerations’

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Version 2

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Introduction

Swiss GAAP FER is increasingly applied for many reasons. One of them is the Minimum Taxation Ordinance (MindStv/OIMin) which permits the application of Swiss GAAP FER for the determination of the Qualified Domestic Minimum Top-up Taxes (QDMTT) in connection with the Pillar Two of the OECD's/G20 Inclusive Framework on BEPS base erosion and profit shifting (BEPS Pillar 2).

An entity that prepares Swiss GAAP FER financial statements for the first time is called a first-time adopter. Due to its principle-based approach, the standard includes only limited guidance for a number of topics, including the initial application. Depending on the complexity of the entity involved, this may raise various practical implementation questions.

This publication provides answers to questions that, in our experience, arise frequently when an entity first applies Swiss GAAP FER. A special focus lies on examples to practical challenges that Swiss GAAP FER preparers might encounter. Further, selected questions address issues that may be encountered when preparing Swiss GAAP FER financial statements for BEPS Pillar 2 purposes.

Entities must carefully assess whether the guidance provided in this publication is applicable to their specific facts and circumstances. This brochure does not reflect all provisions included in Swiss GAAP FER. It is a collection of questions that arose or are likely to arise in practice and approaches to how to solve those questions that are, in our view, in line with the principles outlined in Swiss GAAP FER. For significant transactions or items, we recommend consulting the official Swiss GAAP FER standards as well as seeking professional advice. PwC does not accept any liability for damages arising in connection with the use of this brochure.

First time adoption

General concepts and terminology

Identification of a first-time adopter

1. Whether an entity is considered a first-time adopter depends on whether a complete set of financial statements according to Swiss GAAP FER had been prepared in the past. A first-time adopter is any reporting entity that prepares such financial statements for the first time.
[Framework 8, Framework 30, FER 31/2]

2. A reporting entity can be a legal entity or a group. The financial statements of a legal entity are referred to as separate financial statements in this publication. Consolidated financial statements are the financial statements of a group of entities that form together the reporting entity. To conclude whether an entity is a first-time adopter, each reporting entity is considered separately.

3. Switzerland has implemented a qualifying domestic minimum top up tax (QDMTT) as per 1 January 2024. Swiss GAAP FER financial statements will be used as the basis for the QDMTT calculation if all constituent entities belonging to Switzerland for tax purposes have prepared annual financial statements in accordance with Swiss GAAP FER, all of those financial statements are audited and the business years of all of these entities are equal to the business year of the consolidated financial statements of the ultimate parent entity. The considerations of a first-time adoption apply to any of the reporting entities that have not previously prepared accounts in accordance with Swiss GAAP FER.

FAQ 3.1 – Is a reporting package a Swiss GAAP FER financial statement?

Periods to be covered applicable version of the standard

4. In line with the modular structure of Swiss GAAP FER, the requirements for first-time adoption differ based on the characteristics of the reporting entity moving to Swiss GAAP FER. Framework 8 contains the basic guidance for first-time adoption. When an entity has shares or debt instruments listed, or is preparing a prospectus for a listing, the more comprehensive guidance in FER 31/2 applies.
[Framework 8, FER 31/2]

5. 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 comparability of financial information over multiple periods is essential and Framework 31 requires the presentation and disclosure of comparative information for all quantitative information, unless stated by a specific standard.
[Framework 1, Framework 31]

6. Framework 8 does not mandate the presentation and disclosure of all comparative information that would otherwise be required by the standard. However, in order to meet the information needs of stakeholders and to create transparency around the first-time application of the standard, we consider it most meaningful if preparers provide full comparative information and apply the standard retrospectively from the beginning of the comparative period. The exclusion of comparative information might also be seen critical by stakeholders, particularly when material information that, if reported, might have had an impact on their decision making is omitted. This is of particular relevance for companies that prepare Swiss GAAP FER financial statements for the first time in connection with the Minimum Taxation Ordinance. Consequently, the decision to omit comparative information (beside the opening balance sheet), is a decision that should be taken on the appropriate governance level within an organisation, considering all facts and circumstances.

FAQ 6.1 – Minimum comparative information in a Swiss GAAP FER first-time adoption

Accounting principles and alignment with Swiss GAAP FER

7. The underlying principle when adopting Swiss GAAP FER is a complete and retrospective application, as if the standard had always been applied, on the basis of the standards in force at the end of an entity's first Swiss GAAP FER reporting period. The standards in force at the end of the latest period are applied to all periods presented.
   [Framework 8, FER 31/2]

8. Accounting policy choices must be applied consistently, which means that the same accounting policies apply for all periods presented (refer to FAQ 6.1). When adopting Swiss GAAP FER, preparers need to determine their accounting policies. To support a consistent application of Swiss GAAP FER over time and across all reporting entities of a group, it is recommended to document accounting policies including choices in accounting manuals and supporting memos.
   [Framework 30]

FAQ 8.1 – Must accounting policies be consistent across entities for QDMTT purposes?

9. Initial adopters need to assess which assets and liabilities are required to be recognised under Swiss GAAP FER. As such assets and liabilities which were not recognised under the previous accounting framework might need to be recognised as part of the first-time adoption. Further items that were recognised as one type of asset, liability or component of equity under the prior accounting standard, but that are a different type of asset, liability or component of equity under Swiss GAAP FER might need to be reclassified.

FAQ 9.1 – How are development cost of intangible assets treated at first-time adoption?

10. Effects from initial adoption, such as whether an asset or liability is recognised or not and at which value, can create or change temporary differences. Deferred tax effects from such temporary differences as per the opening balance sheet date are recognised within retained earnings or another appropriate category of equity.
    [FER 31/2]

Recognition and measurement

11. Once the accounting policies are determined, a reporting entity must determine for each material transaction which accounting requirement applies. Assets and liabilities requiring recognition are measured following the principle of retrospective application (refer to paragraph 7), using the historical data available and the guidance set out in Framework 26-27.

