Dutch accounting Standards

Introduction

The Dutch Accounting Standards Board (DASB-Raad voor de Jaarverslaggeving -RJ) recently has published edition 2021 of the Standards for Annual Reporting for large and medium-sized legal entities ("The Standards"). Unless stated otherwise the revised Standards in this edition apply to financial years starting on or after 1 January 2022 (hereafter: financial year 2022).

In this factsheet you will be provided with an overview of the major changed conditions. We hereby do not enter upon the adjustments with respect to specific industries. In order to provide a complete overview this factsheet begins with a summary of the major changes in the Standards that came into effect for the first time for financial years beginning on or after 1 January 2021 (hereafter: financial year 2021). We conclude the factsheet with an overview of the major changes for small legal entities as included in the Standards for micro and small legal entities, which have been published simultaneously with the Standards for large and medium-sized legal entities.

Major changes applicable from financial year 2021

Disclosures

In Standard 110 ‘Objectives and principles’ it is included that Article 2:362 paragraph 4 of the Dutch Civil Code, first sentence, determines that the entity provides information in the financial statements in addition to that which is required in the special regulations by and pursuant to Title 9 Book 2 of the Dutch Civil Code, if this is required by the insight as meant in Article 2:362 paragraph 1 of the Dutch Civil Code. In this paragraph it has been added that in the Standards this is implemented by including additional disclosure requirements in various Standards.

In Standard 100.108 it is emphasised that, despite this, in specific situations it can be necessary that the entity includes additional information in the financial statements in order to comply with Article 2:362 subsection 4 of the Dutch Civil Code.

In Standard 300 ‘Function and format’ the general provisions of disclosures are discussed. A provision is added to this Standard regarding the objective of the disclosures (Standard 300.101a). The disclosures have the objective to provide reliable information that is relevant for the decision making of the users of the financial statements. Also, comprehensibility and comparability are relevant when information is provided in the disclosures.

As examples of information relevant for the users are being mentioned:

- the nature and financial impact of transactions for the entity;
- the nature, the size, the timing and the uncertainty of items on the balance sheet and on the profit and loss account and the impact thereof for the financial position, the result and the cash flows of the entity, and
- the nature of risks and the exposure of the entity to these risks.

Material

A definition of material is added to the Standards. The definition is as follows:

Information is material if this information is relevant for providing the required insight as meant in Article 2:362 paragraph 1 of the Dutch Civil Code. This is the case if it can reasonably be expected that the omission, misstatement, or the obscuring of information could influence the economic decisions taken by the users of the financial statements.

By adding this definition to the Standards, substance has been given to when information is material. Through this addition Standard 150.103 of Standard 150 ‘Correction of errors’ has also been adjusted and the terms ‘relative significance’, ‘materiality’ and ‘material significance’ have in various Standards been replaced by the term ‘material’.

Removed exemptions for medium-sized entities

Medium-sized entities have various exemptions, especially in the area of disclosures compared to large entities. The DASB has updated Standard 315 'Exemptions for medium-sized entities' and simultaneously has assessed the exemptions for medium-sized entities. Hereby a number of exemptions for medium-sized entities have removed. From financial year 2021 onwards medium-sized entities need to include the following information in the disclosures (if applicable):

- a further disclosure regarding al impairment loss (Standard 121.805, under c2 up to and including g);
- a quantitative estimate of the impact of an accounting policy change on one or more subsequent financial years (Standard 140.216);
- a quantitative estimate of the impact of a change in estimate on one or more subsequent financial years (Standard 145.305);
- a further disclosure in situations that the fair value of an investment property cannot reliably be established (Standard 213.805, under e);
- information regarding the liquidity risk (Standard 290.918 up to and including 290.927).

Investment properties

In Standard 213.113 it is described that if an entity owns real estate and makes this available to and is used by the parent company or another group company, this real estate is not an investment property in the consolidated financial statements that covering both entities. Background of this is that the real estate viewed from the group perspective as a whole is intended for own use. In the separate financial statements of the entity that owns the real estate, the real estate is considered to be investment property.

To Standard 213.113 is added that if the consolidated subsidiary in the separate financial statements of the parent company is measured using the equity method, in the determining of the book value of the consolidated subsidiary the real estate (held by the subsidiary) is classified as real estate for own use (and not as an investment property), as also is the case in the consolidated financial statements of the parent company. Through this way of measurement, no differences will result between equity according to the consolidated financial statements and equity according to the separate financial statements of the parent company, which is in line with the general principle as explained in Standard 100 'Introduction'. In the separate financial statements of the subsidiary the real estate remains classified as investment property.

