
Transaction Accounting Advisory Switzerland
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How can you get ahead of Transaction Accounting related issues in Switzerland?

Complex environment

In today’s global and increasingly complex environment, the ability of an organization to effectively execute a transformational event – such as an acquisition – plays a key role in enhancing an organization’s value.

Successfully executing a transformational event can inspire stakeholder confidence and represent an important reflection on the business, its brand, management and directors.

Achieving that objective requires the ability to navigate challenging Transaction Accounting and Reporting in order to mitigate unexpected results.

Keep track of big picture

Corporate transactions are often tightly scheduled and a single deal can raise many issues for a business across a range of areas. It is important to keep track of the big picture, identify interdependencies between individual disciplines and constantly monitor the effects, objectives and risks of the transaction.

Multiple risk factors

The accounting and financial reporting considerations for acquisitions are often compounded by several factors. Multiple risk factors highlight the importance of Transaction Accounting:

- Accounting for business transactions is one of the most frequent sources of error in financial reporting
- Business transactions are frequently complex and call for the involvement of numerous specialists (legal, tax, accounting, etc.)
- Business transactions have a significant influence on a group’s financial position and results of operations
- In Switzerland, knowing the local GAAP and Swiss accounting specificities – such as the Swiss accounting principles based on prudence and conservatism – is critical to a successful transaction
- Accounting conclusions determined at the inception of a transaction have a considerable impact on future accounting related risks (e.g. goodwill allocation, impairment, etc.) and/or on future results (e.g. gross margin, depreciation, etc.)

What benefits can you expect?

- We can help you assess the opportunities, risks and consequences of your transaction at an early stage
- We can show you the effect your transaction will have on various aspects of your group, including your:
  - Balance sheet, income statement and cash flow statement
  - Existing loan agreements and those entered into and for the purpose of the transaction
  - Key performance indicators, such as EBITDA, EBIT, ROI and EPS

«Successfully executing a transformation such as an acquisition or divestiture can play a key role in enhancing an organization’s value, inspire stakeholder confidence and represent an important reflection of the business, its brand, management and directors.»

Jolanda Dolente
Financial Accounting Advisory Leader
Switzerland
Transaction Accounting matters
Monitoring all potential effects

Time is a key factor in a transaction. Companies are under pressure to make a large number of decisions that can have far-reaching implications. It is important to monitor all potential effects of the transaction, as retrospective changes may be difficult.

Contractual arrangements for acquisitions and the relevant international GAAP on business combinations and consolidations are becoming increasingly complex.

In Switzerland, a strong understanding of the Swiss accounting specificities throughout the transaction process is key in order to execute a transformational event successfully.

Factors to take into consideration

Several factors affect the accounting and financial reporting considerations in Switzerland, including:

- Differing accounting standards and policies applied by the target and the buying company (Swiss accounting based on the Swiss Code of Obligations (SCO) versus international GAAP)
- Challenges associated with appropriate purchase price allocation among the acquired assets and liabilities (e.g. eliminating excess reserves that are permitted under SCO)
- Complex technical accounting matters including, but not limited to, pension and goodwill accounting, identification and recognition of intangible assets, derivatives and hedging, debt modification, stock-based compensation and foreign currency matters
- Availability and experience of personnel within the organization to address competing demands such as managing new and different accounting standards, installing new systems or other strategic priorities

«Switzerland has traditionally based its statutory accounting practices on minimal legal requirements and a largely tax driven presentation. Accordingly, comparability with international accounting standards in the area of these statutory accounts is in general limited.»