12. The measurement of assets and liabilities in Swiss GAAP FER financial statements depends on how the reporting entity obtains control over assets respectively resumes an obligation over liabilities. Unlike other accounting standards, Swiss GAAP FER does not contain rules for first-time adoption allowing it to deviate from the general principles outlined by the standard. As such, there is in our view no policy choice to measure specific classes of assets at fair value on transition to Swiss GAAP FER.

FAQ 12.1 – First-time adoption: PPE historical cost information available

FAQ 12.2 – First-time adoption: PPE historical cost information not available – approaches

FAQ 12.3 – First-time adoption: PPE historical cost information not available – valuation date

FAQ 12.4 – First-time adoption: PPE carrying amount from another true and fair view framework

13. Transactions with third parties and related parties that were carried out at arm's length are addressed by the general guidance of the standard. Their treatment on first-time adoption is explained below in the section 'Ordinary transactions'.

14. Swiss GAAP FER has specific requirements for other types of transactions, such as transactions with shareholders in their capacity as shareholders or business combinations. Such transactions are addressed below under 'Transactions with shareholders' and 'Other types of transactions'

Ordinary transactions

15. Predominantly, Swiss GAAP FER requires the principle of historical cost. Framework 26 and 27 define historical cost and fair value as allowed valuation principles. Each standard however states which of these valuation methods applies and the specific guidance takes precedent over the general principle outlined by the Framework.
[Framework 1, 26-27]

16. The below table lists selected exceptions where subsequent to initial recognition assets or liabilities may or must be measured at fair value. At the date of the first-time adoption, they are measured at fair value except where such measurement is not permitted or not possible because no fair value is available.

Line item	Subsequent measurement	Guidance
Securities	• Fair value • Cost less impairment if no fair value available	FER 2/7
Financial assets (non-current)	• Cost less impairment • Securities (presented as financial assets) may be measured at fair value	FER 2/12
Investment properties	Policy choice: • Fair value, or • Cost less amortisation and impairment	FER 18/14
Derivative financial instruments	• Fair value • If used for hedging: option to mirror the valuation principle of the hedged item	FER 27/4, FER 27/5

FAQ 16.1 – Purchase of an intangible asset (IP) in the ordinary course of business

Transactions with shareholders

17. For incorporations of new companies or intra-group transfers of assets and liabilities, the requirements of FER 24 'Equity and transactions with shareholders' often apply. This standard addresses transactions with shareholders in the capacity of shareholders. The standard requires that such transactions are recognised at fair value (referred to as net selling price in FER 24) even if they are not performed at arm's length.
[FER 24/4]

18. Transactions with shareholders in their capacity as shareholders include capital increases and capital decreases (including the acquisition and disposal of own shares), dividends, contributions, hidden distribution of retained earnings, hidden contributions and similar transactions.
[FER 24/19]

19. For transactions with shareholders the economic substance of the underlying set-up needs to be considered, not just the legal form. Open and hidden benefits provided to and received from shareholders are recognised as equity transactions at fair value with adjustment to the capital reserves (if received) respectively retained earnings (if distributed) according to the 'substance over form' principle, as they do not impact the economic performance of the entity.
[FER 24/20]

20. If the fair value cannot be determined reliably, an entity must derive a best estimate of the fair value. Valuations are typically needed for any transaction that is not at arm's length as well as for non-monetary transactions. For example, hidden benefits may result from capital increases through contributions in kind valued too prudently or at a price below fair value. Please refer to paragraph 37 for the disclosure requirements for situations in which an entity needs to estimate the fair value.
[FER 24/4, FER 24/20]

21. If the fair value cannot be determined reliably and shares are issued as consideration, their fair value is generally used.
[FER 24/20]

22. If, in justified cases, the fair value of an item cannot be assessed reliably, a different valuation basis, such as the carrying amount or the contractually agreed price may be used if it approximates the estimated fair value. However, we are of the view that the use of such value needs to be substantiated, as it cannot be assumed to represent a best estimate of the fair value in all cases. The standard also requires disclosures in such situation.
[FER 24/20]

FAQ 22.1 – Contribution of an intangible asset (IP) to an entity

FAQ 22.2 – Distribution of an intangible asset (IP) from a subsidiary to a parent

Other types of transactions

23. The following transactions are not in the scope of FER 24 even if they are with shareholders:
   - business combinations, the establishment of a joint venture or a spin-off
   - share-based compensation
     [FER 24 Introduction]

24. For the first type of transactions, FER 24/15 directs preparers to the "relevant consolidation and valuation methods" which is in practice interpreted as a reference to FER 30 'Consolidated financial statements' (refer to paragraph 30). In the context of separate financial statements, these considerations may be applied in analogy if the reporting entity acquires or disposes a business if this reasonably depicts the economic substance of such transaction.
[Framework 10, FER 30]

25. Alternatively, particularly relevant for transactions within a group, a transaction might also represent a business combination under common control. Such transactions are not addressed by Swiss GAAP FER and are barely addressed in other standards. IFRS 3 'Business Combinations' defines such transaction as 'a business combination in which all of the combining entities or businesses are ultimately controlled by the same party or parties both before and after the business combination and that control is not transitory'. If an entity concludes that the particular transaction falls in this category, it appears acceptable to derive an accounting policy based on the concepts and interpretations applied under other true and fair view standards such as IFRS Accounting Standards.

26. While IFRS Accounting Standards do not define specific accounting requirements for business combinations under common control, the following concepts are often regarded as acceptable approaches:
   - Business combination accounting: for Swiss GAAP FER this would mean applying FER 30 in analogy
   - Predecessor accounting where assets and liabilities of the acquired entity are stated at predecessor carrying values. Such transaction might be recognised retrospectively as if both entities always had been combined or it might be accounted for prospectively as from the date when the transaction occurs.

