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Dutch Accounting Standards

Introduction

The Dutch Accounting Standards Board (DASB - Raad voor de Jaarverslaggeving - RJ) recently published the 2024 edition of the Standards for Annual Reporting for large and medium-sized legal entities ('The Standards'). The DASB has decided that, going forward, it will indicate the edition by the (reporting) year to which it applies, therefore the 2023 annual edition is not published. Unless stated otherwise, the revised Standards in this edition apply to financial years starting on or after 1 January 2024 (hereafter: financial year 2024).

In this factsheet you will be provided with an overview of the main changes. It does not identify changes with respect to specific industries. In order to provide a complete overview, this factsheet will begin with a summary of the main changes to the Standards that came into effect for financial years beginning on or after 1 January 2023 (hereafter: financial year 2023).

We conclude the factsheet with an overview of the main 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.

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Main changes applicable from financial year 2023

Tangible fixed assets

General

The DASB has made various amendments to Standard 212 'Tangible fixed assets' with the aim of clarifying the Standard and supporting consistent application. The Standard has been amended to clarify the following:

- distinguishing major components of an asset and accounting for replacements thereof;
- the distinction between replacement investments and major maintenance; and
- the measurement of the maintenance and restoration provision.

Where the clarifications give rise to adjustments in the recognition and/or measurement of the tangible fixed assets, the DASB has added a transitional provision to ensure an easy transition.

Distinguishing major components of an asset and accounting for replacements thereof

When purchasing an asset, it is divided into significant components. These are components that have a useful life that is shorter than the useful life of the total asset. A component is classified as significant if the cost of that component is significant in relation to the cost of the total tangible fixed asset (Standard 212.418). These components are depreciated over their own useful life. This is also referred to as the 'component approach' (Standard 212.420).

An entity that recognises major maintenance via the maintenance provision must also distinguish significant components of a tangible fixed asset and capitalise and depreciate them separately.

If a significant component is replaced, this is a replacement investment. The separate recognition of the replacement investment also takes place if the costs of the component were not initially designated as a significant component, for example, because it was estimated that the useful life of the components would be equal to that of the total asset. The cost of the replacement investment is capitalised as a component and depreciated over the useful life (Standard 212.206). It is possible that at that time, a book value of the replaced component still remains within the total asset. This book value is then charged to the profit and loss account as a disposal (Standard 212.508).

The distinction between replacement investments and major maintenance

The distinction between replacement investments and major maintenance is important because the accounting methods may differ from each other. Replacement investments must be capitalised and depreciated, while major maintenance may either be capitalised and depreciated or recognised through a maintenance provision. Replacement investments are not costs of major maintenance and therefore cannot be recognised via the maintenance provision.

In view of the importance of the term 'cost of major maintenance', the DASB has included a definition in Standard 212.445. Costs of major maintenance can be defined as: *costs resulting from (periodic) work after an extended period of use to maintain the current condition of an asset, and which cannot be regarded as a replacement for significant components of an asset and which do not qualify as frequently occurring maintenance costs.*

The DASB emphasises that in practice, the distinction may not always that clear. The designation of costs as replacement of a significant component or major maintenance may in some cases require a higher degree of judgement. The judgment is based on the nature and specific facts and circumstances. Once chosen, a classification must be applied consistently.

