Swiss GAAP FER

‘Pension benefit obligations’

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Introduction

The Swiss GAAP FER standards focus on small and medium-sized entities and groups with a national reach[1], they are however also applied by larger groups with international operations. The increased use of Swiss GAAP FER, in particular by groups with a global reach has led to more questions on how to apply the standards in practice – for example in relation to the accounting for pension benefit obligations. In this publication, we address the financial impact of pension plans on the financial statements of a FER preparer in its capacity as employer considering the revised version of Swiss GAAP FER 16 ‘Pension benefit obligations’ which will come into effect on 1 January 2027. In this publication, we refer to this standard as FER 16R.

This brochure provides answers to questions that, in our experience, arise frequently when preparing financial statements in accordance with Swiss GAAP FER. It also offers examples and interpretations of how the revised guidance in FER 16R can be applied in practice.

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 rather a collection of questions that arose or are likely to arise in practice and approaches 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.

[1] Swiss GAAP FER – Accounting and Reporting Recommendations, Introduction 3.1.

Scope

1. FER 16R includes guidance on the accounting of financial impacts of pension plans on the entity in its capacity as an employer. Pension plans establish benefit entitlements in at least one of the contingencies of retirement (age), death, or disability.
   [FER 16R/1]

2. The standard is not applicable to pension institutions, but to an entity in its role as an employer. Pension institutions must apply FER 26 in Switzerland, or a respective foreign standard.
   [FER 16R/18]

3. Financial impacts of all pension plans in scope of FER 16R need to be accounted for. This includes Swiss pension plans, as well as foreign pension plans. The table below includes an overview of the types of pension plans in scope of FER 16R.

Swiss plans (always in a separate legal entity)	**Foreign plans**
Proprietary pension fund, including pension funds for multiple group companies	
Affiliation with collective foundation (separate annual accounts and coverage ratio for each affiliated company)	
Affiliation with joint institution (uniform annual accounts and coverage ratio for entire foundation)	
1e plan (savings plan according to Art. 1e BVV2[2])	Savings plan (plan without guarantee for assets held, e.g. 401k plan)
Welfare funds (without entitlement to plan benefits)	Reporting entity (entity/employer includes pension plan in its own financial statements)
	Other (meaningful description required)

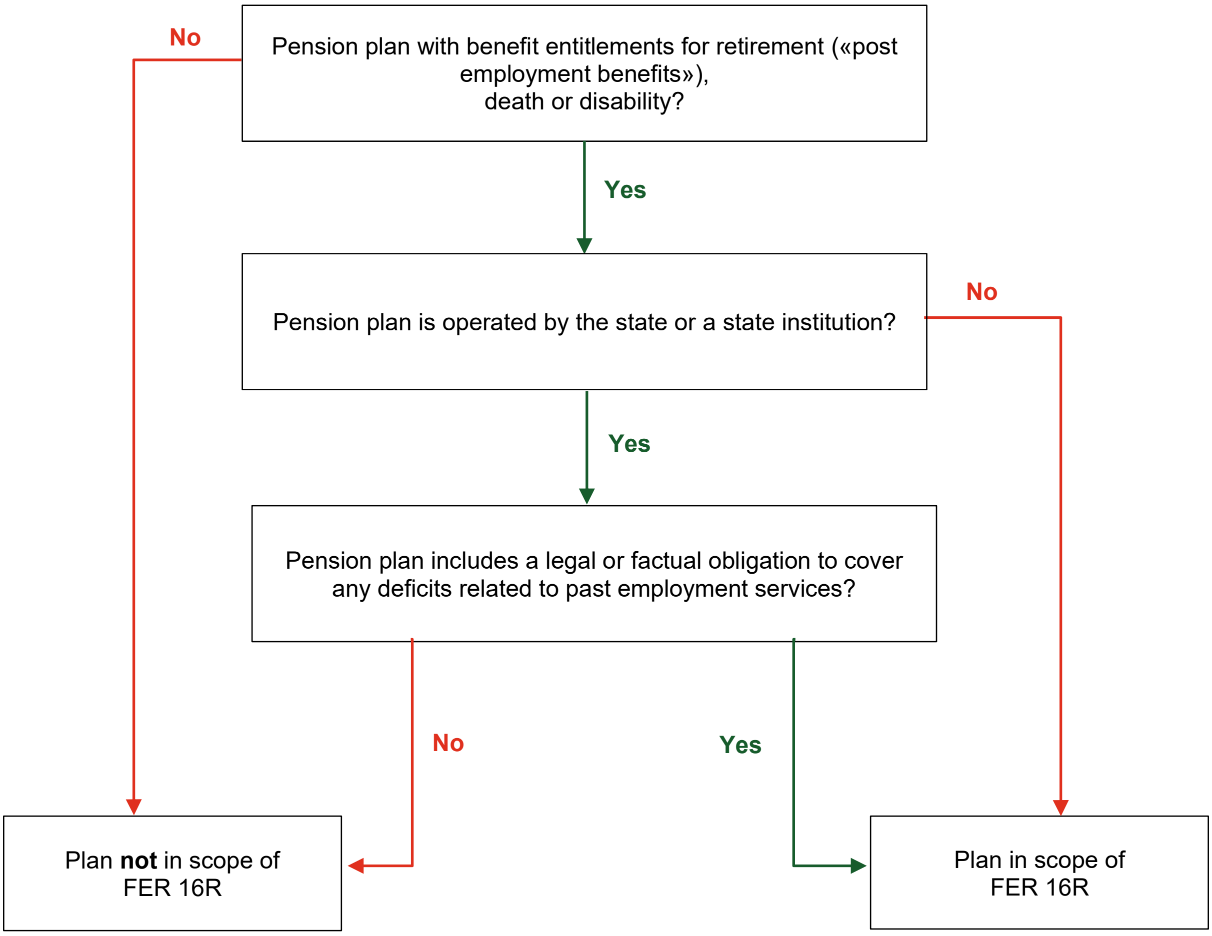
   All pension plans falling into the standard's scope shall be reflected in the financial statements, regardless of the type of organisational and legal set-up.
   [FER 16R/23, FER 16R Annex 3]

