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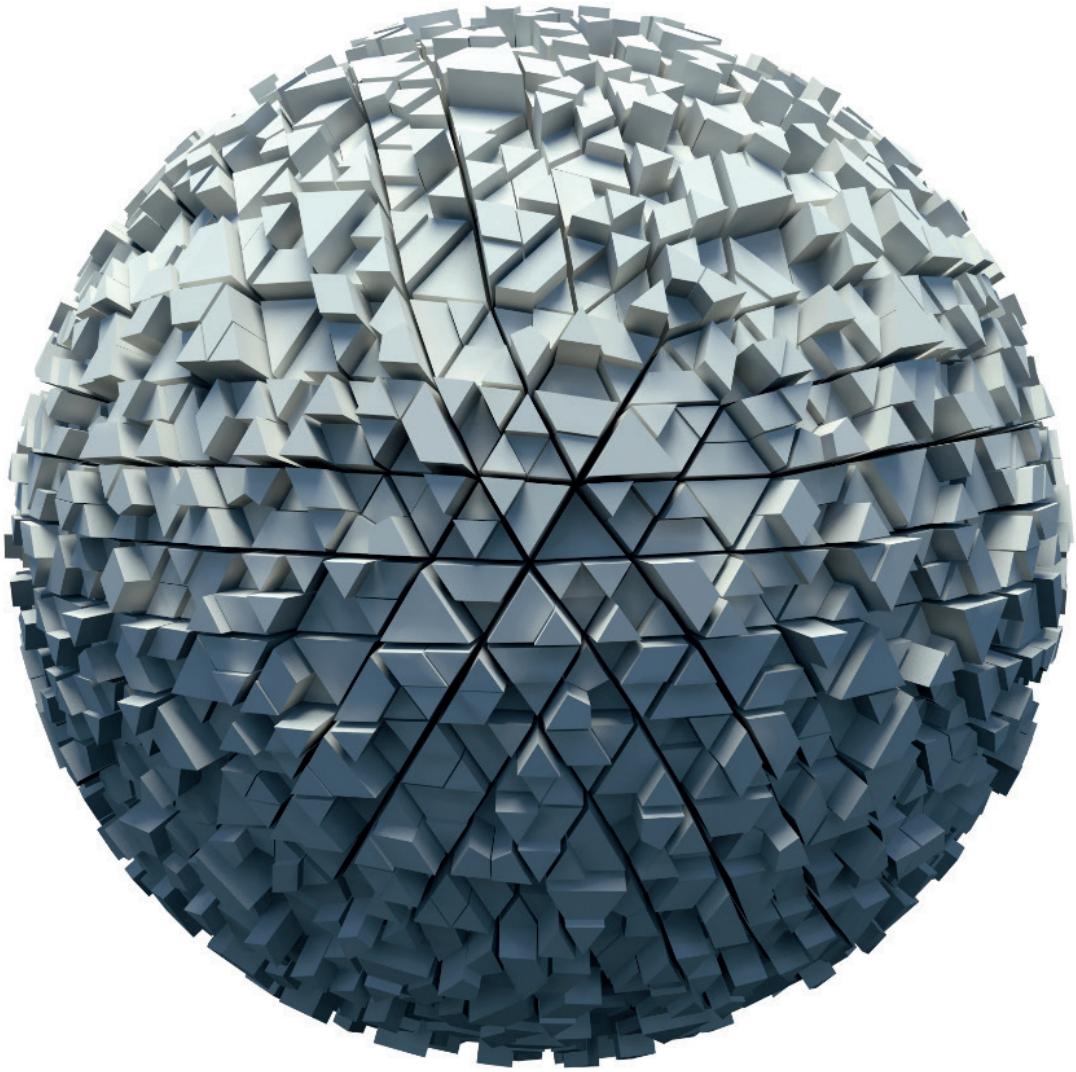

Changes to Dutch Accounting Standards for medium-sized and large entities

Changes to annual edition 2019

Professional Practice Department, October 2019

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The annual edition 2019 of the Dutch Accounting Standards (DASs) for medium-sized and large entities includes several new standards. The annual edition 2019 is effective for financial years starting on or after 1 January 2020. Earlier application is recommended for new standards.