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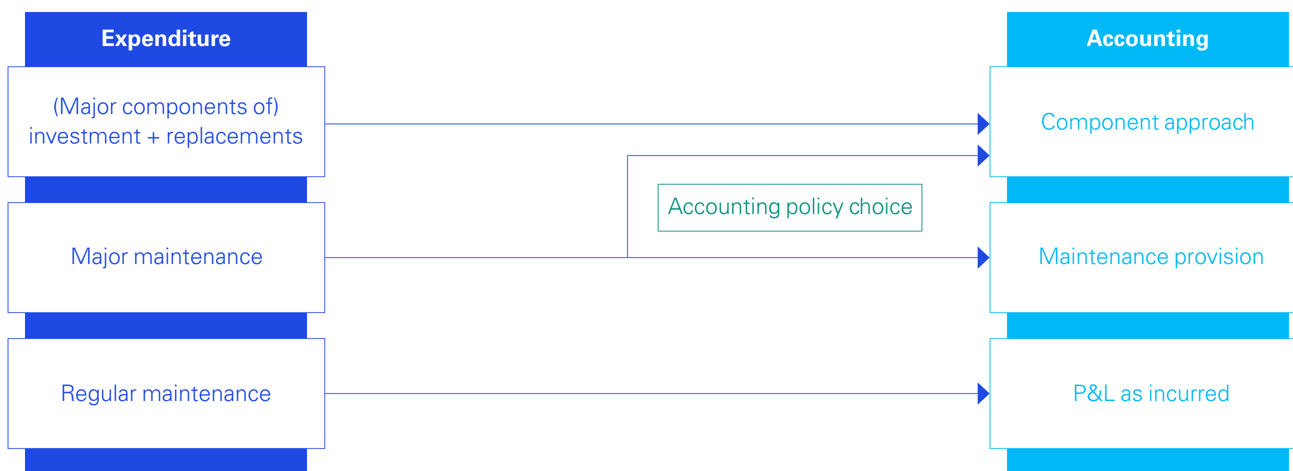
In summary, the accounting can be presented as follows:



Transitional provision

If, as a result of the clarifications, an entity changes to a different accounting method for significant components of a tangible fixed asset, replacement investments or costs of major maintenance (Standards 212.206, 212.418, 212.445 and 212.508), this adjustment is recognised as a change in accounting policy. The DASB has included a transitional provision for this. The entity may choose to recognise the change in accounting policy fully retrospectively, retrospectively from the beginning of the previous financial year or prospectively from the beginning of the current financial year.

If the clarifications affect the amount of the maintenance provision, this adjustment is recognised in equity in the year of the change in accounting policy. This means that the comparative figures are also restated (Standards 140.211 and 140.212). The part of the cumulative effect of the change in accounting policy that relates to periods prior to the comparative financial year, is not presented as part of the result of the comparative financial year, but as a direct change in equity at the beginning of the comparative financial year. In the case of multi-annual overviews, the amounts from all previous years presented must be restated.

The measurement of the maintenance and restoration provision

In Standards 212.443 and 212.451 it has been added that if the costs of major maintenance and/ or costs of restoration are recognised through building up a maintenance provision, the measurement of the provision is usually at nominal value.

By building up a maintenance and restoration provision, this provision has the character of an equalisation provision, which means that measurement at nominal value is the obvious choice.

In addition, Standard 212.451 clarifies that a maintenance provision is built up on the basis of the estimated amount of major maintenance and the period between the major maintenance activities. It has been clarified that the provision is built up per maintenance component. The principle is that at the moment that the major maintenance takes place, the full amount of the major maintenance for that maintenance component has been provided. If the actual costs of major maintenance are higher or lower, the difference is recognised in the profit and loss account.

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Provisions

A new Standard has been added to Standard 252 'Provisions, contingent liabilities and contingent assets' on the measurement of provisions at present value, specifically on the estimates of future cash flows and the discount rate.

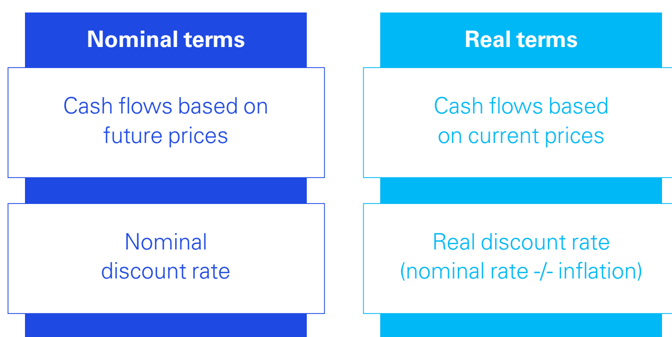
The new Standard 252.307 states that, when measured at present value, the estimates of future cash flows and the discount rate consistently reflect the assumptions about price increases as a result of inflation. Estimates of future cash flows and the discount rate are therefore expressed both in nominal terms or both in real terms. Present value measurement should be made at a pre-tax discount rate that reflects both current market interest rate and the specific risks associated with the liability. According to the DASB, the most appropriate interpretation of the current market interest rate is the market interest rate for high-quality corporate bonds.