4. Pension plans are either maintained in separate legal entities (e.g. pension funds) or included in the financial statements of the reporting entity (only possible in certain countries outside of Switzerland). They can be fully or partially reinsured, whereby certain risks—such as actuarial or investment risks—are transferred to an insurance company in exchange for a premium to be paid.
   [FER 16R/19]

5. Auxiliary institutions such as financing foundations or welfare funds fall within the scope of FER 16R if they can be used to finance employer contributions or remedy a deficit in a pension plan. Pension plans operated by the state or state institutions are included only if they entail a legal or factual obligation for the entity to cover any deficits related to past employment services. As a result, state institutions such as the old-age and survivor's insurance (OASI) in Switzerland are excluded from the scope of FER 16R, as they do not include a legal or factual obligation for the entity to cover any deficits arising from past employment services.

[2] Ordinance on Occupational Old-age, Survivors' and Invalidity Insurance (BVV 2)

The decision tree blow illustrates the scope of application of FER 16R:



[FER 16R/20, FER 16R/21, FER 16R Annex 1]

FAQ 5.1 – Does the 2025 amendment to the Swiss Civil Code regarding the expanded use of welfare funds impact their accounting treatment under FER 16R?

6. Expenses not directly related to retirement, death, or disability benefits, such as long-service awards, anniversary gifts or severance payments are excluded from the scope of the standard. Similarly, costs associated with significant and specific restructuring measures such as social plans are not in scope of FER 16R. Such items fall typically in the scope of FER 23 'Provisions' and the related expense is presented within other personnel expenses.
[FER 16R/22]

Recognition and measurement

General concept

Overview

7. The financial impacts of pension plans result from ordinary and other contributions to the pension plan, as well as from economic benefits or economic obligations arising from the pension plan. The financial impacts of pension schemes are considered separately for each pension scheme.
   [FER 16R/2]

Ordinary and other contributions

8. Ordinary and other contributions to the pension plan, made on contractual, regulatory, or legal grounds, shall be accounted for in the period to which they relate. Applying the accrual principle of Framework 11, the effects of transactions and other events are recognised in the period of their occurrence rather than the period in which cash or cash equivalents are received or paid. As per FER 16R/3, amounts relating to different reporting periods are recorded in the balance sheet as prepaid expenses or accrued expenses, or as other short-term receivables or other short-term liabilities.
   [FER 16R/3]

FAQ 8.1 – What could be other contributions?

Economic benefits and economic obligations

9. A key concept in FER 16R is to determine whether the entity has at the balance sheet date, an economic benefit or an economic obligation from their pension schemes. An economic benefit results from the entity's ability to achieve a positive impact on future cash flows due to the positive financial situation of the pension plan. The most common example is a temporary reduction of contributions payable to the pension plan.
   [FER 16R/4]

10. An economic obligation exists if the entity chooses to, or needs to, provide additional funding due to a negative financial situation of the pension plan, for example, to financially restructure the deficit in an entity’s pension plan.
    [FER 16R/4]

11. The economic benefit or economic obligation to be recognised is determined as of the balance sheet date and is based on the financial situation of the pension plan according to its latest available financial statements or actuarial calculation. These must not be older than 12 months. If there is any indication of material developments in the pension scheme e.g. due to value changes of plan assets or pension liabilities, partial liquidations or other reasons, not yet reflected in the last available financial statements or actuarial calculations, these need to be adjusted for those impacts. This may either be done through updating the existing financial statements or actuarial calculation, or by preparing new financial statements or actuarial calculations that reflect the economic position of the pension fund as of the entity’s reporting date.
    [FER 16R/24]

FAQ 11.1 – How old may the input data be for FER 16R purposes?

FAQ 11.2 – What qualifies as ‘material development’?

Accounting for Swiss pension plans

12. For Swiss pension plans, the economic benefit or economic obligation is mandatorily determined by applying the ‘two-step method’ as follows:

Step 1 Determination of surplus or deficit based on the financial statements of the pension fund prepared (or updated) as of the balance sheet date in accordance with FER 26. Annex 3 explains that the surplus or deficit for Swiss pension plans is equal to ‘foundation capital, free funds’ plus ‘employer contribution reserves (with waiver of use)’. This calculation is illustrated below (in MCHF):

Total assets	**37**
- Liabilities	-4
- Accrued expenses	-1
- Employer contribution reserves (without waiver of use)	-2
- Non-actuarial provisions	0
Total pension assets	**30**
- Pension capital and actuarial provisions	-20
- Value fluctuation reserves	-7
Surplus	**3**

Step 2 Assessment whether an economic obligation or benefit exists based on the result of step 1. The factors to consider in this assessment are further explained in paragraphs 13 to 18 below.
[FER 16R/6]

FAQ 12.1 – Why are ‘employer contribution reserves with waiver of use’ not deducted in the calculation to determine the economic benefit or economic obligation?

FAQ 12.2 – Example: How is the surplus/deficit calculated if the entity has it’s pension fund with a joint institution?

FAQ 12.3 – Can the ‘projected unit credit method’ be used to determine the economic benefits / obligations of a Swiss pension plan?

Economic benefits and economic obligations

13. In the event of a surplus at a Swiss pension plan, legal and regulatory terms and requirements should be considered when determining the economic benefit for the entity. Particularly the permissibility of temporary contribution reductions or contribution holidays sourced from free funds of the pension institution needs to be assessed.
[FER 16R/7]

FAQ 13.1 – Can an economic benefit be recognised as soon as the pension fund is in a surplus?