Tobias Meyer
Transaction Accounting Solution Leader

Differences between Swiss and International Accounting Standards

Swiss accounting standards and their valuation principles differ considerably from international accounting standards:

- Swiss accounting standards under SCO are based on the principle of prudence and conservatism
- Swiss accounting standards under SCO allow excess reserves (understating assets and overstating liabilities), which when built or released impact EBITDA
- Swiss accounting standards under SCO provide limited guidance in recognizing and valuing assets and liabilities. Therefore, in practice many differences in accounting arise (e.g. not capitalizing intangible assets or accelerate depreciation of property, plant and equipment)
- Provisions and accruals under SCO may be booked even though no past event with future obligation is present. When no longer needed, the provisions or accruals do not need to be released
- Under international GAAP, such as IFRS and US-GAAP, Swiss pension plans are required to be classified as defined benefit plans mainly due to certain Swiss legal requirements. In order to assess the impacts of Swiss pension plans under international GAAP, companies need to engage actuaries
- The concept of deferred taxes arising from temporary differences is not defined under SCO. This is mainly due to the fact that tax authorities may only tax profits as evidenced in the statutory (stand-alone) accounts under SCO ("Massgeblichkeitsprinzip"). In addition, deferred taxes are a frequent source of error in consolidated financial statements in accordance with international GAAP.
There exists an additional Swiss accounting standard, named Swiss GAAP FER.

Swiss GAAP FER is structured in a modular approach. It is based on a framework of principles that apply to all organisations and recommendations that vary with the size of the organisation and its business sector. In contrast to the Swiss Code of Obligations, Swiss GAAP FER enables accounting under the true and fair view principle and thereby enhances the comparability required by investors and providers of capital. Familiarity with and acceptance of these standards in Switzerland also make them an attractive alternative to IFRS or US-GAAP. Swiss GAAP FER is a permissible accounting standard for the Swiss stock exchange and an accepted standard for real estate companies.

Despite some similarities between Swiss GAAP FER and international GAAP (such as IFRS and US-GAAP), there remain significant differences in accounting treatments including, but not limited to:

- Accounting for derivatives
- Valuation of intangible assets
- Purchase price allocations and goodwill
- Pension accounting

What benefits can you expect?

- Our dedicated Transaction Accounting Advisory team in Switzerland has extensive experience in transactions that are being conducted in Switzerland
- Our team focuses on the most effective ways to analyze and present the Swiss topics in complex transactions and in your consolidated financial statements, while identifying the economic implications for your business
We guide your transaction
Potential acquisition accounting surprises and pitfalls that we help minimize

Critical aspects

Underestimating the effect of accounting policy choices

- Accounting policy choices could have implications on necessary disclosure requirements (e.g., goodwill allocation, impairment testing, definition of the control over investments) and investor communications.

Valuation matters

- Purchase price allocations could affect key future performance metrics. For example, inventory is typically carried on the target’s balance sheet at cost. During the purchase price allocation, inventory is usually written up (step-up) to fair value and impacting future earnings metrics.

Deferred revenue differences

- Fair value recognized by the acquirer could differ from the deferred revenue recorded on the acquiree’s historical balance sheet under SCO.

Lack of attention to disclosure effectiveness

- Unclear disclosures could ineffectively tell your story and could negatively affect the market valuation and cost of capital.

Potential (negative) impacts

Earnings stability depending on the policy choices made

Budgeting and forecasting accuracy

Revenue and earnings (post combination)

Investor and other stakeholder confidence
Potential acquisition accounting surprises and pitfalls that we help minimize (contd)

Underestimating the initial classification of contingent considerations
- Contingent considerations require careful analysis of the terms as they might be classified on the balance sheet as an equity arrangement or a liability and may impact post-acquisition profit or loss. Fair value changes from period to period of liability classified arrangements can introduce post-acquisition income statement volatility.

Earn out arrangement
- Earn out arrangements need to be carefully analyzed to determine whether it is remuneration (treated as expense) or part of the purchase price (goodwill).

Noncash assets transferred
- Considerations might include the transfer of assets that the acquirer previously recognized in its financial statements at historical or amortized cost.

Common control transactions
- Accounting for transactions between entities that are ultimately controlled by the same party or parties (“common control transactions”) need to be carefully assessed. Whether the acquisition method or pooling of interest method may be implemented depends on a series of different criteria that need to be analyzed for each transaction separately.
Our services are your solutions
Our services in Switzerland are structured around the four key phases of a typical transaction (pre-deal, contracting, implementing and post-deal phase) in order to provide confidence that accounting and reporting requirements have been addressed.

