The Dutch Accounting Standards Board (DASB) recently published the 2018 edition of the Standards for large and medium-sized entities (“The Standards”). Unless stated otherwise, the revised Standards apply to reporting years starting on or after 1 January 2019.

This factsheet provides an overview of the major changes in the Standards. It does not identify changes with respect to specific industries. In order to provide a complete overview, we start with a summary of the major changes in the Standards that came into effect from the 2018 financial year. We conclude this factsheet with a summary of the major changes in the Standards for small entities, which are published concurrently with the Standards for large and medium-sized entities.
Major changes applicable from 1 January 2018

Disclosures on the classification of equity interests

In line with international standards, Standard 214.613a and Standard 217.601 require that an entity provides disclosure for:

1. An equity interest of 20% or more that does not classify as a participation interest and vice versa;
2. A participating interest where the entity holds 20% or more of the voting rights but in which it cannot exercise significant influence and vice versa;
3. An equity interest of more than 50% that is not consolidated and vice versa;
4. A subsidiary that is not consolidated.

Lastly, a provision had been added to Standard 217.602 that requires disclosing any minority interest if this is necessary for providing the legally required true and fair view. This is particularly important where the risk, return or liquidity profile of an activity with third-party participation differs significantly from the group as a whole.

Realised revaluation reserve agricultural inventories

Agricultural inventories may be measured at current value. If agricultural inventories are measured at current value, whereby unrealised value changes are taken directly to equity, Standard 220.404 provides that in the event of sale of this agricultural inventory the realised part of the revaluation reserves is recognised in the profit and loss account. The background of this change is that if a realised value change were taken directly to the Other reserves this amount would never be recognised in the profit and loss account.

Standard 220.404 also provides that the realised part of the revaluation reserve must be presented in the profit and loss account as a separate item.

Financial instruments

Standard 290.510 clarifies that all derivatives that are part of the subcategory ‘other derivatives with underlying values other than listed shares’ must be consistently measured at cost price or fair value.

In addition, all compound financial instruments must be accounted for in the same manner as required for contracts that include ‘embedded derivatives’ under Standard 290.827. In line with international standards, pursuant to Standard 290.813, a compound financial instrument must be split up into its liability and equity components. A recommendation for this accounting method used to be included in the Standards. In addition to that, in Standard 272.305 it has been clarified that the deferred tax credit linked to the net equity instrument will be debited directly to the net equity component. Later changes in the deferred tax obligation will be processed in the profit and loss account on the ‘income tax’ line.

Financial instruments: impairment losses in accordance with IFRS 9

The DASB has analysed the consequences of the introduction of IFRS 9 Financial Instruments for the Standards. The analysis has demonstrated that changes are desirable with respect to impairment losses of financial instruments. Next to the existing incurred credit loss model in Standard 290, the DASB alternatively provides the possibility to account for impairment losses based on credit losses to be expected (‘expected credit loss model’) in conformity with IFRS 9 for the following categories of financial assets and financial instruments:

- loans and bonds purchased (not part of the trading portfolio);
- loans provided and other receivables; as well as
- contracts regarding financial guarantees and commitments to provide loans.

This refers to a partial application of IFRS 9 and may be applied voluntarily by any legal entity. In the transitory provision it is described that the transition has to be processed according to Standard 140 Change in accounting policy, in which the comparative figures do not have to be adjusted. This is further explained in the transitional provision in Standard 290.1017.

Option to apply IFRS 15 for revenues and related costs

Through DASB Expression 2018-6 (RJ-Uiting 2018-6) the DASB has proposed that entities can opt for applying IFRS 15 ‘Revenue from contracts with customers for revenues and related costs’. It should then refer to an integral and consistent application of IFRS 15 instead of to paragraph 1 of Standard 270 The profit and loss account and/or paragraph 1 up to and including 4 of Standard 221 Construction contracts. It is expected that the DASB will enable this option from reporting year 2018 onwards.
Cash flow statement

Interest received and dividend received must now be presented in the cash flow statement as operational cash flow or as investment cash flow in line with international standards.