This factsheet outlines the main amendments to the DASs. Please note that industry-specific amendments (such as for banks, pension funds, investment institutions, educational institutions, health care institutions, fundraising organizations) are not addressed in this factsheet.

New standards effective for financial years starting on or after 1 January 2020

Accounting for revenues

Under IFRS, IFRS 15 "Revenue from Contracts with Customers" replaces the standards IAS 18 "Revenue" and IAS 11 "Construction Contracts", and related interpretations. For financial years as from 2018 it is also permitted in financial statements prepared in accordance with the Dutch Accounting Standards (but not mandatory) to apply IFRS 15 as adopted by the European Union for revenues and related costs. This does mean that IFRS 15 must be applied in full and consistently, including the relevant disclosure requirements. If this option is used, application of IFRS 15 will replace application of the provisions of DAS 270 relating to the selling of goods and providing services and the provisions of DAS 221 relating to construction contracts.

The Dutch Accounting Standards Board (DASB) started a project in 2017, with the goal to determine how the provisions of IFRS 15 can be included in the Dutch Accounting Standards. The DASB expects to publish draft guidelines in the autumn of 2019. As soon as these draft guidelines have been published, we will publish a separate issue on them.

Provisions at present value: mandatory

Up to now, provisions could be measured at either the nominal value or at the present value. If the effect of the time value of money is material, it is mandatory to measure provisions at the present value for financial years as from 2020. This does not apply to provisions for taxes - they can still be measured at nominal value or at present value. Whether the time value of money is material depends on various factors, such as the amount of the liability, the interest rate, and the term. In any case, if the term is shorter than one year, measurement at present value is not required. The discount rate applied must be a discount rate before taxes that reflects both the current market interest as at balance sheet date and the specific risks of the liability. The discount rate should not, however, reflect risks already taken into account when estimating the future expenditures. The market interest as at balance sheet date of high quality corporate bonds is the most appropriate way of interpreting the current market interest. The movement in the provision as a result of the addition of interest must be presented in the profit and loss account as an interest charge (and not as an addition to the provision as part of the operating expenses).

Example: Measurement provision at present value

Company A has recognised a provision for cleaning up existing environmental pollution. According to the best estimate of Company A the expected clean-up expenses are EUR 1,000,000, payable after a four-year period. This amount is the best estimate according to the principles of DAS 292.3, taking into account the specific risks relating to the clean-up. The market interest as at balance sheet date of high-quality corporate bonds with a term of four years is 4%.

The provision is EUR 854,800 (= 1,000,000 / 1.04^4) as at balance sheet date. Assuming that the estimate does not change, EUR 34,200 (= 854,800 * 4%) of accrued interest is added to the provision in the coming year, which is presented as an interest charge in the profit and loss account.

If specific risks relating to the liability are not taken into account when making the best estimate, they must be taken into account when determining the discount rate to be applied. Hence, in that case the discount rate must be reduced. The higher the specific risks related to the liability, the lower the discount rate to be applied. This approach should ideally lead to the same outcome.

Taxes

Uncertain tax positions

Uncertain tax positions are taxes due and/or receivable, as well as deferred taxes of which it is uncertain whether tax authorities will agree to (the intended filing method for) the tax return. Apart from the Tax Administration, a tax authority can also be a court of law. So far, there had not been clear guidance on how to recognise and measure uncertain tax positions. This particularly regarded uncertain tax receivables, where it was unclear whether they could be recognised only when it was virtually certain they would be realised, or already when this was probable (such as with uncertain liabilities). The following has been determined for (deferred) tax receivables and liabilities regarding financial years as from 2020:

- to measure them in accordance with the tax return if it is probable (i.e., "more likely than not") that the tax authorities will agree to the tax return; and
- if the latter is not probable, to base the measurement on the best estimate of the deviating tax amount compared with the tax return.