In addition to that it has been added that if the parent company owns the real estate and the real estate is made available to a consolidated subsidiary for own use, the real estate in the separate financial statements of the parent company also is classified as real estate for own use.

Mergers and acquisitions

In Standard 216 'Mergers and acquisitions' it has been clarified when this Standard is applicable. The Standard is applicable if there is an acquisition of an integrated set of activities, assets and/or liabilities that is capable of generating revenue (Standard 216.101).

If there is no merger or acquisition of an integrated set of activities, assets and/or liabilities that is capable of generating revenue, for example the acquisition of a group of assets (and related liabilities), the acquiring entity recognises the acquired identifiable assets and/or liabilities in accordance with the Standards for the relevant assets and/or liabilities. The acquisition cost then is fully allocated to the acquired identifiable assets and/or liabilities, based on their relative fair value on the date of acquisition. Such a transaction thus does not lead to the recognition of goodwill.

This clarification has also taken place in Standard 214 'Financial fixed assets'. For the initial recognition of participating interests in which the entity exercises significant influence on the operating and financial policies, reference is made to Standard 216. It has been clarified that in the acquisition of participating interests measured at net equity value, goodwill can only be recognised in case of an acquisition of an integrated set of activities, assets and/or liabilities that is capable of generating revenue (Standard 214.301).

Leases

In Standard 292 'Leasing' no specific provisions had been included regarding temporary rental and lease reductions. According to the main rule these have to be recognised over the (remaining) lease period. The DASB has created the possibility through new provisions to account for lease reductions relating to Covid-19 consequences on the period that relates to the reduction. This option can be applied by lessees (both with operational and with financial leases) and by lessors (solely with operational leases).

		Recognition option 1	Recognition option 2
Operational lease	Lessee (Standard 292.211/211a)	Recognise the reduction for the (remaining) lease period	Recognise the reduction in the period the reduction relates to
	Lessor (Standard 292.313/313a)	Recognise the reduction for the (remaining) lease period	Recognise the reduction in the period the reduction relates to
Financial lease	Lessee (Standard 292.206/206a)	Fully recognise the reduction of the net lease obligation at the moment of the contract change	Recognise the reduction of the net lease obligation in the period the reduction relates to
	Lessor (Standard 292.309/309a)	Fully recognise the reduction of the net lease obligation at the moment of the contract change	Not applicable

or financial leases in the financial statements of the lessor there is no choice in the recognition of the rental and lease reductions applicable, and the loss shall be recognised directly in the profit and loss account. Hereby a parallel is visible with financial instruments and the impairment of receivables.

The aforementioned changes are applicable for financial years beginning on or after 1 January 2020. Hereby earlier application is allowed in as far as in a financial year reductions or exemptions of payments are related to the consequents of the Covid-19 pandemic (for example if the financial year does not equal the calendar year). The changes are temporary and are valid for lease payments (originally) due up to and including 30 June 2022.

Share based payments

Share based payments are transactions in which an entity receives goods or services against a compensation in equity instruments or for which an amount is paid based on the value of the equity instruments.

In some cases, the counterparty has the option to demand settlement in cash. The fair value of settlement in cash can hereby be lower than by settlement in equity instruments of the entity, for example in order to discourage settlement in cash. In that case the equity component (the difference between the fair value of the total commitment and the fair value of the cash settlement commitment) and the liability component need to be recognised separately (Standard 275.207). The option to solely include a liability is removed.

Any change in accounting policy has to be applied in accordance with Standard 140 ‘Changes in accounting policies’.

Financial instruments

Cashflow hedge accounting and cost price hedge

In Standard 290.631 two methods of recognising were applicable with cash flow hedge-accounting with respect to gains and losses on the hedging instrument if a hedged forecast transaction led to the recognition of a non-financial asset or a non-financial liability. Solely the option remains to include the cash flow hedge accounting related gains and losses on the hedging instrument, which are recognised directly in equity (in a legal reserve), in the initial cost or other carrying amount of the non-financial asset or the non-financial liability that arises when the hedged forecast transaction does take place. The option to include the gains and losses relating to cash flow hedge-accounting on the hedging instrument within equity until the moment of recognition in the profit and loss account is removed.