27. An entity should select an accounting policy that reflects the economic substance of the underlying transaction and disclose it together with the significant judgements applied (refer to paragraph section 'Presentation and disclosures').
[FER 6/2]

28. Mergers between group entities (respectively under common control) are not addressed by Swiss GAAP FER. Below listed FAQs provide views on how an entity might account for such transactions following the principles outlined above and the general principles provided by the Framework. As explained in paragraph 19, the economic substance of the transaction needs to be determined first. Accordingly, alternative views might be acceptable.

FAQ 28.1 – Merger: absorption of a subsidiary by its parent

FAQ 28.2 – Merger: absorption of a sister company

FAQ 28.3 – Merger: absorption of a parent by its subsidiary (“reverse merger”)

29. Similar transactions might fall under the definition of share-based payments. This would for example be the case where employees of a subsidiary participate in a group-wide share-based payment arrangement. Such arrangements are addressed in our separate publication ‘Swiss GAAP FER Share-based payments’.

Specific considerations in consolidated financial statements

30. The accounting for acquisitions and disposals of businesses is addressed in a separate publication on Swiss GAAP FER 30 'Consolidated Financial Statements'. Below, challenges observed in practice related to the first-time adoption of consolidated financial statements are addressed in the listed FAQs.

FAQ 30.1 – Reassessment of historic business combinations

FAQ 30.2 – Cumulative translation adjustments (CTA) at first-time adoption

FAQ 30.3 – How are intangible assets from former business combinations treated?

Presentation and disclosures

31. For the periods to be covered in the first set of financial statements, refer to paragraph 4ff.

FAQ 6.1 – Minimum comparative information in a Swiss GAAP FER first-time adoption

Classification within equity

32. Capital paid in and other contributions as well as capital reductions, after deduction of the par value of any shares issued or recalled, are to be credited or debited to capital reserves.
[FER 24/4]

33. Hidden distributions to shareholders are like formal dividends recognised at fair value as a reduction of retained earnings and are not recognised as an expense.
[FER 24/20]

Listed entities

34. Following the increased requirements regarding transparency and comparability for listed entities, FER 31 requests additional reconciliations from listed first-time adopters. The purpose of such reconciliations is to guide the users of the financial statements from figures presented under the previous GAAP to opening balances under Swiss GAAP FER. Listed first-time adopters are required to present a reconciliation of equity as per opening and end of the prior period from the previous GAAP to Swiss GAAP FER either in the statement of equity or within the notes. Furthermore, a reconciliation of the income statement for the comparative period from previous GAAP to Swiss GAAP FER is required. Reconciling items must be explained in a way that enables users to understand the impact of applying Swiss GAAP FER for the first time.
[Framework 30, FER 31/2]

35. For entities with a listing at SIX Swiss Exchange, the additional considerations outlined in Circular 2 of SIX Exchange Regulation should be considered. Any other significant judgement is expected to be disclosed by such entities and corrections of errors must be clearly distinguished from other changes to accounting policies initiated as part of the first-time adoption.

Other considerations

36. Whilst the reconciliations referred to above are not required for other entities/groups, we recommend also first-time adopters not in scope of FER 31 to provide clarity on the effects of the initial application of the standard.

37. The disclosure requirements of all applicable standards apply in a first-time adoption. Several of them are of particular importance in the context of a first-time adoption and the transactions addressed in this publication. The level of detail of these disclosures must be sufficient to provide a true and fair view. A selection of such disclosures is addressed below.

38. An entity shall disclose its accounting policies as per FER 6/2. Preparers should address areas with limited guidance or that require the application of significant judgement such as for the reflection of mergers and business combinations under common control in separate financial statements.

39. For transactions in the scope of FER 24, additional disclosures are required. These include:
    - Description and amount of transactions with shareholders that were not settled in cash or that were offset against other transactions [FER 24/10]
    - Reasons for applying a different valuation basis (and the basis itself), to transactions with shareholders that could not be recognised at fair value [FER 24/10]
    - Description of transactions with shareholders that were not conducted at arm's length, including the difference between the fair value and the contractual price of the transaction recognised in the capital reserves [FER 24/10]
    - Related party disclosures as per FER 15 'Related party transactions' [FER 24/19]

Further consideration for BEPS Pillar 2

40. The guidance included in the Minimum Taxation Ordinance raises practical application questions for entities in the scope of BEPS Pillar 2 that consider applying Swiss GAAP FER. A selection of these questions is addressed in below listed FAQs.

41. In our view, the type of transactions that were entered into shortly before and in anticipation of a first-time adoption as well as the accounting policy decisions should be considered when determining whether additional comparative information is provided (refer to paragraph 4ff.). Entities should not use the limited guidance in Framework 8 to omit disclosures of items that can be expected to be material for stakeholders. We are of the opinion that this is relevant for first-time adoptions in connection with the Minimum Taxation Ordinance.

42. For first-time adoptions in connection with the Minimum Taxation Ordinance, the disclosures of FER 15 'Related party transactions' and FER 24 'Equity and transactions with shareholders' are often required due to the nature of transactions around incorporations and group internal reorganisations (refer to section 'Presentation and disclosures').

FAQ 42.1 – Are consolidated financial statements in accordance with Swiss GAAP FER a precondition to prepare separate FER financial statements?

FAQ 42.2 – Which Swiss entities need to prepare Swiss GAAP FER financial statements for purposes of the QDMTT?

FAQ 42.3 – Can smaller entities prepare financial statements under "Core-FER" for QDMTT purposes?

FAQ 42.4 – What level of assurance is required for purposes of QDMTT?

FAQ 42.5 – How do acquisitions and disposals of subsidiaries impact the QDMTT setup?

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FAQ 3.1 – Is a reporting package a Swiss GAAP FER financial statement?

Financial information prepared for group reporting purposes is often referred to as "reporting package". It needs to be assessed whether such financial information complies with Swiss GAAP FER. This would only be the case when the financial information is a full set of financial statements as outlined in Framework 7 and adheres to all applicable requirements of the standard including required disclosures.