Hence, no distinction is made between recognising uncertain receivables and uncertain liabilities. The basic assumption with the measurement should be that the tax authorities have all relevant information and that they will audit the uncertain tax position. In addition, uncertain tax positions should be disclosed, too.

Example: Uncertain tax receivable

In its corporate income tax return, Company A has taken an arguable position on the intercompany transfer prices and it expects this will trigger a discussion with the tax authorities. If the recognition in the tax return is accepted, this will lead to a EUR 100,000 tax refund. Following the advice of its tax lawyer and based on similar cases, Company A concludes that the chances of the tax authorities agreeing to the tax return are more than 50%. In this case, the full amount of EUR 100,000 will be recognised on the balance sheet. The uncertainty that the tax return will possibly not be accepted, will be disclosed (under DAS 110.129).

Offsetting deferred taxes

So far, it was determined that deferred tax assets and liabilities are to be presented on a net basis in the balance sheet if and insofar the non-deferred tax receivables and liabilities would have to be offset as well. However, it was unclear whether deferred taxes could only be offset if they would be settled simultaneously, or whether differences in terms would not play a role. The DASB has clarified that for the purpose of net presentation in the balance sheet, the deferred taxes do not need to be settled simultaneously and that differences in terms do not play a role. A net presentation in the balance sheet of deferred tax assets and liabilities takes place if and insofar as:

- the entity has a sound legal instrument to settle current tax receivables with current tax liabilities insofar as they relate to the same financial year. One situation in which this arises is when a fiscal unity in which a tax receivable from one entity over a certain year is settled with the tax liability of another entity within the fiscal unity over that same year; and
- the deferred tax assets and liabilities relate to taxes on profits levied by the same tax authority on the same taxable entity or fiscal unity.

Disclosure of taxes

Medium-sized legal entities are no longer exempted from certain disclosure requirements. In one example, medium-sized legal entities - just like large legal entities – must state the effective tax rate and the applicable (nominal) rate from now on, as well as major deviations in that compared with the previous year. In addition, from now on it is mandatory for all legal entities to present a quantified reconciliation between the effective tax rate and the applicable nominal tax rate. Formerly, this was merely a recommendation.

Disclosure requirements taxes medium-sized legal entities

Medium-sized legal entities must include the following tax data in the disclosure (DAS 272.7):

- the measurement method in respect of deferred taxes;
- the total tax amount recognised directly in shareholders' equity;
- the main components of the taxation charge or taxation credit (separately, per component);
- the effective tax rate and the applicable tax rate;
- the relation between (1) the taxation charge or taxation credit according to the profit and loss account and (2) the profit before taxes according to one or both of the following methods:
  - a quantified reconciliation of the taxation charge or taxation credit with the product of the result before taxes and the applicable tax rate. It should also be indicated how the applicable tax rate has been calculated; and/or
  - a quantified reconciliation between the average effective tax rate and the applicable tax rate. Here, too, it should be indicated how the applicable rate has been calculated.
- if the effective or applicable tax rate significantly deviates from that of the previous reporting period, the deviation should be explained;
- if deferred taxes are measured at present value, a statement of the nominal value of the deferred taxes arisen in the reporting period and the nominal value of the deferred taxes remaining as at balance sheet date;
- to what extent deferred taxes should be considered as long-term;
- the amounts and expiry dates of the losses qualifying for carry forward and the amounts of the temporary differences, insofar as these amounts have not been recognised in the measurement of the deferred tax liabilities and have not been recognised as deferred tax asset either; and
- contingent liabilities relating to uncertain tax positions, e.g., due to a dispute with the tax authorities.

Distinction shareholders' equity and liabilities in individual and separate financial statements

In the consolidated financial statements, it is (and continues to be) mandatory to classify the shareholders' equity and the liabilities on the basis of the economic substance. Classification of the shareholders' equity and the liabilities on the basis of the economic substance will now be permitted in individual and separate financial statements as well. So far, a legal entity could only classify on the basis of the legal form of the financial instruments in individual or separate financial statements. That is considered to be too strict, certainly in situations where an entity does not prepare consolidated financial statements but solely individual or separate financial statements. This change provides for the possibility to also opt for classification on the basis of the economic substance in the individual or separate financial statements.