For cost price hedge-accounting the same adjustment has been made (Standard 290.638). However, the related profits and losses on the hedging instrument were not recognised directly in equity but as an accrual.

Any change in accounting policy has to be applied in accordance with Standard 140 'Changes in accounting policies'.

Explanation fair value

In Standard 290.937 it has been clarified that when financial assets or financial liabilities are measured at fair value in the balance sheet, the amount of the fair value does not need to be included in the disclosures. Further information on the fair value, such as valuation methods and the most important assumptions, do need to be included in the disclosures.

Cash flow statement

If consolidated subsidiaries are acquired or disposed of, the option existed to either deduct the cash and cash equivalents present in these consolidated subsidiaries within the cash flow from investment activities on the acquisition price respectively the sales price of the subsidiary, or to disclose it separately as part of the reconciliation between the net cash flow and the changes in cash and cash equivalents in the balance sheet . The latter possibility has now been removed. The present cash and cash equivalents need to be deducted from the acquisition price respectively the sales price (Standard 360.219).

Any change in accounting policy has to be applied in accordance with Standard 140 'Changes in accounting policies'.

In addition, Standard 360.207 has been adjusted so that payments of financial lease terms regarding the interest part need to be presented in accordance with the accounting policy choice for cash flows pursuant to interest paid (cash flow from operational activities or cash flow from financing activities).

Combination 3

In the Standards the application of combination 3 in the separate financial statements has been clarified. With these new provisions the DASB further aims to elaborate the application of combination 3 conceptually. In combination 3, the consolidated financial statements are prepared based on EU-IFRS and the separate financial statements based on the Book 2, Title 9 of the Dutch Civil Code, but with the use of the option to apply the measurement policies that have been applied in the consolidated financial statements.

The general principle that the equity according to the separate financial statements under combination 3 in principle equals the equity according to the consolidated financial statements has been clarified. The assumption here is that in the measurement of a consolidated participating interest in the separate financial statements according to the equity method the participating interest is considered as a group of assets and liabilities and not as an indivisible asset ('single asset'). From this it results that transactions and/or balance sheet positions between the parent company and its consolidated participating interest, in which there is a 100%-interest, do not lead to differences between the equity according to the consolidated financial statements and the equity according to the separate financial statements of the parent company. Examples of this are:

— expected credit losses as prescribed in IFRS 9 on loans and receivables on the participating interest; the elimination can be recognised in the book value of the consolidated participating interest, as accrual or, for practical reasons, in the book value of the provided loan; and
— derivatives that are closed by the parent company, whereby the hedged risk is in the participating interest and hedge accounting is applied in the consolidated financial statements; then also in the separate financial statements hedge accounting is applied.

For that matter, this does not mean that under combination 3 there can be no differences between the equity and the result according to the consolidated financial statements and the separate financial statements. Examples of possible differences are transactions and/or balance sheet positions between the parent company and its consolidated participating interest, where there is no 100%-interest or when there is a consolidated participating interest with a negative net equity. The nature of such differences under combination 3 is not different from those under combination 1 (consolidated and separate financial statements are both being prepared based on Book 2, Title 9 of the Dutch Civil Code.

Major changes applicable from financial year 2022

Events after balance sheet date

In Standard 160 'Events after balance sheet date' it is described that events that occur after balance sheet date and that provide no further information about the actual situation per balance sheet date will not be recognised in the financial statements, unless these are of major importance to the entity as the going concern assumption is at stake. In Standard 160.206 it has been clarified that this refers to both events that have become known in the period between balance sheet date up to and including the preparation of the financial statements (period a) and events in the period between the preparation and the adoption of the financial statements (period b).

Construction contracts

In Standard 221 'Construction contracts' it was stated that in the project costs a reasonable part of the indirect or general expenses (so called GE) could be included if these expenses in general are allocatable to project activities, in which these costs are mostly allocated through a surcharge to individual projects (Standard 221.206).

The DASB is of the opinion that only those expenses that can be allocated to a project directly and the expenses that are allocatable to project activities in general and can be allocated to the project can be recognised as project costs. The current Standard 221.210 provides sufficient to allocate indirect expenses related to project activities as project costs. For this reason the DASB has removed the previous passage from Standard 221.206.