A reporting package that does not meet this requirement can not be considered a full set of financial statements, and thus an entity that prepares additionally a full set of Swiss GAAP FER financial statements needs to follow the first-time adoption guidance.

How does this relate to the accounting standard of the ultimate holding?
A reporting package that is reflected in the consolidated financial statements on the same accounting principles is sufficient for purposes of QDMTT. However, if Swiss GAAP FER is to be used by a group preparing consolidated financial statements under a different standard, a reporting package is insufficient. Below table provides an overview of these requirements:

Consolidated F/S of ultimate holding	Financial information of Swiss entities	Acceptable for QDMTT purposes?
Swiss GAAP FER	Group reporting package (same principles as used by ultimate holding)	Yes
IFRS, US GAAP	Group reporting package (same principles as used by ultimate holding)	Yes
IFRS, US GAAP	Separate Swiss GAAP FER financial statements (compliant will all requirements)	Yes if audited and reporting period end is aligned for all Swiss constituent entities with that of the consolidated financial statements, refer to FAQs 42.2-42.5. A reporting package is not sufficient.

If suitable Swiss GAAP FER financial statements are not available for all relevant Swiss entities, the QDMTT will be determined based on the financial statements used in group consolidation – which might be IFRS Accounting Standards or US GAAP. In such situations a reporting package may be sufficient for the determination of the QDMTT.

FAQ 6.1 – Minimum comparative information in a Swiss GAAP FER first-time adoption

According to Framework 8, an entity 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 regulations.

For listed entities, FER 31/2 further specifies that at the time of the conversion to Swiss GAAP FER, the prior year period has to be presented in accordance with Swiss GAAP FER besides the current period. This applies to annual as well as interim financial statements.

As a requirement for entities that shall comply with FER 31 and as a recommendation for all other entities (refer to paragraph 6), the following financial information is to be presented and disclosed in the first financial statements, assuming the entity has the calendar year as financial year:

Primary statement and notes	Prior year	Current year
Balance sheet	31.12.20X0	31.12.20X1
Income statement	01.01-31.12.20X0	01.01-31.12.20X1
Statement of changes in equity	01.01-31.12.20X0	01.01-31.12.20X1
Cash flow statement	01.01-31.12.20X0	01.01-31.12.20X1
Notes	01.01-31.12.20X0	01.01-31.12.20X1

An entity that provides only the limited information as per Framework 8, refrains from providing the information coloured above and instead of a first-time application as of 01.01.20X0 it only starts to apply Swiss GAAP FER as from 01.01.20X1.

Whilst not required by the standard for entities that provide comparative information for the entire financial statements, we consider the voluntary presentation of an opening balance sheet at the date of transition to Swiss GAAP FER to provide meaningful information. In the example above, an entity would provide a third balance sheet column presenting the values as of 01.01.20X0.

FAQ 8.1 – Must accounting policies be consistent across entities for QDMTT purposes?

Whilst Swiss GAAP FER does not adress situations for separate financial statements in a group context, a fundamental principle of consolidated financial statements are uniform accounting policies. As per FER 30/6, financial statements included in the consolidation (parent entity, subsidiaries and joint ventures) have to comply with uniform group accounting principles that conform with Swiss GAAP FER.

In our view, for entities that start to prepare Swiss GAAP FER financial statements to provide information to tax authorities as part of the Minimum Taxation Ordinance for the calculation of QDMTT purposes, there is an expectation that these financial statements are prepared based on uniform accounting policies.

FAQ 9.1 – How are development costs of intangible assets treated at first-time adoption?

Internally generated assets may be recognised if they meet the criteria in FER 10/4. In reference to the 'Swiss GAAP FER Lehrbuch mit Erläuterungen, Illustrationen und Beispielen' (Version 2024, chapter 8.2.3) and as observed in practice, the wording "can only be recognised" is interpreted as a policy choice and the reporting entity needs to decide whether development costs for internally generated intangible assets are capitalised.
In the context of a first-time adoption, an entity that elects to capitalise development cost must be able to demonstrate that the recognition criteria as per FER 10/4 (respectively FER 2/35) were met at the dates the development costs to be capitalised were incurred.

For example, assume that until 31.12.20X0 it was too uncertain that the economic benefits of the development materialise. Until that date, no development cost relating to this intangible shall be capitalised. Three years later, the entity obtained the approval of the relevant regulator. As from that date, management concluded that the future economic benefits will materialise and the entity will be able to benefit from it for multiple years. From that date onwards, development costs may be recognised if they meet also the other criteria of the standard.

FAQ 12.1 – First-time adoption: PPE historical cost information available

FAQs 12.1-12.4 assess how items of property, plant and equipment (PPE) are considered during a first-time adoption. The considerations apply in analogy to other classes of assets.

Assume that a first-time adopter plans to transition to Swiss GAAP FER for the financial year ending 31.12.20X2. It provides full comparative information and the opening balance sheet is prepared as per 01.01.20X1.

The entity acquired a building for CHF 10 million 20 years before that opening balance sheet date. The building has been used in the production processes of the entity. The first-time adopter has applied a depreciation rate of 4% in the statutory financial statements prepared in accordance with Swiss Code of Obligation (CO). The entity expects the building to have a useful life of 50 years, which corresponds to an annual depreciation rate of 2%.

The entity received a substantiated offer for the building indicating a property value of CHF 15 million. An independent real estate appraiser estimated the fair value of the building to be in the range of CHF 14-16 million.

At which value should the first-time adopter reflect the building as of 01.01.20X1?

The building falls into the scope of FER 18 'Tangible fixed assets'. Items of PPE that are used in an entity's operations are initially recognised at cost (FER 18/6) and subsequently measured at cost less depreciation and impairment (FER 18/8). The depreciation is recognised on a systematic basis over the useful life (FER 18/9).