FAQ 13.2 – How can an entity use free funds for temporary contribution reductions or contribution holidays?

14. An economic benefit exists in the event of a surplus, if it is permissible and intended to be used to reduce employer contributions, to refund it to the entity according to local legislation, or to use it for another economic benefit of the entity outside of the fund's deeds. Accordingly, the recognition of an asset depends not only on the availability of a surplus, but also on management's intention to utilise it.
[FER 16R/25]

15. The value fluctuation reserves reported by the pension institutions are not an economic benefit of the entity. As shown in the calculation in paragraph 12, they are deducted to determine the surplus or deficit.
[FER 16R/7]

16. The entity must assess its economic obligation in the event of a deficit in the pension institution in alignment with the measures planned or taken as part of the restructuring and the pension institution's assumptions.
[FER 16R/8]

17. An economic obligation exists in the event of a deficit if the criteria for recognising a provision according to Swiss GAAP FER 23 are satisfied, which requires the following conditions to be met:

1. There is a present (legal or constructive) obligation as a result of a past event;
2. It is probable that an outflow of resources will be required to settle the obligation;
3. A reliable estimate of the amount of the obligation can be made.

[FER 16R/25, FER 23/1]

FAQ 17.1 – Does an economic obligation exist from the moment the pension plan is in a deficit?

18. The economic benefit or economic obligation shall generally not exceed the reported surplus or deficit.
[FER 16R/26]

Employer contribution reserves

19. An entity has the possibility to create a reserve for employer contribution within the pension fund. These reserves, which the entity can use at any time under certain conditions to cover future contribution obligations, represent an economic benefit to the entity. The pension fund has the authority to determine whether the employer contribution reserve will accrue interest and, if so, to set the applicable interest rate. Free funds in financing foundations, as well as funds in welfare funds allocated to be used for reduction of contributions are treated the same way as employer contribution reserves.
[FER 16R/10]

20. A Swiss pension plan can specify in its guidelines that the entity, in the event of a deficit, may grant a conditional waiver of use for the employer contribution reserves. No economic benefit can be derived from the amount of the employer contribution reserve with waiver of use as the entity can no longer use it to reduce future employer contributions. As a result, an already existing employer contribution reserve asset will need to be expensed for the amount up to the deficit. Only

the remaining amount of the employer's contribution reserve exceeding the deficit may be recognised as an asset. As per LPP[3] Art. 65e, paragraph 2 employer contribution reserves with waiver of use do not accrue interest.
[FER 16R/10, FER 16R/30]

Auxiliary institutions

21. Auxiliary institutions that pursue a financing purpose in addition to providing discretionary benefits (e.g., welfare funds) are included in the determination of the economic benefit for the entity.
[FER 16R/27]

22. If an explicit employer contribution reserve is maintained in such institutions, two asset items arise in the entity's balance sheet:

1. The employer contribution reserve
2. The economic benefit determined according to the rules of FER 16R using the two-step method.

[FER 16R/27]

Accounting for foreign pension plans

23. For foreign pension plans, there are three options to determine the economic benefit or economic obligation:

1. Analogously to Swiss pension plans using the two-step method described in paragraph 12 above. This can only be done if the pension plan is a separate legal entity. For step 1; to determine the surplus/deficit as of the balance sheet date, plan assets are measured at fair value, and pension liabilities are determined according to locally recognised methods.
2. In accordance with a locally recognised accounting standard (e.g., HGB in Germany)
3. In accordance with an internationally recognised accounting standard (e.g., IAS 19 'Employee benefits')

Option 1 differs from the other two options in so far as the assessment is done based on the financial statements of the pension plan (potentially adjusted for fair valuing plan assets) whereas options 2 and 3 reflect the perspective of the financial statements of the foreign group entity.

The same approach shall be applied consistently to comparable pension plans within a country.
[FER 16R/11, FER 16R/31]

24. For pension plans in separate legal entities for which the two-step method is used, an economic benefit exists when there is the possibility and the intention to use a surplus to reduce employer contributions to refund it to the entity according to local legislation, or to use it for another economic benefit of the entity beyond the plan benefits.
[FER 16R/25]

[3] Law on occupational pension schemes, and the relevant old age, survivors' and disability benefits (LPP)

Presentation and disclosures

Balance sheet

25. Pension plan contributions are recognised in the period to which they relate, with any resulting assets classified as prepaid expenses or other short-term receivables and liabilities as accrued expenses or other short-term liabilities. Assets and liabilities from different pension plans must be recognised separately.
[FER 16R/2, FER 16R/3]

26. An economic benefit is recorded in long-term financial assets and separately presented in the balance sheet or disclosed in the notes under the designation 'assets arising from pension plans'.
[FER 16R/5]

27. An economic obligation is recorded in other long-term liabilities and separately presented in the balance sheet or disclosed in the notes under the designation 'liabilities arising from pension plans'.
[FER 16R/5]

28. Employer contribution reserves are recorded in long-term financial assets and separately presented in the balance sheet or disclosed in the notes under the designation 'employer contribution reserves'.
[FER 16R/10]

29. For foreign pension plans accounted for under option 2 and 3 (see paragraph 23) included in the financial statements of the reporting entity, assets from reinsurance policies or similar items are separately presented in the balance sheet or disclosed in the notes under the designation 'assets from reinsurance of pension benefit obligations'. The entity presents them gross unless the applicable local or internationally recognised accounting standards require offsetting of these assets against the pension liabilities.
[FER 16R/14]

Income statement

30. Ordinary and other contributions to the pension plan, made on contractual, regulatory, or legal grounds, including contributions settled using the employer contribution reserves are presented as personnel expense.
[FER 16R/3, FER 16R/10]

31. For all Swiss pension plans and for foreign plans accounted for using the two-step method, changes in the value of the economic benefit or economic obligation compared to the prior period are generally recorded as personnel expenses, except for impacts resulting from:

1. Changes in scope of consolidation
2. Foreign currency exchange differences
3. Changes in economic benefit or economic obligation without impact on the result of the current period, such as payment of restructuring contributions for which a liability was recognised in a previous period.
[FER 16R/9, FER 16R/28, FER 30/41, FER 30/80]

32. Interest income accrued on the employer contribution reserve is recognised and reported within the line item 'other result from pension plans'.
[FER 16R/10]

33. For foreign plans, the presentation follows the method how the economic benefit or economic obligation was determined (refer to paragraph 23). The change in value of the economic benefit or economic obligation compared to prior year is recorded as follows:

Income statement line item	Option 2 and option 3 (local or international standard)
Personnel expense	• Current service cost • Past service cost • Gains and losses from settlements • Administration expense
Other result from pension plans	• Remaining changes

The remaining changes mainly relate to items which under internationally recognised accounting standards qualify as remeasurements (recorded in other comprehensive income).
[FER 16R/12]

FAQ 33.1 – What are examples of 'remaining changes'?

34. The line item 'other result from pension plans' needs to be presented as a separate line item within the ordinary result, above the financial result.
[FER 16R/13]

FAQ 34.1 – Is there an option to account for the other result from pension plans in equity?

35. Contributions and benefits from reinsurance policies for pension plans included in the financial statements of the reporting entity or similar items are presented as 'personnel expense', and any interest is shown in the position 'other result from pension plans'.
[FER 16R/14]

36. An impairment on the employer contribution reserve asset is presented as 'personnel expenses'.
[FER 16R/10]

Cash flow statement

37. FER 16R does not specify how cash flows relating to pension plans shall be presented. The exposure draft to FER 16R foresaw that all relating cash flows are presented within the operating category which we consider to be reasonable for most payments.

38. A classification in the investing category might however be more appropriate in specific situations, for example, if an entity makes a payment into employer contribution reserves for several years in advance, which is from an economic perspective, more akin to a cash outflow from investing activities, similar to investments into a money market investment. A subsequent usage constitutes a non-cash transaction, which shall be disclosed in the notes.
[FER 4/6]

Notes to the financial statements

39. The standard foresees two tables, the so called 'reconciliation table' and a 'disclosure table' which contain the key disclosures relating to pensions in a structured way.
[FER 16R Annexes]

40. A reconciliation (reconciliation table) for the economic benefit and economic obligation from the opening to the closing date needs to be disclosed as part of the notes to the financial statements.
[FER 16R/15]

FAQ 40.1 – Example of a reconciliation table for the economic benefit and economic obligation determined using the two-step method.

FAQ 40.2 – Foreign plans: example of disclosure of a reconciliation table for the economic benefit and economic obligation determined in accordance with IAS 19

41. A breakdown of the pension expense (within personnel expense) needs to be disclosed as a second part of the reconciliation table.
[FER 16R/15]

FAQ 41.1 – Example of the breakdown of pension expense within personnel expense

42. The following information is provided in the disclosure table for all pension plans:

1. Name of pension plan / pension plan provider
2. Country of pension plan
3. Type of pension plan (refer to paragraph 3). If a pension plan is fully reinsured, the designation 'with full reinsurance' must be added. Whilst not required by the standard, we would expect a similar designation for partially reinsured pension plans (e.g. stop-loss, excess of loss, or similar) for transparency.
4. Number of active members as of the balance sheet date employed by the entity.
5. Number of pensioners as of the balance sheet date for whom the entity assumes financial risks. A financial risk is generally no longer assumed if pensioners remain with a pension plan after the affiliation contract has ended and the employer has entered into a new affiliation contract with another pension plan, and as a result these pensioners would be excluded.
6. Basis and date of the underlying data
7. (+) Surplus / (-) deficit in the pension plan. For pension plans in separate legal entities (i.e. all Swiss pension plans and foreign pension plans accounted for as per option 1 in paragraph 23), the calculation of the surplus / deficit defined as per FER 16R is included in paragraph 12.
8. Cover ratio calculated as total of pension assets divided by pension capital and actuarial reserves. For Swiss pension plans this is the cover ratio as per Art. 44 BVV 2. For pension plans with full reinsurance, the cover ratio is not applicable ('N/A').
9. Economic benefit in accordance with FER 16R
10. Economic obligation in accordance with FER 16R. For pension plans with full reinsurance, the economic obligation is not applicable ('N/A').

11. Description of the method used to determine the economic obligation or economic benefit, including whether a dynamic method or a static method was applied to determine the underlying pension liability.
[FER 16R/16, FER 16R Annex 3]

FAQ 42.1 – Example of a pension plan disclosure table

FAQ 42.2 – Where can the information on the calculation method (static method vs. dynamic method) of the pension capital be obtained?

43. Individually immaterial Swiss pension plans and foreign pension plans may be aggregated into a single line. For the purpose of aggregation immateriality is determined based on factors such as the number of active members, number of pensioners, the extent of surplus or deficit, and the amount of economic benefit or obligation. Specific guidance exists for Swiss welfare funds, which when aggregated need to be presented separately from the other individually immaterial plans.
[FER 16R/34]

44. Additional information is required to be disclosed in the following situations:

- Where the recognised economic benefit or obligation in a welfare fund or in a pension plan presented separately differs materially from the reported surplus or deficit, an explanation of the underlying reasons shall be provided.
- Where a pension plan has undergone, or has resolved to implement, significant changes in contributions or benefits during the reporting period, these changes and their financial impact on the entity shall be explained.
[FER 16R/17]

45. Please refer to paragraphs 26 – 29 for line items for which the entity may choose to either present them separately in the balance sheet or disclose them in the notes to the financial statements.