Management report

In the annex, as added to Standard 400 Management report, a schematic overview is included of the applicable Decrees regarding the content of the management report. By way of the flow chart and the table it is intended to make clear which requirements apply for an entity based upon the several Decrees.

Report of the Supervisory Board’s and pay ratio

In Standard 405 Report of the Supervisory Board provisions have been included with respect to the pay ratio, pursuant to the best practice provision 3.4.1. sub iv of the Corporate Governance Code. This is about the remuneration of the directors in relation to a representative reference group of employees. The DASB has provided relevant attention areas for the disclosure of pay ratios, such as the compilation of the reference group, compensation components that should be included and the reference date or period. If an entity discloses a pay ratio, Standard 405.108 requires disclosure of the calculation method.

Report of the Supervisory Board and best practice provisions of the Corporate Governance Code

Standard 405 Report of the Supervisory Board provides a summary of the subjects that can be included in the report of the Supervisory Board pursuant to the best practice provisions in the Corporate Governance Code (Code). This report is not legally mandatory but according to the Code it is part of the annual account. For some best practice provisions the DASB has provided additional guidance with respect to the possible elaboration of the best practice provision.

Accounting for ‘expected credit losses’ in the separate financial statements upon application of combination 3

In applying combination 3, expected credit losses (‘expected credit loss model’ - IFRS 9) with respect to loans granted to and receivables from consolidated subsidiaries are eliminated in the consolidated financial statements. In Standard 100.107a it is clarified how the expected credit losses should be accounted for in the separate financial statements. The following two methods of elimination can be applied:

- against the book value of the subsidiary; or
- against the book value of the loans granted to and receivables from consolidated subsidiaries.

The last method has the advantage that no calculation of the ‘expected credit losses’ is needed, because the expected credit losses will then not be recognised in the separate financial statements.

<table>
<thead>
<tr>
<th>Revised standard</th>
<th>Old standard</th>
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<tbody>
<tr>
<td>Cash flow from operating activities</td>
<td>Cash flow from investing activities</td>
</tr>
<tr>
<td>Interest paid</td>
<td>optional</td>
</tr>
<tr>
<td>Interest received</td>
<td>optional</td>
</tr>
<tr>
<td>Dividend received</td>
<td>optional</td>
</tr>
<tr>
<td>Dividend paid</td>
<td>optional</td>
</tr>
</tbody>
</table>
Major changes applicable from 1 January 2019

Comparative figures

In Standard 110.127 and Standard 240.237 the provision has been added to include comparative figures for the equity movement schedule. The provision to include comparative figures for a pension movement schedule, as was included in Standard 271.324, has been deleted. In addition to this, it is recommended to include comparative figures for other movement schedules if this is important for the legally required view in the relevant item.

Costs of major maintenance

The possibility to recognise the costs for major maintenance of tangible fixed assets directly (‘as incurred’) in the profit and loss account has been deleted. Standard 212.445 allows to account for the costs of major maintenance in one of the following methods:

a. as part of the carrying amount of the asset (‘component approach’); or
b. recognition of a major maintenance provision.

The transition of the deleted method to one of the remaining two methods has to be applied retrospectively in accordance with Standard 140 Change in accounting policy. However, if method a. will be applied going forward, the change in accounting policy may, in deviation from the main rule, be applied prospectively. This is further explained in the transitional provision in Standard 212.805.

Component approach tangible fixed assets

In applying the component approach for tangible fixed assets from now on, there is only one option available with respect to the starting moment regarding the depreciation of the components.

Currently, in Standard 212.448 an option is available to start with the component approach as from the initial recognition of the tangible fixed asset or as from the first time of major maintenance. The last method is deleted as this method leads to a too high amount being activated and depreciation costs that are too low, which results in a book loss at the moment of the first major maintenance.
The transition of the deleted method to the other method may, in deviation of Standard 140 Change in accounting policy, be applied prospectively. This means that this method needs to be applied to new tangible fixed assets as of 1 January 2019.