The entity cannot measure the building at fair value as there is specific guidance on how such items are measured under Swiss GAAP FER and it has records of the initial acquisition cost.

The entity determines the amount as if Swiss GAAP FER always had been applied. It would have applied a useful life of 50 years which results in a carrying amount of CHF 6 million as of the opening balance sheet date under Swiss GAAP FER.

Type of information	Amount
Acquisition cost	MCHF 10
Carrying amount (4% depreciation), 01.01.20X1	MCHF 2 (= MCHF 10 – MCHF 8 (=MCHF 10 * 4% * 20))
Carrying amount (2% depreciation), 01.01.20X1	MCHF 6 (= MCHF 10 – MCHF 4 (=MCHF 10 * 2% * 20))

The amount recognised under Swiss GAAP FER exceeds the amount recorded in the statutory financial statements by CHF 4 million. Assuming that the entity has a 25% tax rate, this results in a taxable temporary difference for which a deferred tax liability of CHF 1 million must be recognised.

The entity recognises following adjustments to the historic carrying amount recorded under CO (in MCHF):

Dr. Property, plant and equipment	4	
Cr. Deferred tax liability		1
Cr. Retained earnings		3

FAQ 12.2 – First-time adoption: PPE historical cost information not available – approaches

We build on FAQ 12.1, except that we assume that the entity no longer has any information about the historic acquisition cost. Such instances are expected to be exceptional in practice and companies that have reasonable access to historical information should proceed as outlined FAQ 12.1.

In our view, there are several acceptable approaches in the absence of information about the historic cost amount, such as:

- estimating the initial acquisition cost with reference to a reasonable cost value such as a replacement value as at the opening balance sheet date which is then extrapolated to an assumed acquisition date using relevant price indexes;
- estimating the initial acquisition cost based on current replacement value;
- concluding that such a situation is not addressed by the standard and lean towards another true and fair view accounting standard. For example, an entity might refer to the fair value as a deemed cost approach provided in IFRS Accounting Standards (IFRS 1 'First-time adoption of International Accounting Standards') and obtain an indication of the fair value through the use of valuation specialists.

All approaches require significant judgement and we would expect that a first-time adopter explains the approach taken in the exceptional situation it has no information on historical cost.

As an illustration for the first approach, assume that the entity estimates the replacement value as of 01.01.20X1 at CHF 16 million, the acquisition date to be 40 years ago and that the relevant price index for building cost doubled within that period. With these assumptions, the entity would estimate the carrying amount as at the opening balance sheet date under Swiss GAAP FER to be CHF 1.6 million.

Type of information	Amount
Acquisition cost (estimate)	MCHF 8 (= MCHF 16 / 2)
Carrying amount (2% depreciation), 01.01.20X1	MCHF 1.6 (= MCHF 8 – MCHF 6.4 (= MCHF 8 * 2% * 40))

FAQ 12.3 – First-time adoption: PPE historical cost information not available – valuation date

As noted in FAQ 12.2, in certain situations a fair value might be used at the date of the opening balance sheet date as a proxy to measure assets when adopting Swiss GAAP FER for the first time if historic costs are not available.

Valuations are carried out for more than just accounting purposes. An entity might have received a valuation report for a production plant building several years before the opening balance sheet date to perform a strategic assessment and evaluate alternative use strategies. In such a situation the question may arise whether that entity may use the less recent valuation for purposes of the first-time adoption.

In our view, this rather relates to a materiality call to be assessed by the entity. It might be acceptable to use the valuation carried out earlier than the opening balance sheet date but only when no circumstances indicate a materially different economic outcome.

FAQ 12.4 – First-time adoption: PPE carrying amount from another true and fair view framework

We build on FAQ 12.1, but assume that the entity is part of a group that prepares consolidated financial statements prepared in accordance with IFRS Accounting Standards. On the entity level, only a reporting package was prepared (refer FAQ 3.1).

Assume that the carrying amount was determined consistent with the requirements of that standard and amounts to CHF 5 million. The carrying amount is lower than the CHF 6 million estimated in FAQ 12.1 as the entity revised the estimated useful life in earlier periods.

Which of these values shall be used by the first-time adopter?

Considering the thought of a full retrospective application, we believe it is most appropriate to use the CHF 5 million as the initial carrying amount under Swiss GAAP FER. If the accounting requirements of the previous GAAP are consistent with those of Swiss GAAP FER, we would not expect adjustments to be made on first-time adoption.

FAQ 16.1 – Purchase of an intangible asset (IP) in the ordinary course of business

When purchasing an IP in the ordinary course of business from a party that is not a shareholder or acts in its capacity as a shareholder, the general requirements on measuring intangible assets in FER 10/7 are applicable: Intangible assets are initially measured at acquisition cost. Based on FER 10/7, this requirement refers to the historical acquisition cost of the related IP.

The same considerations as outlined for PPE apply in analogy. The entity would first assess whether it has still access to the cost records and use this value as starting basis to derive the carrying amount in a first-time adoption (refer to 12.1). Only in the exceptional case such information is missing, a company would estimate the cost value (refer to FAQ 12.2).

For acquisition of an intangible asset from a shareholder acting in the capacity as shareholder, the aspect explained in FAQ 22.1 applies in analogy.

FAQ 22.1 – Contribution of an intangible asset (IP) to an entity

Assume that a parent entity contributes an intangible asset in the form of intellectual property (IP) to a subsidiary. The following information about the IP is available:

- Carrying amount in the parent entity: CHF 5 million
- Fair value: CHF 40 million
- Conctractually agreed contribution value: CHF 5 million

How is this reflected in the parent's separate Swiss GAAP FER financial statements (sender)?

Investments are measured at acquisition cost less impairment (FER 2/12). The contribution increases the acquisition cost of the investment and the parent recognises following accounting entry (in MCHF):

Dr. Investment in subsidiary	5	
Cr. Intangible assets		5

How is this reflected in subsidiary's separate Swiss GAAP FER financial statements (receiver)?