We highlight specific matters that impact each phase of the transaction process. We also assess risks to help you avoid delays and minimize their impact.

“We assist or advise clients throughout the transaction life cycle, from front-end diligence, identifying and assessing potential pain points and negotiations through to deal-closing, day-one and day-two implementation issues and beyond.”

Tobias Meyer
Transaction Accounting Solution Leader
How do we help?
• Perform accounting due diligence to identify potential risks and GAAP differences. This entails:
  • Identify key GAAP differences between Swiss accounting standards and international GAAP that impact the consideration paid
  • Identify the fair value of inventory recorded by the acquiree at the acquisition date. Typically, the fair value is higher than the book value under Swiss accounting standards obscuring the actual profit margin of the target
  • Assess whether research and development costs (R&D) should be capitalized as intangible assets. Typically, Swiss companies do not capitalize R&D and expense it in the profit and loss statement
  • Analyze accounting policy differences under Swiss accounting GAAP and restating the impact on financial statements under international GAAP
  • Analyze accounting judgements and estimation uncertainties. Often provisions and accruals (e.g. restructuring, warranties, etc.) under SCO do not meet recognition requirements under international GAAP
  • Assess off-balance sheet items (e.g. leases, derivatives, Swiss pension)
  • Review key agreements (e.g. purchase and sale agreements)

How do you benefit?
• Detailed knowledge of accounting risks combined with know-how of Swiss accounting landscape and support in managing such risks
• Documentation of a transaction structure optimized for tax and accounting purposes, enabling a smooth financial integration with your group

Typical areas with potential GAAP differences for Swiss companies include:
• Accounts receivables and bad debt provisions
• The valuation allowance on inventory accepted for tax purposes at up to a maximum of one-third of the inventory’s book value
• PP&E and depreciation
• Provisions and accruals
• Swiss pension plans
How do we help?

- Analyze accounting options, such as:
  - Transfer of control under SCO versus Swiss GAAP FER, IFRS and US GAAP
  - Contingent purchase price payments and earn out arrangements
  - Share based payment plans and the accounting effects of the contractual retention of key employees
  - Using put and/or call options to acquire majority and minority interests
  - Restructuring measures

- Analyze acquisition financing from a Swiss accounting and tax perspective, including:
  - Assessing equity versus debt financial instruments
  - Accounting for finance-related transaction costs
  - Assessing the accounting effects of embedded derivatives and fair value measurement
  - Hedging interest payments using interest and currency derivatives
  - Refinancing and replacing existing financing and derivatives
  - Loan agreements (e.g. effects, simulations and stress tests)
  - Tax deductibility of financing expenses, taking into account tax restrictions on the various levels of the group structure and an analysis of the accounting consequences
  - Accounting treatment of shareholder loans (e.g. with above or below – market interest rates) and vendor loans (e.g. with performance related interest)

How do you benefit?

- Comprehensive analysis of the transaction’s future accounting impacts and quantitative analysis from the change
- Contractual agreements optimized for accounting purposes
- Clear guidance for decision makers
FAAS in the transaction process:
Our services and solutions (contd)

3 Implementing phase

How do we help?

- First-time consolidation or deconsolidation (e.g. preparing technical accounting memos, determining goodwill/deconsolidation effects, preparing the acquisition balance sheet) thereby showing different options within accounting standards
- Prepare the closing accounts
- Determine and review working capital adjustments
- Perform purchase price allocation:
  - Identify and measure the fair value of intangible assets (such as patents, brand names, customer base)
  - Determine the fair value of property, plant and equipment (including real estate) and inventories
  - Determine the fair value of beneficial and onerous contracts (such as long-term purchase and sale agreements, leases) and of contingent liabilities
  - Measure the Swiss pension liability under IFRS
  - Calculate goodwill and allocate it to cash-generating units
  - Measure the fair value of contingent consideration
  - Advise on setting covenants for acquisition financing (e.g. simulating the achievement of covenants on the basis of forecasts, effects of future changes in GAAP, critical accounting issues that could affect the achievement of the covenants)
  - Determine the effect of employee stock ownership plans on future earnings
  - Prepare the carve-out financial statements

How do you benefit?

