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Changes to Dutch Accounting Standards for medium-sized and large legal entities

Changes to annual edition 2017

Professional Practice Department – October 2017

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The annual edition 2017 of the Dutch Accounting Standards (DASs) for medium-sized and large legal entities includes several new standards. The annual edition 2017 is effective for financial years starting on or after 1 January 2018. Some of the new standards, however, have become effective before that date. Earlier application is recommended for all new standards. New draft standards have been included as well. Draft standards do not yet formally apply. However, anticipating the final standards, draft standards do provide the accounting practice with a certain extent of support and guidance.

This factsheet solely outlines the main amendments to the DASs for medium-sized and large legal entities. Please note that industry specific amendments (such as for banks, pension funds, investment institutions, educational institutions, health care institutions, fundraising organizations) are not addressed.

New standards applicable to financial years starting on or after 1 January 2016

Current cost: addition of transitional provision

The annual edition 2017 includes a final, more detailed interpretation about the concept of current cost and its practical application. This is relevant for legal entities that measure tangible fixed assets (and in exceptional cases intangible fixed assets) that are not investments at current value. DASB Statements on this had already been published earlier. Current cost, in short, refers to (1) the current purchase or manufacturing price of the related assets net of (2) cumulative depreciations. Application of "current cost" instead of "replacement value" constitutes a change in accounting policy that must be recognized retrospectively, in accordance with DAS 140 "Changes to accounting policies." Hence, in case of a change in accounting policy in the 2016 financial statements the current cost as at 31 December 2015 (the opening

Example: Change in accounting policy–measurement of land and buildings

Company A purchased industrial premises including land 10 years ago, which it measured at current value through 2016. The land's carrying amount at current value (current cost) is EUR 750,000 as at year-end 2016. That of the industrial premises is EUR 2,400,000. The remaining useful life is 30 years as at year-end 2016. The residual value of the industrial premises is nil. The carrying amount as at year-end 2016 includes a EUR 500,000 revaluation, EUR 200,000 of which relates to the land and EUR 300,000 to the industrial premises. The revaluation reserve as at year-end 2016 – reduced by a provision for deferred taxes at the nominal 25% rate–EUR 375,000 (= 75% of EUR 500,000).

Company A opts for a change in accounting policy in the 2017 financial statements, following which land and buildings are valued at historical cost from now on. To this end, company A applies the transitional provision as permitted by the Dutch Accounting Standards Board. Hence, the carrying amounts at historical cost as at 1 January 2017 are set at the carrying amounts at current value as at 31 December 2016. The equity in the 2017 opening balance and the comparative figures are, thus, not adapted. Based on the above estimates, the annual depreciations amount to EUR 80,000 (= EUR 2,400,000/30) as from 2017, EUR 10,000 (= EUR 300,000/30) of which relates to the unrealised revaluation as at year-end 2016. The revaluation reserve is subsequently reduced by EUR 7,500 (= 75% of EUR 10,000) per year. Application of the transitional provision must be disclosed in the financial year in which the transition has been recognised, as well as in the subsequent financial years for as long as the revaluation reserve has not been fully realised.

balance sheet) and as at 31 December 2014 (the opening balance sheet of the comparative figures) should be determined.

The concept of current cost is based on technically identical replacement. However, technically identical replacement is often impracticable, making it difficult to measure the current cost of such assets. It is one of the reasons why the Dutch Accounting Standards Board has included a transitional provision if a legal entity opts for a change in accounting policy, shifting to measurement at historical cost. If so, it is permitted to recognise the change in accounting policy prospectively. This means the starting point is the current value of the carrying amount at the end of the prior financial year, which is subsequently assumed to be the historical cost. The change in accounting policy will thus not affect equity in the opening balance.

Report on payments to governments
Large legal entities and public interest entities active in the extraction industry or in the logging of primeval forests must publish a report on payments to governments (art. 2:392a Dutch Civil Code and the Reporting on Payments to Governments Decree), for financial years starting on or after 1 January 2016. This report is a separate report, apart from the financial statements, the directors' report and the other information. The scope and some components of this new report are included in DAS 500 "Country information–report on payments to governments ("country-by-country-reporting")".