Considering FER 24/4 and FER 24/20 (refer to paragraph 19), transactions with shareholders not performed at arm's length shall be measured at fair value. In the above example, the contribution in kind is valued too prudently from an at arm's length perspective. The receiving subsidiary records the intangible asset as follows (in MCHF):

Dr. Intangible assets	40	
Cr. Capital reserves (equity)		40

In practice, the determination of an appropriate fair value is often subject to challenge also from an audit perspective as valuation of IP typically requires the application of significant judgement due to the use of unobservable inputs to valuation models. These aspects are addressed with the specific disclosure requirements of FER 24/4 and FER 24/10 (also refer to paragraph 37).

FAQ 22.2 – Distribution of an intangible asset (IP) from a subsidiary to a parent

Assume that a subsidiary distributes an intangible asset in the form of intellectual property (IP) to its parent. The following information about the IP is available:

- Carrying amount within the subsidiary: CHF 5 million
- Fair value: CHF 20 million

How is this reflected in the subsidiary's separate Swiss GAAP FER financial statements (sender)?

Hidden distributions to shareholders are recognised at fair value as a reduction of retained earnings and are not recognised as expense (FER 24/20). The standard does not clarify how the difference between the carrying amount distributed and the fair value is to be accounted for.

We believe entities have an accounting policy choice to recognise the difference either within equity or as income. This view is supported by leaning towards interpretations of the IFRS Accounting Standards, where IFRIC 17 'Distribution of non-cash assets to Owners' only requires the recognition of such difference as income for transactions not under common control. The distribution addressed in this FAQ is under common control and the subsidiary recognises the following accounting entries (in MCHF):

<u>Upon dividend declaration</u>

Dr. Retained earnings	20	
Cr. Dividend payable		20

Recording the dividend at the carrying amount of the asset to be distributed (5 in this example) would not be appropriate.

<u>At the settlement of the dividend</u>

Dr. Dividend payable	20	
Cr. Intangible assets		5
Cr. Retained earnings <u>or</u> income (policy choice)		15

How is this reflected in the parent's separate Swiss GAAP FER financial statements (receiver)?

A distribution from a subsidiary could be either a distribution of available earnings which corresponds to dividend income or a return of capital which is a reduction of the cost of investment. In our view, judgement should be applied in determining the appropriate accounting treatment, based on the substance of the transaction.

Assuming that the distribution is not a return of capital, the parent records the receipt of the intangible asset as follows (in MCHF):

Dr. Intangible assets	20	
Cr. Income		20

FAQ 28.1 – Merger: absorption of a subsidiary by its parent

Assume that a subsidiary is merged into its parent entity. The parent entity survives and the subsidiary ceases to exist. The parent entity recorded the investment in the subsidiary at CHF 10 million. The following values relate to the subsidiary:

- Carrying amount of net assets: CHF 12 million
- Fair value: CHF 15 million

How is this reflected in the parents's separate Swiss GAAP FER financial statements?

Through the merger, the undistributed value of the subsidiary is absorbed by the parent. Consequently, this merger is in substance similar to a dividend in kind (refer to FAQ 22.2). This implies a recognition as income based on the fair value of the net assets received.

Fair value of net assets received	MCHF 15
Carrying amount of investment	- MCHF 10
Dividend income	**MCHF 5**

Alternatively, if the subsidiary was a business, such a transaction could be seen as a business combination under common control. As outlined in paragraph 26, such transactions may either be accounted for at fair value (through business combination accounting) or based on predecessor values. If the entity applied predecessor values, the following dividend income would be recognised:

Predecessor value of net assets received	MCHF 12
Carrying amount of investment	- MCHF 10
Dividend income	**MCHF 2**

How would the accounting change if the parent had recorded the investment at CHF 15 million?

Considering only the carrying amount of the net assets of the subsidiary of CHF 12 million, the change in fact pattern leads to a merger loss. The investment is measured in the parent's separate Swiss GAAP FER financial statements at cost less impairment (FER 2/12). As such, the carrying amount may not exceed the fair value of the net assets of the subsidiary.

Assuming that the received net assets did not constitute a business, the parent derecognised the investment in the subsidiary of CHF 15 million and recognises net assets absorbed from the subsidiary in the same amount.

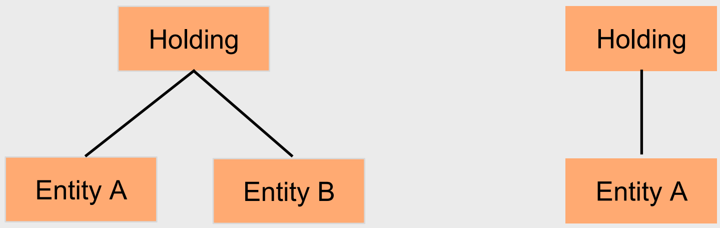
When the subsidiary is a business, a portion of the fair value could relate to goodwill. Assume that the fair value of the separately identifiable net assets amount to CHF 12 million, but the value of the entire business including synergies is estimated to be CHF 15 million. In such situation, we believe that the entity has the policy choice outlined above. If fair value accounting is applied, the entity might recognise a goodwill following the requirements of FER 30. The entity will either capitalise goodwill or offset within equity consistent with its accounting policy (FER 30/14, FER 30/19). If goodwill is offset within equity, it must be recycled to the income statement upon disposal (FER 30/20). The further implications of the policy choice must be reflected, e.g., if goodwill is offset within equity, the entity must identify and recognise previously not recognised intangible assets if they fall under the definition of FER 30/14.

In both situations the entity should transparently disclose how it recorded such transaction and what accounting policy it applied (FER 6/2).