There are two methods for determining the present value:

- The cash flows are based on future prices, using the nominal discount rate; or
- The cash flows are based on current prices, using the real discount rate.

The nominal discount rate already includes inflation as investors take into account expected inflation. The real discount rate is lower than the nominal discount rate (unless there is negative inflation) because inflation has to be removed from the nominal discount rate to arrive at the real discount rate.

The present value of the provision is the same in both methods.



Example

Entity A's management estimates the amount of the provision for a cash outflow at 1,000 (estimated at current prices), payable at the end of year three. The nominal discount rate is 10% and inflation is estimated at 8% per annum.

Calculation of the provision based on the nominal discount rate

Under the nominal discount rate approach, the expected cash outflows reflect future prices. Assuming that prices increase with inflation, the cash outflow is 1,260 (1,000 × 1.08^3). The present value of 1,260 factored in at 10% is 946 at t=0.

Calculation of the provision based on the real discount rate

Under the real discount rate approach, the provision is calculated based on the expected cash outflow of 1,000 at current prices, discounted at a real discount rate of 1.85% (using the Fisher formula: (1.1/1.08)-1 x 100%).

The present value of 1,000 payable over three years, discounted at 1.85%, is 946 at t=0 (the same amount as the amount calculated with future prices discounted at the nominal percentage above).

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The profit and loss account

Presentation of Private motor vehicle and motorcycle tax (bpm)

For importers of cars and motorcycles, dealers and other car companies, Standard 270.201a of Standard 270 'The Income statement', provided the option to present the private motor vehicle and motorcycle tax (bpm) on cars, that were registered for the first time in the Netherlands, as net turnover.

The DASB has evaluated this option on the basis of the general provisions regarding net turnover. Net turnover is defined as the revenue from the supply of goods and services from the business of the entity after deduction of discounts and the like and taxes levied on turnover. In addition, amounts received by the entity for third parties (as an agent) must not be recognised as revenue.

Based on these general provisions, the DASB decided to remove the current option with regard to the presentation of the bpm. The entity receives the bpm as an agent on behalf of the government. This means the bpm may no longer be presented as part of the net turnover.

As a result, an adjustment has also been made to Standard 220.303 of Standard 220 'Inventories'. The bpm of cars that have been registered for the first time in the Netherlands is no longer part of the cost of the inventory.

Exemption from disclosure provisions for medium-sized legal entities

Standard 270.601 contains the disclosure requirements with regard to revenue.

Among other things, the amount for each significant revenue category must be disclosed. Medium-sized legal entities may, however, aggregate items in the profit and loss account to the item 'gross operating profit (loss)' pursuant to Section 2:397, subsection 3 of the Dutch Civil Code, as a result of which the item net turnover is not shown separately. Medium-sized legal entities that use this option are permitted to disclose each significant revenue category, not in amounts, but in percentages of total revenue. Furthermore, medium-sized legal entities are exempt from disclosing the amount included in significant categories of revenue related to the exchange of goods or services.

The entity must include the following disclosures:

- the nature of significant performance obligations;
- for each significant performance obligation, the method of allocation of revenue to reporting periods, including to determine the stage of completion of the contract for rendering of services;
- the amount of each significant revenue category recognised in the profit and loss account in the period, including:
  - revenue from the sale of goods
  - revenue from the rendering of services
  - revenue from the granting of licences;
- the amount included in the significant categories of revenue that relates to the exchange of goods or services; and
- the total capitalised cost of obtaining a contract.

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Dutch Corporate Governance Code

On 20 December 2022 the Corporate Governance Code Monitoring Committee has published the updated Dutch Corporate Governance Code. The main amendments in Standards 400 'Management board report', 404 'Pay and benefits report and remuneration report' and 405 'Report of the supervisory board', in response to the updated Code, are:

a) further details on sustainable long-term value creation (bpb 1.1.4) and culture (bpb 2.5.4);
b) additional disclosure in the corporate governance statement on diversity and inclusion policies (bpb 2.1.6); and
c) providing interpretation of the term 'remuneration ratios' and how this is calculated (bpb 3.4.1 (iv)).