New standards applicable to financial years starting on or after 1 January 2017

Management Board's report and Supervisory Board's report
Various Decrees containing more detailed regulations on the contents of the management board's report were published in 2016 and 2017. The revised Dutch corporate governance code, published in December 2016, was designated to be the code of conduct. According to these decisions and the corporate governance code, listed companies should include a statement on corporate governance in their management board's report. Under the corporate governance code the Supervisory Board's report is part of the annual accounts, too. What's more, large public interest entities with more than 500 employees must include specific non-financial information ("non-financial statement") in their management board's report. The amendments as a result of the related decisions are set out in DAS 400 "Management Board's report" and DAS 405 "Supervisory Board's report".

Pension provision and old-age liability managing directors/large shareholders
The "Self-Administered Pensions (Phaseout) and other Tax-Related Pension Measures Act" became effective on 1 April 2017. Any consequences in respect of the financial statements are included in DAS 271 "Employee benefits". In short, these provisions are as follows:

- under the current provisions of DAS 271.318 and 318a, a provision will be included on the balance sheet for any non-contributory pension entitlements that continue to be self-administered;
- the impact of a reduction of the nominal value of pension entitlements in favour of the shareholders' equity is recognised when a reduction of the nominal value has been unconditionally agreed; and
- an old-age liability is valued at the carrying amount for tax purposes and presented separately, under liabilities.

New standards applicable to financial years starting on or after 1 January 2018

Agricultural inventories

It is permitted to measure agricultural inventories at current value, in this case the net realisable value. In this respect, unrealised changes in value can either directly be recognised in the profit and loss account (provided frequent market quotations are available), or directly in a revaluation reserve under shareholders' equity. The Dutch Accounting Standards Board has now stated that if unrealised changes in value are recognised directly in shareholders' equity, the realised part of the revaluation reserve must be recognised in the profit and loss account if the inventories are sold. These amounts would otherwise never be accounted for in the profit and loss account. The realised revaluation should be included in the profit and loss account in a separate item (under art. 2:390(4) Dutch Civil Code).

Split-up of compound financial instruments

A legal entity may have issued financial instruments with both a liability component and an equity component. This may be a convertible bond comprising a loan (liability component) and an option on a fixed number of shares (equity component). So far, DAS 290.813 only recommended (1) testing instruments for the existence of these components and (2) classifying the components separately as liabilities, assets, or equity. If this recommendation would not be followed, depending on the predominant features the compound instrument either needed to be fully classified as equity or as financial liabilities. This assessment and the split-up have now been made mandatory. This eliminates a conflict with the provisions for separating embedded derivatives. Classifying a component as either liability or equity also affects profit and loss and the recognition of taxes. Compensation for debt is recognized in profit and loss (as an interest expense). Equity compensation, on the other hand, is debited to equity (as dividend). The recognition of taxes in respect of such compensation follows the recognition of the compensation involved, hence, either in profit and loss or in equity.

Disclosure requirements

The annual edition 2017 includes standards for a number of new disclosure requirements. They are:

- disclosure of opinions, estimates and uncertainties; the importance of disclosing opinions, estimates and uncertainties is emphasized, if this is necessary for providing the required understanding. Authoritative statements regarding some already existing requirements of disclosure in respect of opinions, estimates and uncertainties have been included to that end;
- disclosures regarding interests; the circumstances must be disclosed according to which the legal presumption is rebutted as to whether or not there is an associate company and whether or not significant influence in an associate company is exercised. Statutorily the existence of an associate company is suspected with an interest of at least 20%. Significant influence is suspected if at least 20% of the voting rights can be exercised;
- disclosures regarding consolidation; disclosures must be provided on:
  - the reasons for consolidating an interest or not if this is unclear based on the size of the interest. For example, why an interest of ≤ 50% is consolidated or why an interest of > 50% is not consolidated;
  - the share of third parties in the group, e.g., by providing insight into the share of third parties in the nature and scope of the balance sheet items and the profit and loss account items.

