Introduction

The Dutch Accounting Standards Board (DASB) recently published the 2019 edition of the Standards for the Annual Report of large and medium-sized entities (“The Standards”). Unless stated otherwise, the revised Standards apply to financial years starting on or after 1 January 2020.

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 for financial years starting on or after 1 January 2019. The factsheet concludes with an overview of the major changes in the Standard for small entities, which were published at the same time as the Standards for large and medium-sized entities.
**Comparative figures**

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

**Costs of major maintenance**

The option to immediately recognise the costs of major maintenance of tangible fixed assets (‘expensed as incurred’) in the profit and loss account has been removed. Standard 212.445 to account for the costs of major maintenance in accordance with one of the following methods:

- a. in the carrying amount of the asset (‘component approach’); or
- b. through a maintenance provision.

The transition from the expensed as incurred method to one of these two methods shall be applied retrospectively in accordance with Standard 140 ‘Changes in accounting policies’. However, if method a. is chosen, it may, in deviation from the main rule, be applied prospectively. This is further explained in the transitional provision in Standard 212.805.

In addition, a transitional provision (RJ statement 2019-14) has been included, to facilitate the situation when an entity will change the accounting policy (voluntary) from a provision for major maintenance (method b.) to the component approach (method a.). In deviation of the main rule that a change in accounting policy shall be applied retrospectively, an entity may apply the change in accounting policy retrospectively as from the previous financial year or as from the current financial year.
Component approach to tangible fixed assets

When applying the component approach to tangible fixed assets, only one option is now available with regard to the moment at which depreciation of the component starts.

In Standard 212.448, the option was available to either start with the component approach as from the first recognition of the tangible fixed asset or to start with the component approach as from the first time of major maintenance. The last method has been removed as it results in the capitalised amount being overstated and depreciation costs being understated, subsequently resulting in a book loss at the time the component is replaced.

The transition from the removed method to the other method may, in deviation of the main rule of Standard 140 ‘Changes in accounting policies’, be applied prospectively. This means that this method must be applied to new tangible fixed assets starting from 1 January 2019.

Incidental revaluation of tangible fixed assets

The Standards provided the possibility to revalue tangible fixed assets on an occasional basis. In the case of a proposed sale of decommissioned tangible fixed assets, Standard 212.501 up to and including 504 determined that it was allowed to measure these assets at a higher net realisable value. These paragraphs have been removed.

Transfers from or to investment properties

The Standards clarify that a transfer from or to investment properties is only appropriate if there is an actual change in the use of the asset. A change in the intention by the entity is not sufficient to transfer the asset.
Revaluation reserve for over-the-counter derivatives

Standard 240.224b clarified when a legal revaluation reserve is required if an entity uses over-the-counter (OTC) derivatives measured at current value, whereby the changes in value are recognised directly in the profit and loss account. OTC derivatives are derivatives that are not traded via a central counterparty (e.g. the stock exchange), but that are concluded directly between parties (e.g. a bank and an entity). Examples of OTC derivatives are interest rate swaps, forward exchange contracts and cross currency swaps.

OTC derivatives in itself cannot have a frequent market quotation. However, if the value changes are the result of clearly observable developments in active markets, the DASB determined that OTC derivatives are liquid to the extent that they can be equated with instruments with a frequently quoted market price.

Based on article 2:384(7) of the Dutch Civil Code, 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 frequent market quotation, no legal revaluation reserve shall be recognised. If the fair value is not or not entirely based on frequent market quotation, then it depends on the use of the OTC derivative and the situation:

- Part of fair value hedge and hedge accounting is applied: no revaluation reserve is required insofar the position is effectively hedged;
- Part of a fair value hedge and no hedge accounting is applied (natural hedge): no revaluation reserve is required if changes in the value of the position and the OTC derivative on balance are nil or negative. If positive, a revaluation reserve is recognised for this positive amount;
- Not part of a fair value hedge: a revaluation reserve shall be recognised.

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<th>Changes in value (on balance) &lt; 0?</th>
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Non-current debts

Standard 254.306 allows to present non-current debts as current if early repayment has taken place or has been agreed after the balance sheet date but before the date of preparation of the financial statements. The entity shall disclose the application of this option. Previously, presentation as a current debt was mandatory.

Standard 254.408a has been added. This Standard requires that the entity has to include a statement of movements for each group of non-current debts in the notes, with the objective to provide insights into the development of the balance sheet position of non-current debts.