**Incidental revaluation of tangible fixed assets**

In the Standards the possibility existed for an incidental revaluation of tangible fixed assets. In case of a proposed sale of decommissioned assets, Standard 212.501 up to and including 504 determined that it was allowed to measure these assets at higher net realizable value. These paragraphs are deleted.

**Transfers from or to investment property**

In the Standards it has been clarified that a transfer from or to investment property only is applicable when there is an actual change in the use of the asset. A change in intention of the legal entity is not sufficient to transfer the asset.

**Revaluation reserve for over-the-counter derivatives**

In Standard 240.224b it has been further explained when a legal revaluation reserve is required in case a legal entity makes use of over-the-counter (OTC) derivatives measured at current value with value changes included in profit or loss immediately. OTC derivatives are derivatives that are not being traded via a central counter party (for example the stock exchange) but are directly concluded between parties (for example a bank and a company). Examples of OTC derivatives are interest rate swaps, forward exchange contracts and cross currency swaps.

OTC derivatives in itself cannot have a frequently quoted market price. However, if the value changes are the result of developments on liquid markets that can be clearly observed, the DASB determines that such OTC derivatives are that liquid that they can be equated with instruments with a frequently quoted market price.
Based on article 2:384 (7) of the Netherlands Civil Code (NCC) revaluations of such derivative financial instruments may immediately be recognised in the profit and loss account. If the fair value of an OTC derivative is based upon frequently quoted market prices, then no legal revaluation reserve should be formed. If the fair value is not or not entirely based upon frequently quoted market prices, then it depends upon the use of the OTC derivative and upon the situation whether or not a revaluation reserve should be formed or not:

- Part of a fair value hedge and hedge accounting is being applied: no revaluation reserve is applicable insofar there is an effective hedge of the position.
- Part of a fair value hedge and no hedge accounting is being applied (natural hedge): no revaluation reserve is applicable if the changes in value of the position and the OTC derivative are nil or negative.
- No part of a fair value hedge: revaluation reserve should be formed.

Liabilities

Based on Standard 254.306 it is allowed to present a debt as current liability if after the balance date but before the date of preparation of the financial statements an early repayment has taken place or has been agreed. The entity shall disclose the application of this option.

In addition, Standard 254.408a has been added. This Standard requires that the entity has to include a statement of movements for the non-current liabilities in the notes to the financial statements, with the objective to provide more insight into the development of the balance sheet position of the non-current liabilities.

In case terms and conditions have been set for long term liabilities, e.g. bank covenants, and if these have come into effect or are approximated the entity must disclose this in accordance with Standard 254.408 and disclose the main terms and conditions. This also applies if these terms and conditions have come into effect or are approximated after balance sheet date but before the date of preparation of the financial statements.
Interest addition to deferred taxes measured at present value

In Standard 272.405 and Standard 272.506 it is clarified that changes as a result of interest additions in deferred taxes, if deferred taxes are measured at present value, have to be accounted for in equity if these have been formed directly through equity.

Deferred taxes and tax facilities

Tax facilities may exist that enable deferred taxes to be transferred after the useful life to other (usually new) assets or liabilities. For example, this can be applicable in case of dismantling and rebuilding similar assets or in case of sale and purchase of assets with the same economic function when there is a reinvestment reserve. When it is highly probable that there will be no tax fulfilment during the useful life, Standard 272.405 determines that the deferred tax will be considered based upon the intended manner of realisation after the useful life has ended.

Negative value changes on financial instruments measured at fair value through OCI (combination 3 or 4)

In case an entity prepares the consolidated financial statements based upon EU-IFRS and applies combination 3 and 4 for the separate financial statements, Standard 240.227b clarifies in which way negative value changes on financial instruments measured at ‘fair value through OCI’ (IFRS 9) have to be accounted for in the separate financial statements. In case of a debt instrument a negative revaluation reserve should to be formed. In case of an equity instrument it must result in a direct charge to other reserves.