Transition

46. FER 16R becomes mandatorily applicable for reporting periods starting on or after 1 January 2027 and needs to be applied fully retrospectively in line with Framework 30. This means that the comparative period is restated to reflect the amounts that had been recognised in the financial statements, had the revised accounting principles been applied in the comparative period.

47. The requirement to provide comparative information also applies for the disclosures in the transition year. Accordingly, advance preparation in order to be able to report all required information may be needed.
[FER 16R/16]

48. With the introduction of FER 16R, FER 3 'Presentation and structure' and FER 23 'Provisions' are amended as well. Balances relating to pension are no longer described as provisions and accordingly, they are no longer mentioned in the provision movement table.

Frequently asked questions

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FAQ 5.1 – Does the 2025 amendment to the Swiss Civil Code regarding the expanded use of welfare funds impact their accounting treatment under FER 16R?

Article 89a, paragraph 8 of the Swiss Civil Code was expanded to permit welfare funds to provide discretionary benefits even in the absence of a hardship situation. Historically, the welfare funds' purpose was to mitigate financial risks associated with illness, accident, disability, or unemployment of individuals that were not covered by social insurance. Following the amendments to the Civil Code, welfare funds may now also grant benefits in other areas, including training and further education, reconciling work and family life, as well as health promotion and preventive measures for insured individuals and their dependants. The amendment came into force on 1 January 2025. The new benefits may only be granted if the purpose of the welfare fund as specified in the foundation's deed is changed to include the broadened scope of benefits.

Does the amendment to the Swiss Civil Code regarding the expanded use of welfare funds impact their accounting treatment under FER 16R?

It depends on whether the welfare fund's deeds are changed and whether the welfare fund's governing body has approved funds to be used for benefits under the broadened scope.

Assume Welfare Fund A was historically established to benefit employees of Entity X in hardship situations. As of 1 January 2025, Welfare Fund A had reserves of CHF 10 million remaining. During 2025, the governing body of Welfare Fund A decided that CHF 1 million will be used to fund future expenses in the daycare institution operated by Entity X. In our view, if the governing body's allocation is binding, the CHF 1 million of funds attributed to the future daycare reimbursements constitute an asset for Entity X which is outside the scope of FER 16R as those funds can no longer be used to finance employer contributions or remedy a deficit in a pension plan.

FAQ 8.1 – What could be other contributions?

FER 16R/3 refers to ordinary and other contributions. Ordinary contributions are the contributions paid in accordance with the statutes or regulations of the pension plans in the normal course of business.

Other contributions are those in excess of the ordinary contributions. For example, an entity may pay additional voluntary contributions and set up contribution reserves to finance or improve the planned benefits. Another example are restructuring contributions in a situation where a pension fund's regulations requires contributions to be paid by the entity in the event of a deficit in the fund.

FAQ 11.1 – How old may the input data be for FER 16R purposes?

FER 16R/24 sets a time limit of 12 months for the use of a pension fund's financial statements / actuarial calculations which are needed to account for pension arrangements. The question arises whether these 12 months are to be assessed from the balance sheet date, or from the date the financial statements are issued.

What is the cut-off date for input data used for FER 16R purposes?

In our view, 'within the last 12 months' should be assessed from the balance sheet date of the reporting entity.

If an entity prepares its financial statements in February 20X2 for the fiscal year ended 31 December 20X1, and the most recent pension plan financial statements were prepared as of the fiscal year ended 31 December 20X0, these statements are considered to be within the last 12 months as of the balance sheet date (31 December 20X1). If more recent pension plan financial statements are available, such as those as of 31 December 20X1, the most recent financial statements should be used to determine the economic benefit or obligation.

Irrespective of the above, FER 16R/24 mandates the assessment whether any 'material developments' may require adjustments to the input data. Further, entities might need to revise the input data if the issuance of the reporting entity's financial statements is delayed beyond the issuance of newer financial information of the pension fund as such release is an adjusting event after the balance sheet date in the context of Framework 28.

FAQ 11.2 – What qualifies as 'material developments'?

Typically, the input data used for FER 16R purposes is not prepared as of the balance sheet date of the reporting entity. To adhere to the requirements of FER 16R/24, preparers need to apply judgement in evaluating which changes shall be considered as material and therefore lead to adjustments of the input data.

Which developments are 'material'?

FER 16R does not clarify the term 'material' and preparers shall consider the general guidance provided by the Framework, including the concept of materiality defined by Framework 29 and the principle of reliability of Framework 32.

Material developments in a pension plan may include plan changes, as well as changes in the investment strategy, mergers or acquisitions of pension funds, or adjustments to actuarial assumptions, such as an increase in life expectancy. Additionally, significant inflows or outflows of members resulting from company restructurings, reorganisations of the pension scheme, or legal disputes and regulatory interventions affecting the plan might also qualify as material developments. In our view, preparers shall assess whether these changes might be material for their Swiss GAAP FER financial statements.

FER 16R/24 permits for the consideration of material developments either as adjustments or the preparation of new input data. The former approach is in our view only in line with Framework 32 if the adjustments can be determined reliably.

FAQ 12.1 – Why are 'employer contribution reserves with waiver of use' not deducted in the calculation to determine the economic benefit or economic obligation?

As illustrated in the example in paragraph 12 in this document, the surplus or deficit in a Swiss pension plan is determined based on the financial statements of the pension fund prepared (or updated) as of the balance sheet date in accordance with FER 26. To determine total pension assets, liabilities, accrued expenses, **employer contribution reserves (without waiver of use)**, as well as non-actuarial provisions are deducted from the total assets.

Why are 'employer contribution reserves with waiver of use' not deducted in the calculation?

A Swiss pension plan can specify in its guidelines that the entity, in the event of a deficit, may grant a conditional waiver of use ('bedingter Forderungsverzicht') of use for the employer contribution reserves. By waiving the right to use these reserves, these funds are fully available to the pension fund. As such, they can be considered part of the available pension assets and are therefore not deducted from the pension assets when calculating the surplus or deficit.