Onerous contracts

The provisions for onerous contracts have been adjusted and have been made consistent for all relevant types of contracts, including constructions contracts and other contracts with customers. Thereby it has also been clarified which costs need to be included in a provision for onerous contracts. In Standard 252.405 of Standard 252 'Provisions, contingent liabilities and contingent assets' is included that these costs consist of:

a) the incremental costs to fulfil the contract obligations (such as direct labour costs and material costs); and
b) an allocation of other costs that are directly related to fulfil the contract obligations (such as depreciation costs of a machine that is (partly) used in the completion of the contract).

This new provision in Standard 252.405 is also applicable to the determining of the size of the provision for an onerous construction contracts (Standard 221.323 of Standard 221 'Construction contracts'). Next to a referral in Standard 221.323 to Standard 252.405 it has been indicated that project costs, as described in Standard 221, are considered an interpretation of the costs to fulfil with the obligations of a contract. The DASB hereby emphasises that the determining of project costs according to Standard 221 and the determining of the costs in fulfilling the obligations according to Standard 252 lead to the same outcomes, despite the different wordings in both Standards.

Revenue recognition

In practice there was a need for further guidance regarding the way in which revenues are being recognised under the Standards. In its analyses how best to accommodate this need, the DASB has taken into account IFRS 15 ‘Revenue from Contracts with Customers’. It has been concluded that the full absorption of the provisions of IFRS 15 in the Standards is not desirable because of the target group of the Standards in combination with the related implementation costs. Therefore, the DASB has decided to maintain the existing Standards as much as possible and to improve the Standards regarding revenue recognition through specific changes and additions (further guidance and examples). This approach provides insight into what the exact changes are compared to the present Standards. In addition to that, the DASB emphasises that in the interpretation of the Standards the provisions of IFRS 15, including further guidance on the application of IFRS 15, are not leading.

The DASB has published two revised Standards, notably Standard 221 ‘Construction contracts’ and Standard 270 ‘The profit and loss account’. The changes relate to, amongst others, the identification of performance obligations included in a contract, the recognition of variable consideration, the allocation of the transaction price in a contract to the included performance obligations, the recognition for revenue from licences, and the presentation of construction contracts in the profit and loss account and on the balance sheet.

The DASB has included transitional provisions to simplify the implementation of the changes that possibly result from the changed provisions. It is allowed to solely apply the changes that related to the recognition of the revenue to contracts entered upon or modified on or after the proposed effective date (prospectively). This means that the other contracts then still have to be accounted under the old Standards.

For the sake of completeness it is mentioned that the possibility to integrally apply IFRS 15 (Standard 221.102a and Standard 270.101a) remains unchanged in the revised Standards.

Reference is made to the publication ‘Reporting revenue’[1] , whereby the changes are discussed in more detail (published in May 2021).

The profit and loss account

In applying the classification of expenses by category in the profit and loss account the depreciation and the wages and salaries are presented as separate items. Under these items the gross period costs are recognised, so without taking into account possible capitalised expenses. These capitalised expenses are presented under the item ‘capitalised production for the own business’ (part of operating income).

In Standard 270.504 of Standard 270 ‘The profit and loss account’ is included that if the classification of expenses by function is being used, in the notes also, amongst others, the total amounts of the depreciation and wages and salaries that were recognised in the profit and loss account need to be disclosed. It has been clarified that this also refers to the ‘gross’ period costs (so regardless of whether these costs have been partly capitalised).

1 Reporting revenue (assets.kpmg)

Government grants

The DASB has included provisions in Standard 274 'Government grants' for the presentation of operating grants in the profit and loss account.

Operating grants are presented in the profit and loss account:

a) as income (as part of a general item such as 'other income', or as a separate item); or
b) as a reduction from the costs which the grant is related.

In the presentation of the operating grants, amongst others the nature of the grant is important. Operating grants in the form of grants for expenditures can be presented in both methods as presented above. The first presentation method of makes it easier to understand the gross amounts of the related costs. The second presentation method emphasises that a part of the costs would possibly not have been made if the grant would not have been available. Another argument for this second method of presentation is that the received grant must be used to pay the related costs. Operating grants for certain lost revenues and for operating deficits in general are being presented under revenues.

Management report

The DASB has restructured Standard 400 'Management Report' policy neutral in order to increase the readability and the accessibility. The provisions for the management report originate from a multitude of laws and regulations, whereby the scope of these provisions varies. By way of a so-called stack structure the user is better enabled to identify which provisions are applicable to a specific entity. First, the provisions have been included that are applicable for medium-sized and large entities and, subsequently, the additional provisions for large entities, (certain) public interest organisations and listed companies. The substance of the provisions remain unchanged.