If contractual conditions and provisions, such as bank covenants, are applicable to non-current debts and these have come into effect or have been approached closely, the entity shall disclose this in accordance with Standard 254.408 and disclose the main conditions and provisions. This also applies if these terms and conditions came into effect or were approached closely after balance sheet date but before the date of preparation of the financial statements. Previously, there was only a required disclosure of the conditions and provisions with regard to the repayment of the debt if the aforementioned circumstances had not yet occurred on the balance sheet date but were approached closely.

Revenue recognition

The DASB has added to the Standards (Standard 270.101 and Standard 221.102a) the option to account for revenues and related costs in accordance with IFRS 15. An integral and consistent application of IFRS 15 is required instead of paragraph 1 of Standard 270 The profit and loss account and/or paragraphs 1 up to and including 4 of Standard 221 Construction contracts. This means that entities that make use of this option shall apply both Standard 221.102a and Standard 270.101a. For transitional provisions, reference is made to the transitional provisions in IFRS 15 as adopted by the EU.

Interest addition to deferred taxes measured at present value

In Standard 272.405 and Standard 272.506 it has been clarified that changes in deferred taxes as a result of interest additions, if deferred taxes are measured at present value, shall be recognised in equity if the deferred taxes are recognised directly in 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 settlement during the useful life, Standard 272.405 determines that the tax settlement will be considered based upon the intended manner of realisation at the end of the useful life.

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

If an entity prepares the consolidated financial statements based upon EU-IFRS and applies combination 3 or 4 for the separate financial statements, Standard 240.227b clarifies how negative value changes on financial instruments measured at ‘fair value through OCI’ (IFRS 9) shall be accounted for in the separate financial statements. In case of a debt instrument, a negative revaluation reserve shall be recognised. In case of an equity instrument, it shall be directly charged to freely distributable reserves.

Accounting for leases according to IFRS 16 Leases

In Standard 292.101, the DASB introduced the option to account for leases in accordance with IFRS 16 instead of the provisions in Standard 292. If this option is applied, IFRS 16 shall be applied integral and consistently. The application of IFRS 16 shall be disclosed in the notes.

Considerations regarding the accounting of cryptocurrencies in the financial statements

In the RJ statement 2018-7, the DASB provides a number of considerations regarding the accounting and disclosure of cryptocurrencies, such as Bitcoins, in the financial statements (the DASB statement does not have the status of a (draft) Standard). The DASB concludes that such items do not meet the definitions of cash and cash equivalents or financial assets. Depending on the purpose for which they are being held, it could be intangible assets, inventories or other investments. Unless cryptocurrency is used to purchase and/or sell goods or services in the scope of normal business, cryptocurrency will generally be accounted for as other investment. Depending on whether there is a frequent market quotation, a revaluation reserve should be recognised if cryptocurrencies are measured at current value.
Major changes applicable from 1 January 2020

Integral application of IFRS standards

Some Standards include already an option to apply IFRS standards (as adopted by the European Commission) integrally. The application of such an option may be chosen per Standard. This concerns:

- Standard 221.102a Work in progress and Standard 270.101a Profit and loss account relating to IFRS 15 ‘Revenue from contracts with customers’;
- Standard 290.101 Financial Instruments relating to IFRS 9 ‘Financial Instruments’ with respect to expected credit losses;
- Standard 292.101 Leasing relating to IFRS 16 ‘Leases’; and
- Standard 271.3 relating to IAS 19 ‘Employee benefits’ with respect to pensions and other post-retirement benefits (there is also the option to apply US GAAP standards).

In the new Standard 110.104a, the DASB has clarified what is meant by integral application. Integral application means that, in principle, all provisions of the relevant standards (or the relevant parts thereof) are followed, however, references in the relevant standards to provisions to other standards within that accounting regime that are not applied by the entity are not applicable, unless this is explicitly included in the Standards. These references shall be interpreted as references to the Standard where that topic is discussed.

Foreign currencies

Translation of income and expenses to presentation currency

An entity may present its financial statements in a currency (presentation currency) other than its functional currency. The main rule is that income and expenses are translated into the presentation currency at the exchange rate on the transaction date. For medium-sized entities, the alternative method existed to always translate income and expenses at the exchange rate on the balance sheet date (Standard 122.304). This option has been removed.

The transition from the removed method to the other method may, in deviation of the main rule of Standard 140 ‘Changes in accounting policies’ be applied prospectively (Standard 122.601).