Cash flow statement

Interest received and dividend received can be presented as cash flows from operational activities. This has not been amended. However, interest and dividend received can no longer be presented as cash flows from financing activities. They are either presented as cash flows from investment activities or as cash flows from operational activities.

Draft standards

Impairments financial instruments

For financial years as from 2018, IFRS 9 "Financial instruments" applies when applying IFRS. IFRS 9 replaces IAS 39, resulting in changes of classification and measurement, impairment and hedge accounting of financial instruments. Having analysed IFRS 9, the Dutch Accounting Standards Board decided it is desirable to facilitate IFRS 9 in the DASs for the impairment aspect. It is proposed to permit an alternative option for impairments, according to which financial instruments are determined in accordance with the "expected credit loss model" of IFRS 9 instead of according to the provisions of DAS 290 ("incurred loss model").

Costs of major maintenance

The DASs currently provide for three possibilities to account for costs of major maintenance:

- recognition in the carrying amount of the related asset (the so-called component method);
- recognition through a maintenance provision; or
- recognition in profit and loss at the time the major maintenance is carried out.

The Dutch Accounting Standards Board proposes to cancel the latter recognition method, as the other two methods lead to improved allocation of expenses and provide a better view of both profit (or loss) and capital. After all, the costs of major maintenance relate to several financial years rather than to a single financial year. If the component method is selected for future application, this change in accounting policy may be recognised prospectively. A change in accounting policy which implies that the costs of major maintenance will be recognised through a maintenance provision is to be recognised retrospectively.

Example: Change in accounting policy–costs of major maintenance

Company A recognises costs of major maintenance in the profit and loss at the time the major maintenance is carried out. Following amendments of the Dutch Accounting Standards, costs of major maintenance are to be recognised in the carrying amount of the related assets from FY18 onwards. Company A opts to prospectively account for this change in accounting policy.

This means that company A does not adjust the carrying amount of the assets and initially continues to apply the usual depreciation method. Costs are capitalised and then amortised over the estimated useful life at the time the major maintenance is carried out. The residual carrying amount of the replaced major maintenance component of the asset is determined at that point in time. That residual carrying amount is regarded as disinvested and charged to the profit and loss account (DAS 212.449). The costs of the major maintenance carried out are used as an indication in situations where it is practically impossible to determine the residual carrying amount (DAS 212.508) (also see appendix DAS 212, explanation 2 to example E).

Presentation and disclosure of debts

A proposal is made to permit (but not oblige) debt to be presented as short-term in situations where all or part of a long-term debt is repaid early after the balance sheet date but before preparation of the financial statements. This is in line with the other provisions on presentation of debts as long-term or short-term. On top of that, it is proposed to (1) include a schedule of movements in the notes to the financial statements for every group of long-term debts, and (2) require more detailed disclosure of the terms and conditions relating to debts in certain circumstances, for instance as set out in bank covenants. The terms and conditions relating to debts should particularly be disclosed if debts that were long-term have become immediately payable or short-term during the financial year. For instance as a result of non-compliance with bank covenants. Such terms and conditions also have to be disclosed if debts are not yet immediately due and payable at the time of preparation of the financial statements, but that situation is approximated. That information can also be relevant for (disclosure of) the liquidity risk the legal entity runs.

Movements in deferred taxes at present value

Taxes relating to items that have been recognised directly in shareholders' equity should also be directly recognised in shareholders' equity. This likewise applies to movements in deferred taxes. However, Dutch Accounting Standards are unclear on how to recognise a movement in deferred taxes resulting from addition of interest in situations where deferred taxes are measured at present value. In other words, whether the interest addition should also be directly recognised in shareholder' equity, or in profit and loss (as part of the tax expense or income). The Dutch Accounting Standards Board proposes to clarify that the movement in deferred tax liabilities resulting from interest addition should also be recognised directly in shareholders' equity.

Contact information

For questions, comments or suggestions please contact **Corné Kimenai** (ckimenai@deloitte.nl).


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