Diversity

In September 2021, the legislative proposal has been accepted to change Book 2 of the Dutch Civil Code related to the improvement of the men/women ratio in the management boards, the Supervisory Boards, and other leadership positions of large limited liability companies (NVs) and large private liability companies (BVs).

Large NVs and BVs (subsidiaries of large NVs and large BVs exempted) should strive for a more balanced men/women ratio in the management board, the Supervisory Board and in further categories of employees in leadership positions to be determined by the company. To this end, these companies need to determine appropriate and ambitious goals in the form of targets. These companies should report on:

- The number of men and women that are part of the management board, the Supervisory Board and the further to be determined categories of employees in leadership positions on the balance sheet date;
- The objectives;
- The plans for achieving these objectives; and
- If one or more of the objectives have not been achieved, the reasons for that.

The reporting will be in the management report and, within 10 months after balance sheet date, to the SER.

In addition, for listed companies with listed (certificates of) shares a quota of at least 1/3 men and 1/3 women is introduced in the Supervisory Board. As long as this quota is not reached there are limitations in the appointments of new members who do not improve the men/women ratio.

The publication of the final legislative amendments and the amendments of the Management Report Content Decree (Besluit inhoud bestuursverslag) are expected soon. It is expected the changes will be effective for financial years beginning on or after 1 January 2022.

Other developments

Sustainability reporting

In April 2021, the European Commission has published a proposition of the EU Directive for sustainability reporting (Corporate Sustainability Reporting Directive/CSRD)[2]. The final EU Directive still needs to be published and the EU-member states will thereafter have to implement this EU Directive in their national legislation during 2022.

The EU Directive is applicable to large listed and non-listed entities (large subsidiaries of large parent companies exempted) as from financial year 2023, and for medium-sized and small listed companies as from financial year 2026. The sustainability reporting will further be developed through standards still to be developed and to be published.

The reporting will comprise a wide range of subjects in the area of environment, society, and governance. The reporting will be part of the management report, but the final EU Directive can possibly require or allow a separate report. An auditor needs to provide 'limited assurance' on this information.

With effect from financial year 2021, some additional (sustainable) information regarding company activities needs to be provided by companies that are now covered by the scope of the EU Directive Non-financial information (large public interest organisations with over 500 employees)[3].

2 The new CSRD: What does this mean for you? (assets.kpmg)
3 EU Taxonomy: A quick guide for corporates (assets.kpmg)

Changes in Standards for micro and small entities

The DASB has recently published the 2021 edition of the Standards for Annual Reporting for micro and small entities (RJk). This edition is effective for financial years starting from 1 January 2022 onwards, unless otherwise indicated.

The major changes in edition 2021 for small entities are:

— Changes in A4.1 'Events after balance sheet date' regarding the clarification of events that do not provide any further information about the factual situation on balance sheet date as described in the paragraph 'Major Changes applicable from financial year 2022';