Translation of a foreign operation

Standard 122.310 relating to the translation of goodwill and other assets and liabilities of a foreign operation included the option to translate the items at the rate at balance sheet date (main rule) or at the rate at transaction date (alternative). The DASB decided to limit this option to goodwill. The fair value adjustments of the carrying amounts of the other assets and liabilities at the time of that acquisition shall henceforth be translated at the rate at balance sheet date. This means that the entire book value of an asset or liability of a foreign operation is translated at the rate at balance sheet date. A resulting change in accounting policy may, in deviation of the main rule of Stand 140 ‘Changes in accounting policies’, be applied prospectively. A transitional provision has been included in Standard 122.602.
(Partial) disposal of a foreign operation in relation to the legal reserve for translation differences

In case of a (partial) disposal of a foreign operation, Standard 122.311 allowed to recognise the cumulative translation differences (legal reserve) in the profit and loss account or directly in equity. The option to recognise the cumulative translation differences directly in equity in the event of (partial) disposal has been removed. In accordance with Section 377(8) of Book 2 of the Dutch Civil Code, the amount of the cumulative translation differences charged or credited to the profit and loss account is disclosed separately.

A change in accounting policy is applied in accordance with Standard 140 ‘Changes in accounting policies’.

Presentation of distributed interim dividend in a balance sheet presented before appropriation of result

An interim dividend is deemed to exist if on the basis of a resolution of the body designated for this purpose in the articles of association of the entity, a distribution made in the year under consideration, charged to the result in the financial year, in connection with and in anticipation of the appropriation of profit.

If the balance sheet is prepared before appropriation of result, Standard 160.210 clarifies that distributed interim dividend shall be deducted from the result after tax for the financial year. This shall be presented on the face of the balance sheet as a visible deduction, the balance being referred to as undistributed profit.

Agricultural inventories

Standard 220.301 includes that agricultural inventories can be valued at current value. On the basis of article 8 of the Current Value Decree and the Explanatory Memorandum, other inventories shall not be valued at current value.

In the Standards, agricultural inventories were previously defined as harvested products from a living animal or living plants owned by the entity. The restriction that the harvested products shall be ‘owned by’ the entity has been removed.

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

In the Standards an authoritative statement is 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 the provision relating to the separate financial statements may be too strict, particularly for entities that only prepare separate financial statements. Standard 240.207 and Standard 240.208 have been changed, now providing a choice for the separate financial statements between the classification based on legal form or on economic substance. If the legal form is followed, the total of the financial instruments that would be classified as debt on the basis of the economic substance shall be presented separately within equity and the relevant conditions shall be disclosed.
Valuation of provision at present value

The Standards currently provide an option to measure provisions at the nominal or the present value of the cash outflows that are expected to be necessary to settle the obligations and losses.

The DASB has decided that if the effect of time value of money is material, the provisions shall be measured at present value. However, if the remaining term of the provision over which the expenditure is to be incurred is no longer than one year, the provision does not have to be measured at present value. Whether the time value of money is material depends on, among other things, the size of the provision, the term and the discount rate. As a result, a provision with a term of more than one year may, in certain circumstances, not be valued at present value. A change in accounting policy shall be applied in accordance with Standard 140 ‘Changes in accounting policies’.

Statement of comprehensive income

Large entities that prepare consolidated financial statements shall include a ‘statement of comprehensive income’ in the financial statements. Standard 265 ‘Statement of comprehensive income’ a number of paragraphs have been clarified, including the manner in which the statement is to be presented (Standard 265.202):

- as a consolidated primary statement supplementary to the consolidated balance sheet, profit and loss account and cash flow statement, or as a note to group equity in the consolidated financial statements; or
- combined with the equity movement schedule in the consolidated financial statements; or
- as an extension of the consolidated profit and loss account.

Income taxes

Accounting, measurement and disclosure of uncertain tax positions

In Standard 272 changes are made in the context of the accounting, measurement and disclosures of an uncertain tax position. Due to these changes the Standards are now in line with IFRIC 23. The measurement of an uncertain tax position shall be in accordance with the (proposed) tax return, except if it is (for a part) not probable that the tax authority will accept the (proposed) tax return. In this case, the best estimate of the expected amount compared to that of the (proposed) tax return must be recognised. In Standard 272.716 the provision is included for possible additional disclosures for an uncertain tax position for which the acceptance by the tax authorities is probable.

(Intended) tax return

Is it probable that tax authority will accept the tax return?

✔ If yes, then...

- Financial statements = Tax return
- Disclose off-balance sheet liabilities?

✗ If no, then...

- Financial statements ≠ Tax return
- Best estimate of expected amount
- Disclose relevant judgements and estimates?