- Correct accounting in financial statements
- Greater certainty when determining covenants
- Optimized use of judgment in accounting
**Post-deal phase**

How do we help?
- Perform GAAP conversions from SCO to Swiss GAAP FER, IFRS or US GAAP
- Analyze transaction related accounting issues after the deal, such as:
  - Transactions with minority shareholders
  - Analyze and determine the allocation of goodwill to the cash-generating units
  - Set up and perform impairment tests
  - Hedge accounting of interest rate and currency risks arising from financing
  - Subsequent measurement of acquisition financing
  - Determine and post purchase price adjustments
  - Subsequent measurement of earn out arrangements
  - Accounting for minority interests
  - Harmonize the acquiree’s financial reporting with your group’s accounting standards
  - Prepare the accounting policy manual and integrating it into your group’s reporting system
  - Support in interpreting loan agreements and preparing a compliance certificate
  - Prepare the bank reporting
  - Analyze the effects of refinancing
  - Debt push-down of acquisition financing, taking into account Swiss and other tax restrictions

How do you benefit?
- Efficient integration of the acquiree in your accounting and reporting structures
- Effective conversion of the acquiree’s accounting
What benefits can you expect?

Your benefits in the transaction process

We can provide you with the assurance that the accounting and reporting requirements and all related issues will be given appropriate consideration in all phases of the transaction so that there will be no surprises. We will assist you in minimizing the risk of delays during the transaction process. In addition, our Transaction Accounting Advisory services will allow you to considerably reduce the time burden on your company during the transaction and integration stages.
**Why EY?**

**A multidisciplinary team driving your success**

Let us help you tackle the challenges posed by your transaction. Our Transaction Accounting Advisory team can offer you end-to-end support throughout the transaction process and provide one-stop answers to the various questions you will face.

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<tr>
<th>Experience and technical knowledge</th>
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<tr>
<td>• Consistent and dedicated Transaction Accounting teams with in-depth experience, serve both private equity and corporate companies in transactions.</td>
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<td>• Specialists who combine technical accounting knowledge and practical experience with business combinations and divestiture transactions in Switzerland help you manage the process of accounting and financial reporting for a transformational event.</td>
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<th>Multidisciplinary teams</th>
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<td>• Strong teaming with our Transaction Advisory, Transaction Tax and other service lines allows us to quickly bring you the most relevant and experienced resources, with the insight and the industry expertise to address your needs.</td>
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<th>Tools and supports</th>
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<td>• Proven tools and enablers help to create efficiencies that may translate into faster performance and lower cost, while maintaining high quality.</td>
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<td>• Powerful technology-enabled services can help you address your unique accounting and financial reporting requirements.</td>
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<th>Global teams and framework</th>
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<tr>
<td>• Multinational clients are served by international Transaction Accounting teams located in all major countries.</td>
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<td>• A globally consistent approach to deliver Transaction Accounting and Reporting services.</td>
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<th>Overall</th>
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<tr>
<td>• Dedicated teams with extensive Transaction Accounting know-how can quickly respond to your needs.</td>
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<tr>
<td>• Powerful tools and enablers supporting the efficient and effective implementation of transactions.</td>
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Your contacts from Transaction Accounting Advisory Services in Switzerland

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“We are the right partner to assess the challenges and chances of your transaction.”

Jolanda Dolente
Financial Accounting Advisory Services
Leader Switzerland
About EY
EY is a global leader in assurance, tax, transaction and advisory services. The insights and quality services we deliver help build trust and confidence in the capital markets and in economies the world over. We develop outstanding leaders who team to deliver on our promises to all of our stakeholders. In so doing, we play a critical role in building a better working world for our people, for our clients and for our communities.

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