Accounting for leases in accordance with IFRS 16 Leases

In Standard 292.101, the DASB introduced the possibility to account for leases in accordance with IFRS 16 instead of Standard 292. If this option is being applied, an integral and consistent application of IFRS 16 is required. The application of IFRS 16 must be disclosed in the notes to the financial statements.

Considerations regarding the accounting of cryptocurrencies in the financial statements

In October 2018 the DASB has published DASB Expression 2018-7 (RJ-Uiting 2018-7) with considerations regarding the accounting and disclosures regarding cryptocurrencies, such as Bitcoins, in the financial statements. The DASB concludes that such items do not meet the definition of cash and cash equivalents or financial assets. Depending on the purpose for which they are being held, it could be intangible fixed assets, inventories or other investments. Unless cryptocurrency is used for the buying and/or selling of the delivery of goods or services in the scope of normal business cryptocurrency in general will be accounted for as other investment. Dependent on the fact whether there is a frequently quoted market price a revaluation reserve should be formed in case cryptocurrencies are valued at current value.
Draft Standards

Classification of net equity in the separate financial statements based on legal form or economic reality

In the current standards the rule has been included that in the consolidated financial statements the economic substance is relevant for the classification of a financial instrument. However, in the separate financial statements the legal form is relevant for the classification of a financial instrument. The DASB is of the opinion that possibly the provision with respect to the separate financial statements is too strict for entities that only prepare separate financial statements. In Draft Standard 240.207 and 240.208 it is proposed to provide a choice in the separate financial statements between the classification of a financial instrument as equity or as debt. If the legal form is followed, these financial instruments must to be presented separately within equity and the relevant conditions shall be disclosed.

Recognition, measurement and disclosure of uncertain tax positions

In Standard 272 Taxes the DASB proposes adjustments in the scope of recognition, measurement and disclosure of uncertain tax positions. These adjustments align the Standards with IFRIC 23. The measurement of a uncertain tax position has to be in line with the (intended) tax return, unless the (partial) acceptance of the tax authority is not considered probable. In that case the best estimate of the deviating amount compared to the (intended) tax return should be recognised.

Offsetting deferred tax assets and liabilities

The DASB proposes to simplify the criteria for offsetting deferred tax assets and liabilities in Standard 272.607. For the offsetting of these deferred taxes the intent to simultaneous settlement no longer is a criterion. Offsetting deferred taxes then solely is dependent upon the following criteria:

- the entity has the legally enforceable right to settle these deferred taxes in as far as they are related to the same financial year; and

- the deferred taxes are levied by the same tax authority on the same taxable entity or the same fiscal unity.
Changes in Standards for small entities

The DASB recently published the 2018 edition of the Standards for small and micro entities (hereafter RJk). Unless stated otherwise, this version is effective for reporting years starting on or after 1 January 2019. The key (proposed) changes in the 2018 edition for small entities concern:

- changes in B2.1 Tangible fixed assets with respect to costs of major maintenance, the component approach tangible fixed assets and the incidental revaluation of tangible fixed assets as described in section ‘Major changes applicable from 1 January 2019’;

- changes in B15 Tax on income with respect to deferred taxes and tax facilities as described in section ‘Major changes applicable from 1 January 2019’;

- changes in B15 Tax on income with respect to recognition, measurement and disclosure of uncertain income tax positions and offsetting deferred tax assets and liabilities as described in the section ‘Draft Standards’. 
In conclusion

Sources
The information in this factsheet has largely been derived from the introduction (Ten Geleide) of the editions 2017 and 2018 of the Dutch Accounting Standards.

Further information
Your KPMG contact will be pleased to discuss further on the information in this publication and the consequences thereof for your company.