FAQ 12.2 – Example: How is the surplus / deficit calculated if the entity has it's pension fund with a joint institution?

Assume the same situation as in paragraph 12 with a surplus of MCHF 3. However, in this example entity X has a pension fund with a joint institution. In a first step, the attributable surplus/deficit is calculated. In reference to Annex 3, the attributable share for entity X is calculated proportionally based on the number of active members and pensioners (amounts in MCHF):

Surplus	**3**
Number of active members of entity X	610
Number of pensioners entity X	490
Total active members and pensioners entity X	**1'100**
Total active members and pensioners joint institution	**3'260**
Surplus entity X *(*1'100/3'260*3**)**	**1**
Affiliation specific free funds	2
Total surplus for entity X:	**3**

The entity then applies the second step of the two-step approach.

FAQ 12.3 – Can the 'projected unit credit method' be used to determine the economic benefits / obligations of a Swiss pension plan?

FER 16R mandates the use of the two-step method for Swiss pension plans. As a consequence alternative approaches for measuring the economic benefits or obligations of Swiss pension plans, such as the projected unit credit method are not permitted.

However, although uncommon in practice, FER 26/14 allows that pension plans apply the projected unit credit method to value their pension liabilities, which in turn would result in the method indirectly being used for purposes of FER 16R.

FAQ 13.1 – Can an economic benefit be recognised as soon as the pension fund is in a surplus?

An entity might wonder in which circumstances it may recognise a pension asset if the pension fund is in a surplus.

Which aspects shall an entity consider for this assessment?

In our view, preparers need to apply judgement and consider the specific facts and circumstances. The assessment should take the following into consideration:

1. Availability of the surplus: the surplus must be accessible to the entity. This means that the terms of the pension plan and applicable legal or regulatory requirements must allow the entity to use the surplus for its benefit.
2. Economic benefit to the entity: the surplus must result in a tangible economic benefit for the entity, such as a reduction in future pension contributions.
3. Assessment of recoverability: the entity must assess whether the surplus is recoverable, considering any restrictions or limitations on its use.

If these conditions are not met, an economic benefit cannot be recognised in the financial statements. However, irrespective of whether an economic benefit is recognised, the surplus shall be disclosed in the notes to the financial statements. Refer to FAQ 42.1 for an example of disclosure.

In summary, a surplus alone is insufficient for recognition under FER 16R. The entity must demonstrate that the surplus is both available and realisable as an economic benefit.

FAQ 13.2 – How can an entity use free funds for temporary contribution reductions or contribution holidays?

The use of free funds has a high hurdle and we recommend preparers to consult with a pension expert as part of their assessment. The below may provide some indicators whether free funds may be used.

The Federal Social Insurance Office (FISO) in cooperation with the Federal Occupational Pensions Commission addressed the issue of regulating the use of free funds with regard to temporary contribution reductions and contribution holidays in a publication issued in the year 2000.

As per the communication, the following four conditions must be met for temporary contribution reductions or contribution holidays:

a. Contribution reductions and contribution holidays must be provided for in the deed and/or regulations of the pension plan.
b. The highest governing body of the pension plan must approve the contribution reduction or the contribution holidays. The resolution must be reviewed annually, taking into account the actual financal position of the pension plan.
c. The pension purposes must be secured and fulfilled. This means the pension plan shall maintain sufficient technical and value fluctuation reserves to cover risks like longevity, ensure legally required inflation adjustments for survivors', disability, and retirement pensions, and treat new entrants according to legal requirements. Pensioners are entitled to a share in free assets to the same extent as active members. For publicly funded pension plans with a target below 100%, any surplus beyond the target and required reserves must first be used to fully cover the fund. Only when the employer consistently amortises deficits can surpluses be used for contribution reductions or exemptions, similar to fully funded plans.
d. The continuation of vested termination benefits must be maintained as if no temporary contribution reduction or contribution holidays had taken place.

Only if free funds remain, after taking into account all of the above-mentioned requirements, including adequate value fluctuation reserves, may these be used for contribution reductions or exemptions.

FAQ 17.1 – Does an economic obligation exist from the moment the pension plan is in a deficit?

Applying the two-step method, an entity first assesses whether the pension plan is in a surplus or deficit. In a second step, the entity determines its economic benefit or obligation out of the financial situation of the pension plan. In practice, the question arises whether an entity (employer) needs to recognise an obligation as soon as the pension plan is in a deficit.

Assume Entity A has a pension plan in Switzerland, which historically reported a surplus. As per 20X3, the pension plan is in a deficit for the first time.

Shall Entity A recognise an economic obligation for the deficit in the pension plan?

It depends on the specific facts and circumstances. The deficit alone does not give rise to the recognition of an economic obligation as it is not yet probable that a future outflow of funds would be required to settle the deficit in the pension plan. If, however, the governing body of the pension plan decided on a financial restructuring plan requiring Entity A to contribute additional funds to settle the deficit and it is possible to make a reliable estimate of the future outflow of funds, the requirements in FER 23 for the recognition of a provision would be met.

FAQ 33.1 – What are examples of 'remaining changes'?

FER 16R/12 specifies how the change in value of the economic benefit or obligation is presented in the income statement for foreign pension plans accounted for under either a locally accepted or internationally recognised accounting standard. While current service cost, past service cost, gains and losses from settlements and administrative expense are presented in personnel expense, all remaining changes are to be presented in 'other result from pension plans' as a separate line item within the ordinary result.

What are examples of 'remaining changes'?

Examples of 'remaining changes' to be included in 'other result from pension plans' include actuarial gains and losses arising from:

- changes in financial assumptions, such as changes in discount rates or inflation rates;
- changes in demographic assumptions, like mortality rates or employee turnover;
- experience adjustments that are arising when actual outcomes differ from previous assumptions, such as variations in salary increases or employee longevity; and
- the remeasurement of plan assets.