The classification principle chosen must be disclosed. If classification is based on the legal form, the aggregate of the financial instruments classified as shareholders' equity, but which would classify as liabilities based on the economic substance, should be presented separately within shareholders' equity. The main conditions should be disclosed for each of these instruments (DAS 240.207).

Leasing

Assess whether an agreement contains a lease

The criteria to be applied for assessing whether an agreement contains a lease have been changed. The definition of a lease has not so much changed. An agreement contains a lease if, during agreed-upon period of use, this agreement grants the legal entity (the customer) control over the use of an identified asset, in exchange for a compensation to counterparty (the supplier). The specific change in this respect is the way in which control over the use of an identified asset should be determined. More emphasis is now put on actual control over the use. The effect of this change is that the interpretation of the definition of a lease

aligns with the definition under IFRS 16. The former provisions were based on IFRIC 4 "Determining Whether an Arrangement Contains a Lease". IFRIC 4 was abolished when IFRS 16 "Leases" under IFRS came into effect on 1 January 2019. DAS 292 includes the main features of the provisions in IFRS 16 in respect of this subject.

The DASB expects the effect of this will be limited for many legal entities. In addition, a transitional provision has been included according to which agreements that have been assessed in accordance with the former standards to determine whether they contain leases, do not need to be assessed again. Legal entities may also opt, however, to apply the new provisions with retroactive force for one or more categories of leased assets.

Disclosure of lease agreements

The DASB has worded an explicit objective in respect of the disclosure of information on lease agreements entered into. Above all, this objective must be achieved when preparing financial statements. That objective is to provide - together with the information recognised in the balance sheet, the profit and loss account and the cash flow statement - insight into the effect leases have on the equity, the result and the cash flows. One of the requirements is that both lessees and lessors must provide a general description of the main provisions included in the lease agreements in respect of the financial and operational leases. Another major component of the disclosure is that lessees must provide a more detailed analysis of the term of the future minimum lease payments for both financial and operational leases. In the first year in which this information is disclosed, no comparative figures need be provided.

Foreign currency

Realisation of reserve for exchange rate differences

Currency exchange differences due to the translation in respect of foreign operations must be recognised in a separate reserve for exchange rate differences. Upon disposal of those operations this reserve will be realised. Up to now, it was possible to recognise realisation (1) in the profit and loss account or (2) directly in shareholders' equity. This latter possibility has been abolished. According to the DASB, this leads to a better insight into the result. What's more, it aligns with the IFRS provisions.

Translation of goodwill and step-ups upon acquisition

Goodwill arisen upon the acquisition of foreign operations can be translated at the closing rate as at balance sheet date or at the transaction rate on the date of acquisition. This does not change. However, this option had also been available for translating the adjustments to fair value of the carrying amounts of the identifiable assets and liabilities of the acquired foreign operations. Translating these adjustments at the closing rate is mandatory from now on. This means the full carrying amount of the related assets and liabilities is translated at the closing rate.

Translation profit and loss account

When translating the profit and loss account of foreign operations, large legal entities must translate the income and expenses at the transaction rate (or the average rate over a period if the rate did not fluctuate considerably over that period). As an alternative, medium-sized legal entities were permitted to translate the income and expenses at the closing rate. This possibility has been abolished.

Board of directors' report

Listed large companies must disclose information on their diversity policy in the board of directors' report. DAS 400 included a passage on this, based on the provisions of the Decree on the contents of the board of directors' report. In addition, passages have now been added relating to the information to be disclosed on the diversity policy from (1) the Dutch Corporate Governance Code and (2) the Guidelines of the European Commission. We refer to the provisions of DAS 400 "Board of directors' report" for a substantive description, more specifically DAS 400.204a and 204b.

Contact information

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