Ad a)
In the management report, the Management Board shall give a more detailed explanation of its view on long-term sustainable value creation and the strategy to realise this, as well as describing which contributions were made to long-term value creation in the past financial year. Both the short-term and long-term developments are reported on. In addition, reporting is provided on the objectives formulated in this respect, what impact the company's products, services, and activities have had on people and the environment, how the interests of stakeholders have been taken into account, which actions have been taken in this context, and the extent to which the set objectives have been achieved (Standard 400.4044).

In the management board report, the Management Board provides a disclosure of the culture within the company and whether it is desirable to make changes thereto. In addition, it is reported how the culture, underlying values, and behaviours promoted within the company contribute to sustainable long-term value creation and, if changes to this are desired, what initiatives are undertaken to further enhance this contribution (Standard 400.4044).

Ad b)
The diversity and inclusion policy (hereafter: D&I policy) and the implementation thereof is disclosed in the corporate governance statement, including the following information:

- the goals of the D&I policy;
- the plan to achieve the goals of the D&I policy;
- the results of the D&I policy in the past financial year and, where relevant and possible, insights into the inflow, throughput and retention of employees;
- the composition in terms of gender of the management board, supervisory board, executive committee (if any) and sub-top at the end of the past financial year

If one or more targets for the composition of the Management Board, the Supervisory Board, the Executive Committee (if any) and/or the sub top are not met, the corporate governance statement shall disclose the reasons for this and what measures will be taken to achieve the targets and in what timeframe (Standard 400.4046).

Ad c)
The Supervisory Board accounts for the implementation of the remuneration policy in a remuneration report in a transparent manner. The Code includes what is meant by remuneration ratios. This is the ratio between (i) the total annual remuneration of the CEO, and (ii) the average annual remuneration of the employees of the company and the group companies of which the company consolidates the financial data. The Code details what is meant by (i) and (ii) and how the value of share-based remuneration is determined.

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Pillar Two Income taxes

In October 2021 more than 135 jurisdictions, including the Netherlands, agreed to the Organisation for Economic Co-operation and Development (OECD) framework for addressing tax challenges arising from the digitalisation of the economy. For this purpose the OECD has developed the so-called 'Pillar Two model rules'.

The 'Pillar 2 model rules' are intended to ensure that large multinational and domestic companies with a (consolidated) turnover exceeding EUR 750 million, pay a minimum tax rate of 15% on their income in the jurisdictions where they operate.

The main features of the 'Pillar 2 model rules' are:

a) The goal is that large multinational groups must pay a minimum amount of tax on income in each jurisdiction where they operate.
b) To this end, a system of additional taxes is applied, resulting in the total amount of income taxes to be paid on profits in each jurisdiction being at least the minimum rate of 15%.
c) Primarily the ultimate parent of a group is obligated to pay the top-up tax in the jurisdiction where it is located, on the profits of its subsidiaries that are taxed at less than 15%.

In June 2023 the Ministry of Finances presented the bill 'Minimum Tax Act 2024 (Pillar 2)' in the Netherlands. The new tax legislation also has implications for the accounting of income taxes in the financial statements. The DASB issued a preliminary announcement regarding new paragraphs in RJ 272 'Income taxes' related to the Pillar 2 taxes. The DASB intends to include a similar mandatory temporary exemption as the IASB. Additionally, the DASB is analysing which disclosure requirements can be incorporated into the Standards concerning this new tax legislation, taking into account the specific Dutch situation.

In response to the OECD's 'Pillar 2 model rules', the IASB has made and published the following amendments to IAS 12:

a) temporary mandatory exemption, so that no deferred tax assets and liabilities related to income taxes arising from 'Pillar 2 model rules' are recognised or disclosed; and
b) specific disclosure requirements to provide insight into the potential impact of the 'Pillar 2 model rules' on the legal entity.