In addition, interest expense on pension obligations, as well as interest income on pension assets are also included in 'other result from pension plan'.

As a result, expected items included in 'other result from pension plans' will be items, which under other accounting and reporting standards (such as IAS 19), would be included in other comprehensive income (OCI), as well as interest income on pension assets and interest expense on pension obligations. For Swiss pension plans, the only item expected to be included in 'other result from pension plans' would be interest on the employer contribution reserve or similar items.

FAQ 34.1 – Is there an option to account for the other result from pension plans in equity?

No. As per FER 24/14, items are only accounted for within equity if a standard permits such treatment. As illustrated in FAQ 33.1, changes that would be accounted for in OCI when applying other accounting standards (for example IAS 19) will need to be accounted for in the income statement line item ‘other result from pension plans’ under FER 16R.

FAQ 40.1 – Example of a reconciliation table for the economic benefit and economic obligation determined using the two-step method.

Assume an entity has a Swiss pension plan with an economic obligation as at 01.01.20x1 of TCHF 0 and employer contribution reserves of TCHF 320. Ordinary contributions for the year 20x1 amount to TCHF 1’800, out of which TCHF 180 were paid from the employer contribution reserves. The contributions for the month of December of TCHF 150 have not yet been paid and are recognised as short-term liabilities. The breakdown of expenses is disclosed in FAQ 41.1.

As at 31.12.20x1 the pension fund is in a deficit of TCHF 6’500. The deficit is intended to be remedied through future deficit recovery contributions of TCHF 4’000, financed equally by employer and employees. Consequently, the entity reflects an obligation of TCHF 2’000.

The employer contribution reserve and the short-term liabilities are not included in the below disclosure as they are reflected in separate balance sheet line items. The reconciliation table for the economic benefit and economic obligation as at 31.12.20x1 would be as follows:

	Economic benefit from pension plans	Economic obligation from pension plans
Carrying amount 1.1.20x1	0	0
Change in personnel expense	0	-2’000
Carrying amount 31.12.20x1	**0**	**-2’000**

The following year, the entity pays TCHF 500 of the contributions for the deficit recovery. There are no other changes to the economic benefit or obligation from pension plans.

	Economic benefit from pension plans	Economic obligation from pension plans
Carrying amount 1.1.20x2	0	-2’000
Change in personnel expense	0	0
Change without impact on the result of the current period	0	500
Carrying amount 31.12.20x2	**0**	**-1’500**

FAQ 40.2 – Foreign plans: example of disclosure of a reconciliation table for the economic benefit and economic obligation determined in accordance with IAS 19

Assume an entity has a foreign pension plan in a separate legal entity and uses IAS 19 'Employee benefits' to determine the economic benefit or economic obligation (option 3 described in paragraph 23). The entity has received the following information:

Net pension liability 1.1.20X1		**-75'000**
Current service cost	-6'800	
Interest expense	-450	
Interest income	520	
Administration costs	-180	
Employee benefit expense included in income statement		*-6'910*
Actuarial gains / losses from changes in demographic assumptions	-4'300	
Actuarial gains / losses from changes in financial assumptions	22'600	
Actuarial gains / losses from experience adjustments	3'200	
Remeasurement of plan assets	43'700	
Employee benefit income included in other comprehensive income (OCI)		*65'200*
Employer contributions		5'100
Net pension liability 31.12.20x1		**-11'610**

The entity would disclose the following in the reconciliation table based on the information received above:

	Economic benefit from pension plans	**Economic obligation from pension plans**
Carrying amount 1.1.20x1	0	-75'000
Change in personnel expense (1)	0	-1'880
Change in other result from pension plans (2)	0	65'270
Carrying amount 31.12.20x1	**0**	**-11'610**

(1) Change in personnel expense corresponds to the portion of the current service costs that exceeds the employer contributions (-6'800 + 5'100) plus administration costs (-180).

(2) Change in other result from pension plans corresponds to the sum of interest expense (-450), interest income (520) and the employee benefit income included in OCI (65'200).

FAQ 41.1 – Example of the breakdown of pension expense within personnel expense

Assume the same situation as in FAQ 40.1.