FAQ 28.2 – Merger: absorption of a sister company

We build on FAQ 28.1, except that the entity in focus absorbs a sister company. A sister company is understood as another entity separate from the reporting entity which is controlled by the same owners. Such transactions are also referred to as merger under common control. To illustrate, assume Entity A absorb entity B. The latter ceases to exist.

before restructuring **after restructuring**



The Holding recorded the investment in Entity B at CHF 10 million. Values relating to entity B:

- Carrying amount of net assets: CHF 12 million
- Fair value: CHF 15 million

How is this reflected in the Holding's consolidated Swiss GAAP FER financial statements?

Within the consolidated financial statements of the Holding, the transaction is eliminated (FER 30/7-8). However, if the group internal reorganisation is not tax neutral, this might lead to tax effects that need to be recognised to comply with the requirements of FER 11 'Income taxes'.

How is this reflected in the Holding's separate Swiss GAAP FER financial statements?

Economically, the transaction can be split into two steps:

- Upstream merger of Entity B into the Holding, accounted for as outlined in FAQ 28.1.
- Contribution of the net assets of the former Entity B into Entity A. The Holding will increase the carrying amount in Entity A for the same amount of net assets derecognised as part of the contribution.

The Holding recognises the following entries depending on how the first step is accounted for (in MCHF):

If the upstream merger is accounted for at fair value

Dr. Net assets received from Entity B	15	
Cr. Investment in Entity B		10
Cr. Income		5
Dr. Investment in Entity A	15	
Cr. Net assets contributed from Entity B		15

If the upstream merger is accounted for at predecessor values

Dr. Net assets received from Entity B	12	
Cr. Investment in Entity B		10
Cr. Income		2
Dr. Investment in Entity A	12	
Cr. Net assets contributed from Entity B		12

How is this reflected in Entity A's separate Swiss GAAP FER financial statements?

Entity A follows FER 24/4 and accounts for the contribution following the concepts outlined in FAQ 22.1. Contributions by shareholders are recognised in the capital reserve (FER 24/7, FER 24/24), accordingly Entity A will recognise a debit based on the fair value of the net assets received (CHF 15 million) and credits the capital reserve within equity in the same amount.

The transaction might result in the recognition of goodwill if the net assets absorbed represent a business and the total fair value of net assets absorbed exceeds the sum of the fair values of the separately recognised net assets.

FAQ 28.3 – Merger: absorption of a parent by its subsidiary ("reverse merger")

We build on FAQ 28.1, except that the subsidiary absorbs its parent entity which ceases to exist.

We assume that there are no cross-holdings which means the subsidiary has no investment in the parent entity. The net assets of the subsidiary increase by the net assets absorbed from the parent.

The following relates to the parent:

- Investment in the subsidiary: CHF 10 million
- Carrying amount of net assets: CHF 20 million
- Fair value: CHF 25 million

The following relates to the subsidiary:

- Carrying amount of net assets: CHF 12 million
- Fair value: CHF 15 million

How is this reflected in the subsidiary's separate Swiss GAAP FER financial statements?

We believe that there are multiple ways how to account for such a transaction including recognising the transaction as

- contribution of net assets into equity as per FER 24/4 (refer to FAQ 22.1)
- business combination under common control, accounted for at fair value or predecessor values.

Applying these concepts, this would result in the following accounting entries (in MCHF):

Contribution or business combination at fair value

Dr. Net assets received from parent*	25	
Cr. Investment in subsidiary		10
Cr. Capital reserves (equity)		15

*Net assets received may contain goodwill if accounted for as a business combination.

Business combination under common control: predecessor values

Dr. Net assets received from parent	20	
Cr. Investment in subsidiary		10
Cr. Capital reserves (equity)		10

How would the accounting change if the parent had recorded the investment at more than CHF 15 million?

In our view, that should be unlikely as per FER 2/12 the investment is measured in the separate Swiss GAAP FER financial statements of the parent at cost less impairment. The carrying amount may not exceed the fair value of CHF 15 million.

Assuming the investment in the subsidiary was measured by the parent at that amount, the credit entries would change by CHF 5 million (derecognition of the investment in subsidiary of CHF 15 million instead of CHF 10 million, with an adjustment to the amounts credited to the capital reserves).

FAQ 30.1 – Reassessment of historic business combinations

The standard does not address whether a reporting entity needs to reassess the accounting for business combinations that occurred before the transition to Swiss GAAP FER. Conceptually, the standard is required to be applied fully retrospectively.

We observed in practice that business combinations that took place before transitioning to Swiss GAAP FER are not reassessed, i.e. if the acquisition of an entity was treated as a business combination under previous GAAP this treatment would not change at first-time adoption of Swiss GAAP FER. Other standards support this practice as they explicitly exempt business combinations from the requirement of retrospective application.

We consider this to be a valid approach, also supported by the analogy to the transition requirements of the revised FER 30 (for the amendments becoming effective for reporting periods starting on 1.1.2024) which permit entities to not reassess former business combinations as practical relief for preparers.

Considering the aim of the standard to provide meaningful information at reasonable cost, the transition to the standard, should in our view not require a higher hurdle. Further, for business combinations that occurred several years ago, it might be difficult to avoid the application of hindsight. In our view, entities transitioning to Swiss GAAP FER may therefore choose to not reassess former business combinations.

Any historic goodwill resulting from business combinations at transition is treated based on the group's accounting policy choice, i.e. recognised as an intangible asset or deducted from equity (FER 30/14, FER 30/18-19).

FAQ 30.2 – Cumulative translation adjustments (CTA) at first-time adoption

Applying the recognition and measurement guidance under Swiss GAAP FER may result in changes to the carrying amounts compared to the previous accounting framework. CTA could materially differ from previously recognised CTA under the former accounting standard. Identifying CTA fully retrospective in line with the requirements of Swiss GAAP FER might therefore be challenging. The question arises, whether a Swiss GAAP FER first-time adopter may set CTA to nil upon transition.

Other GAAPs such as IFRS Accounting Standards (IFRS 1 'First-time adoption of International Accounting Standards') allow as practical expedient a choice to reset CTA to nil on first-time adoption. In practice such choice is widely applied and it became also common practice under Swiss GAAP FER to apply this guidance in analogy.