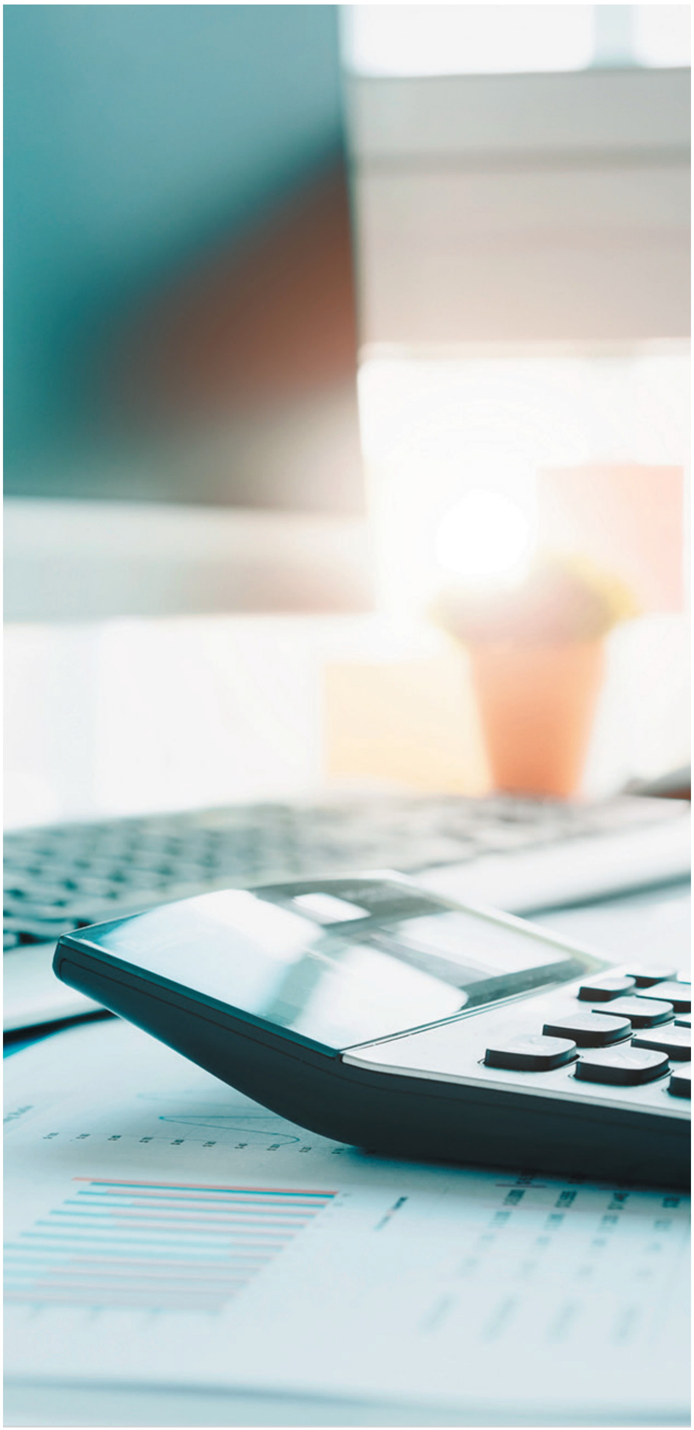
— Changes in B5 'Receivables and prepayments and accrued income' regarding indirect or general costs relating to project activities as described in the paragraph 'Major changes applicable from financial year 2022';

— Changes in B5 'Receivables and prepayments and accrued income' and B10 'Provisions and contingent liabilities' regarding onerous contracts as described in the paragraph 'Major changes applicable from financial year 2022';

— Changes in B11 'Leasing' regarding the temporary decrease of rental and lease amounts as described in the paragraph 'Major changes applicable from financial year 2021';

— Changes in B17 'Government Grants' regarding the presentation in the profit and loss account of operating grants as described in the paragraph 'Major changes applicable from financial year 2022';

— Changes in B5 'Receivables and prepayments and accrued income' and B13 'Profit and loss account regarding revenue recognition relating to separately identifiable components, variable consideration, and presentation of construction contracts, as described in the paragraph 'Major changes applicable from financial year 2022'.



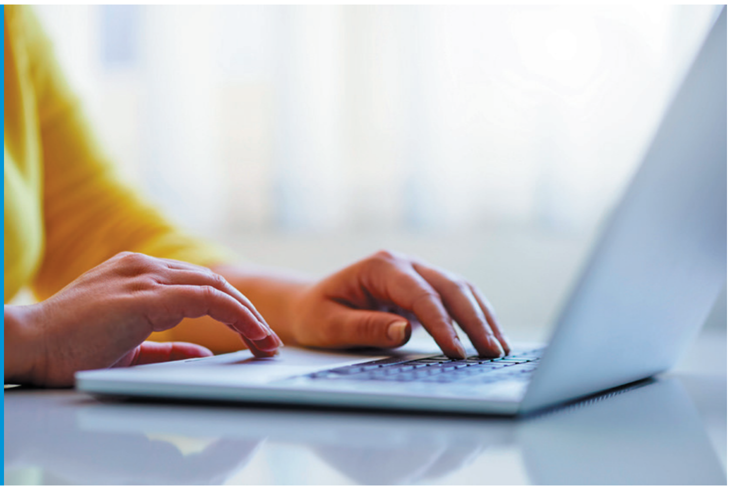
In conclusion

Sources

The information in this factsheet has largely been derived from the introduction (Ten Geleide) of the editions 2020 and 2021 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.



KPMG
Laan van Langerhuize 1
1186 DS AMSTELVEEN
T +31 (0)20 656 78 90

www.kpmg.nl

Tanja van den Vlekkert - Zevenbergen

vandenvlekkert.tanja@kpmg.nl
T +31 (0)10 453 43 72

kpmg.nl