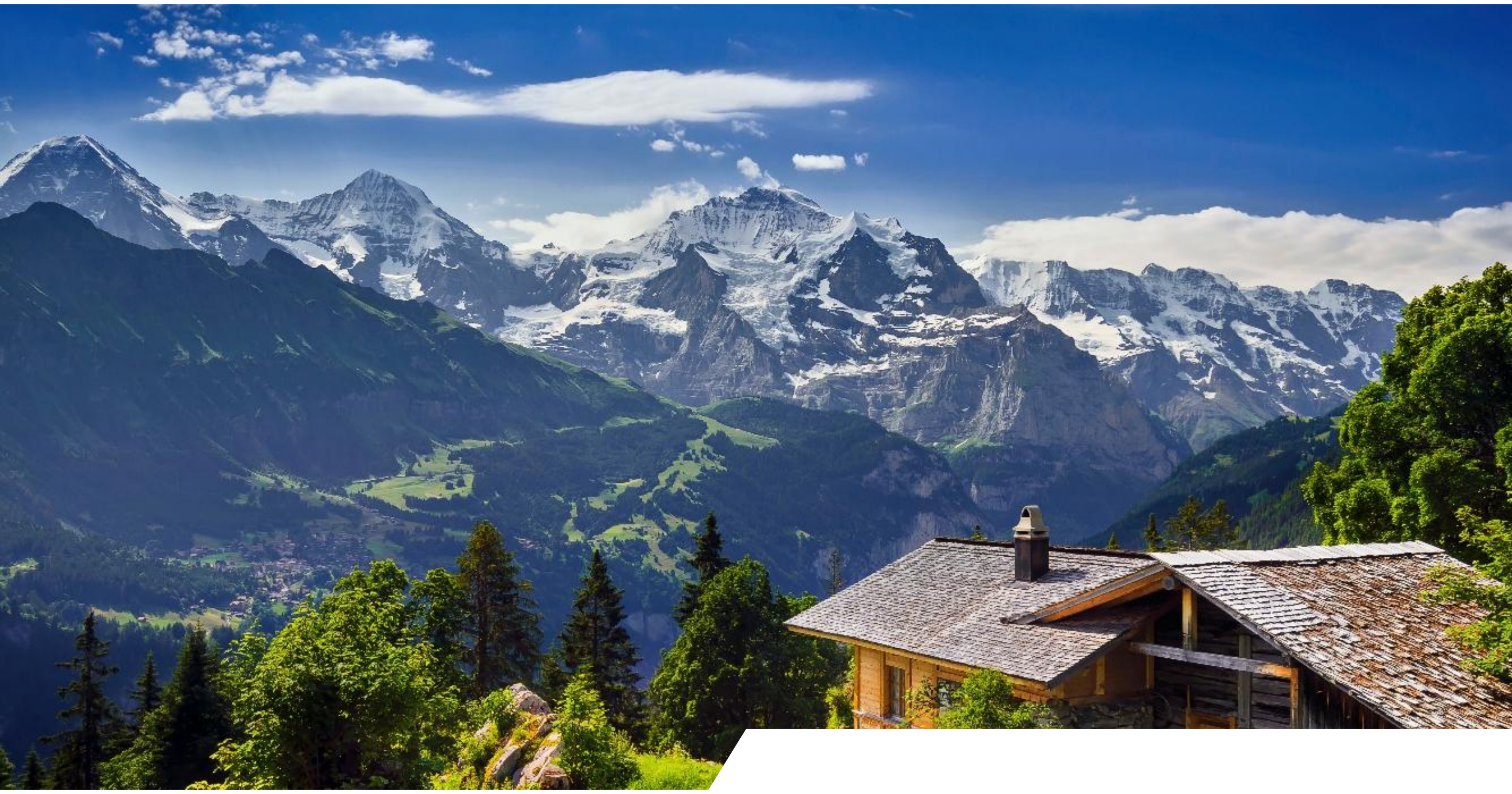
The disaggregation of pension expense may be provided in the following format:

Pension expense within personnel expense	**20x1**
Ordinary contributions (incl. contributions from employer contribution reserve)	-1’800
Change in economic obligation from pension plans	-2’000
Total pension expense within personnel expense	**-3’800**

The entity would record the full TCHF 1’800 as personnel expense as the contributions relate to the entire period. The sourcing through the employer contribution reserve and the unpaid portion do not impact the amount of expense. In the cash flow statement, the entity would only present the actual cash flow of TCHF 1’470 (TCHF 1’800 less the TCHF 180 sourced from the employer contribution reserve and the TCHF 150 still unpaid).

Looking at the same situation as in FAQ 40.2 the disaggregation of pension expense within personnel expense would be disclosed as follows:

Pension expense within personnel expense	**20x1**
Ordinary contributions (incl. contributions from employer contribution reserve)	-5’100
Change in economic obligation from pension plans	-1’880
Total pension expense within personnel expense	**-6’980**



FAQ 42.1 – Example of pension plan disclosure table

Entity A has a proprietary pension fund, Pension Plan A, as well as an executive pension plan for its executive management. They also have a welfare fund and pension plans for multiple subsidiaries. The disclosure table for entity A looks as follows:

Name of pension plan	Country	Type of pension plan	Number of active members	Number of pensioners	Basis and date of underlying data	Surplus (+) / deficit (-)	Cover ratio in %	Economic benefit	Economic obligation	Chosen method
Pension plan A	Switzerland	Proprietary pension fund	3'200	1'100	Audited financial statements as of 31.12.20X0 with roll-forward to 31.12.20X1 based on performance	-6'500	94%	N/A	-2'000	Two-step method (static calculation)
Executive pension plan B	Switzerland	Affiliation with joint institution with full reinsurance	210	40	Statement affiliation as of 31.12.20X1	0	N/A	0	N/A	Two-step method (static calculation)
Welfare fund C	Switzerland	Welfare fund (Art. 89a, para 7, Swiss Civil Code)	0	0	Preliminary financial statements as of 31.12.20X1	1'500	N/A	0	N/A	Two-step method
Pension plan subsidiary Y	Germany	Reporting entity	65	25	Actuarial calculation as of 31.12.20X1	N/A	N/A	N/A	-800	Local standard (dynamic method)
Pension plan Z	Netherlands	Affiliation with	110	60	Actuarial calculation as of 31.12.20X1	-600	96%	N/A	-300	International Standard (dynamic method)
401 k plan X	USA	Savings plan	70	0	N/A	N/A	N/A	N/A	N/A	N/A
Additional plans (aggregated)	France, Canada	N/A	15	3	N/A	N/A	N/A	0	-150	N/A
Total 31.12.20x2								**0**	**-3'250**	

FAQ 42.2 – Where can the information on the calculation method (static method vs. dynamic method) of the pension capital be obtained?

FER 16R mandates to include the method used in the valuation of the pension liabilities as part of the disclosure of the chosen option for calculating the economic benefit or economic obligation. The values of the pension liabilities may be determined using a dynamic or static method. The dynamic method projects liabilities over time by accounting for future changes in membership and economic conditions, while the static method calculates pension liabilities based on a fixed population and assumptions. The information about which method was used can be obtained from the pension plan.

In Switzerland, FER 26/14 specifies that pension liabilities and actuarial reserves may be determined using the dynamic or the static method (refer to FAQ 12.3 for further information). For internationally recognised standards, such as IAS 19, or ASC 715 the dynamic method is used.

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