The transition requirements of the revised FER 30 (for the amendments becoming effective for reporting periods starting on 1.1.2024) permit reporting entities to set CTA to nil if "it is impracticable to determine the existing accumulated foreign currency differences as per the start of the reporting period". In the situation of a first-time adoption, the correct determination of CTA might be impractical or require undue effort.

For the above reasons, we consider it acceptable if a first-time adopter resets CTA to nil. The decision should be disclosed in the notes to the financial statements.

FAQ 30.3 – How are intangible assets from former business combinations treated?

FER 30/14 requires in the context of business combinations that intangible assets which have not been recognised previously by the acquiree and are relevant to the decision to obtain control shall be be identified and recognised. As per FER 30/18, only entities that capitalise goodwill on the balance sheet may elect to not separately identify them.

When the former guidance of FER 30 'Consolidated financial statements' was still effective, the unclarity in previous guidance was in some cases used to not recognise previously unrecognised intangible assets. In our view, such practice became inconsistent with the now explicit requirement in FER 30/14. Groups that elect to offset goodwill with equity, shall not derecognise intangible assets acquired through a former business combination. In our view, this should be best practice for all entities transitioning from another true and fair view accounting standard.

FAQ 42.1 – Are consolidated financial statements in accordance with Swiss GAAP FER a precondition to prepare separate FER financial statements?

Due to the unclear guidance in Swiss GAAP FER, it appears acceptable that an entity that holds subsidiaries and prepares separate financial statements under Swiss GAAP FER does not prepare additional consolidated financial statements provided its intermediate or its ultimate parent entity prepares consolidated financial statements under FER 30 or another true and fair view accounting standard, such as IFRS Accounting Standards or US GAAP.

In such instances, the entity should be able to make an unreserved statement of compliance with Swiss GAAP FER according to FER 1/7 in its separate financial statements.

FAQ 42.2 – Which entities need to prepare Swiss GAAP FER financial statements for purposes of the QDMTT?

Swiss GAAP FER may be used as a basis to calculate the QDMTT if all Swiss constituent entities of a group with consolidated group reporting on a basis other than Swiss GAAP FER prepare separate Swiss GAAP FER financial statements for the same reporting period that is used for preparing the consolidated financial statements. These Swiss GAAP FER financial statements are subject to an external audit (Art. 9 Abs. 2 and 3 MindStV).

FAQ 42.3 – Can smaller entities prepare financial statements under "Core-FER" for QDMTT purposes?

No. Art. 9 Abs. 2 MindStV refers to Swiss GAAP FER as the entire standard and not only part of it as "Core-FER" would be. Hence, we understand that it is the view of the Swiss tax authorities that Swiss GAAP FER in its entirety is applied.

FAQ 42.4 – What level of assurance is required for purposes of QDMTT?

According to art. 9 Abs. 2 MindStV separate Swiss GAAP FER financial statements are subject to "audit" which means an assurance engagement providing reasonable assurance per SA-CH. Such an additional audit needs to be performed regardless of the "audit type" used for statutory purposes ("ordinary audit" / "limited statutory examination") and also applies to entities that opted out pursuant art. 727a abs. 2 CO. The reporting for such an audit of general-purpose financial statements should be based on ISA-CH 700.

FAQ 42.5 – How do acquisitions and disposals of subsidiaries impact the QDMTT setup?

According to Art. 9 MindStV the calculation of the QDMTT should be based on the same reporting periods for all Swiss entities. How this applies to entities acquired and disposed of during the year is currently unclear. As per our understanding, the topic is placed with and being discussed at the level of the OECD.

FAQ 42.6 – Branches

Additional considerations are necessary for entities with Swiss or foreign branches.

Art. 3 Abs. 1 MindStV refers to the GloBE model rules for a definition of constituent entities. As per the explanations to the MindStV, a branch which is attributable to the same country as its legal parent is not treated as separate constituent entities. On the contrary, if they are not in the same country, they are separate constituent entities.

The level on which financial statements shall be prepared for QDMTT purposes where branches are involved depends on above definition. Below, we outline which financial statements are to be prepared depending on the tax affiliation of the legal entity and its branches. While these approaches are expected to be generally accepted by Swiss tax authorities, it is advisable to clarify the matter with the respective tax authority.

a) Swiss legal entity with branches with tax affiliation in Switzerland

Audited separate Swiss GAAP FER financial statements at the level of the **Swiss legal entity** are sufficient for Pillar 2 purposes. Accordingly, there is no need to prepare additional Swiss GAAP FER financial statements on the level of such Swiss branches.

b) Swiss legal entity with branches with foreign tax affiliation; and
c) Foreign legal entity with branches with tax afiliation in Switzerland

In those situations, the following approaches may be considered:

1. Audited separate Swiss GAAP FER financial statements for the **legal entity** as a whole; or
2. Audited separate Swiss GAAP FER financial statements **exclusively for the units that are fiscally attributable to Switzerland.**

For approach 1, where a constituent entity is only a part of the audited Swiss GAAP FER financial statements of a legal entity, the fiscal allocation of the portion belonging to this legal entity (e.g., the Swiss branch) will be be carried out during the preparation of the GloBE tax return using company-specific allocation parameters. In this case, it is not necessary to prepare and audit separate Swiss GAAP FER financial statements for the Swiss legal entity excluding its foreign branch or the Swiss branch of a foreign legal entity. For example, in case of a French legal entity with a Swiss branch this would imply the preparation and audit of Swiss GAAP FER financial statements for the French entity as a whole.

Approach 2 requires preparation of Swiss GAAP FER financial statements for only a portion of a legal entity. While this option might be accepted by tax authorities, it poses challenges in respect of the definition of the reporting entities. It might well be that the boundaries between the legal entity and the branch are not sufficiently clear to represent an auditable reporting entity. Accordingly, we recommend applying the first of the two approaches.

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