Assume that the tax authority:
- will examine the uncertain tax position; and
- will have full knowledge of all relevant information
Presentation of deferred tax assets
Standard 272.602 clarifies that deferred tax assets shall be presented as a separate line item within financial fixed assets and/or as a separate line item within current assets (receivables). Standard 190 paragraph 2 ‘The distinction between fixed and current assets’ defines whether a receivable qualifies as fixed or current.

Offsetting of deferred tax assets and liabilities
The DASB has simplified the conditions for offsetting deferred tax assets and liabilities in Standard 272.607. The intent to settle these deferred tax assets and liabilities simultaneously is no longer required for offsetting. The offsetting of deferred tax assets and liabilities is only dependent on the following criteria:

- the entity has a legally enforceable right to set off current tax assets and liabilities to the extent that they relate to the same financial year; and
- the deferred taxes are levied by the same tax authority on the same taxable legal entity or fiscal unit.

Disclosure provisions
The standards relating to the disclosure provisions in Standard 272 ‘Income Taxes’ have been updated. Large and medium-sized entities will have to include a disclosure (numerical reconciliation) regarding the relationship between the tax expense or income and the result before tax. Previously, this disclosure was only recommended.

A number of exemptions for medium-sized entities have been removed and these entities shall disclose the following in the notes:

- the effective tax rate and the applicable tax rate (Standard 272.703);
- significant changes in the effective tax rate or the applicable tax rate compared to the previous reporting period (Standard 272.706); and
- the nominal value of the deferred tax assets and liabilities that arose in the reporting period and the nominal value of the remaining liabilities and assets on the balance sheet date, if deferred tax assets and liabilities are measured at present value (Standard 272.707a).

Leases
Determining whether an arrangement contains a lease
In the Standards the definition of a lease (Standard 292.105 up to and including 110) was based on IFRIC 4 ‘Determining whether an arrangement contains a lease’. Since 1 January 2019, IFRIC 4 has been replaced by IFRS 16 Leases. The main provisions from IFRS 16 concerning the assessment of whether an agreement contains a lease are now included in Standard 292.105 up to and including Standard 292.110a. Standard 292.602 contains a transitional provision that agreements that have been assessed under the previously applicable standards do not need to be re-determined. However, entities may also apply the new provisions retrospectively to categories of leased assets.

The exemption for medium-sized entities to assess whether an agreement contains a lease for those agreements that do not primarily qualify as a lease has been removed.

Providing information about leasing contracts
The objective of disclosures about leases, together with the information contained in the balance sheet, profit and loss account and cash flow statement, is to provide insight into the effect of leases on equity, results and cash flows. The DASB has explicitly included this objective in Standards 292.208, 212, 311 and 319 and therefore requires that this objective be achieved when applying these respective provisions. In a transitional provision the DASB clarified that comparative figures need not be provided on first-time adoption (Standard 292.603) of these changes. In addition, some of the disclosure requirements have been enhanced, such as the inclusion of a description of the most important provisions of the lease agreement.
Changes in Standards for micro and small entities

The DASB recently published the 2019 edition of the Standards for micro and small entities. This edition is effective for financial years starting from 1 January 2020 onwards, unless otherwise indicated. The major changes in the 2019 edition for small entities are:

- Changes in A2.4 ‘Foreign currency’ with respect to translation of income and expenses to presentation currency, translation of a foreign operation and (partial) disposal of a foreign operation in relation to the legal reserve for translation differences, as described above in the paragraph ‘major changes applicable from 1 January 2020’;

- Changes in B1 ‘Intangible fixed assets’ with respect to the recognition of a legal provision to present separately the costs associated with the incorporation and issue of shares (B1.101);

- Changes in B5.1 ‘Receivables’ with respect to the recognition of a legal provision to present ‘called but not paid-up’ of the issued share capital separately (B5.1.101);

- Changes in B8 ‘Equity’ with respect to a clarification that when classifying equity and debt in the separate financial statements, the legal form is relevant, unless the entity bases the classification on the economic substance (B8.106);

- Changes in B10 ‘Provisions and off-balance-sheet commitments’ with respect to the measurement of provisions at present value as described above in the paragraph ‘Major changes applicable from 1 January 2020’;

- Changes in B15 ‘Income taxes’ with respect to recognition, measurement and disclosure of uncertain income tax positions, offsetting deferred tax assets and liabilities and the presentation of deferred tax assets as described in the section ‘Major changes applicable from 1 January 2020’.
In conclusion

Sources

The information in this factsheet has largely been derived from the introduction (Ten Geleide) of the editions 2018 and 2019 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.