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Main changes applicable from financial year 2024

Financial Instruments

The DASB included new provisions in the Standards regarding the application of the effective interest rate method when measuring financial instruments at amortised cost.

The Standards already included that, if a modification in the contractual terms of the financial instrument results in an significant change in economic substance with regard to that financial instrument, the original loan shall be derecognised from the balance sheet and the new loan shall be recognised on the balance sheet (Standard 290.702). Any difference between the amortised cost of the original loan and the fair value of the new loan shall be recognised in the profit and loss account. In almost all cases the transaction costs shall be directly charged to the profit and loss account.

However, the Standards did not yet contain provisions regarding the recognition of a modification in the contractual terms of a financial instrument that does not result in a significant change in economic substance. The DASB has included provisions for this in Standard 290 'Financial Instruments' (Standards 290.523a and 290.523b). If the contractual cash flows change as a result of this, the DASB allows the following two accounting methods:

a) recognising the effect of the modified contractual cash flows directly in the result; or
b) recognising the effect of the modified contractual cash flows in the result over the remaining expected term of the financial instrument by adjusting the effective interest rate.

In the view of the DASB, both accounting methods give substance to generally accepted accounting principles for providing a true and fair view. When choosing one of these accounting methods, the legal entity takes into account all facts and circumstances.

Annex 1 of Standard 290 'Financial Instruments' and RJ Statement 2022-13 'Paragraphs application of the effective interest method when measurement is at amortised cost' contain a detailed example of the application of the effective interest rate method.

Presentation and classification of financial instruments as equity or as liability

The DASB has clarified the presentation and classification of financial instruments as equity or as liability.

Classification in the separate financial statements

The classification of financial instruments as equity or liability in the separate financial statements can be based on the legal form of the instrument. It is clarified that if a financial instrument is classified as equity in the separate financial statements based on the legal form, while it would be classified as a liability based on the economic substance, the total amount of that instrument must be presented as a separate item within equity (Standard 240.207).

In addition, it has been clarified that if there are various types of such financial instruments, separate presentation within equity can occur for each type of financial instrument, or the total amount of these instruments can be presented as a separate item within equity, with a breakdown of the amount into individual instruments provided in the disclosure. In the disclosures, a breakdown is also included of the (total) amount, subdivided into the categories of equity as mentioned in Article 373, paragraph 1 of the Dutch Civil Code.

Profit-dependent payments

Profit-dependent payments are non-discretionary payments that only occur when there is sufficient profit generated in any year after the issuance of the instrument to make the payment (or a portion of the payment) for that year. Instruments with only profit-dependent payments may optionally be classified as equity or liability. In this respect it has been clarified that next to the profit-dependent payments, such an instrument shall not have a repayment obligation. If there is an obligation to make a payment when profits are generated, but this payment is larger in amount than the profit made, then this payment is not profit-dependent. The relevant instrument shall then be classified as a liability and the payment is not split into a portion that is profit-dependent and a portion that is not (Standard 290.810).

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Standard 290.805 provides additional examples of these financial instruments and illustrates under which contractual circumstances they classify as equity or liability.

A change in an accounting policy resulting from Standard 290.805-810 shall be accounted for in accordance with Standard 140 'Changes in accounting policies, correction of errors and changes in accounting estimates'. However, the comparatives do not need to be restated (Standard 290.1018) as a consequence from the changes to Standard 290.805-810.

Cash and cash equivalents in the cash flow statement

Cash equivalents

The DASB has amended the term 'short-term highly liquid assets' to the term 'cash equivalents' to ensure consistency within the Standards. Cash is defined as cash ('liquid resources'), demand deposits and cash equivalents. Cash equivalents are highly liquid assets that can be easily converted into cash without restrictions, and for which there are no significant risks of value changes occurring (Standard 360.102).

Investments in publicly and non-publicly traded shares are not part of cash. These shares do not meet the definition of cash equivalents because there are significant risks of value changes.

Debit balances on bank accounts

In a cash flow statement, debts to the bank can be classified as part of the financing activities as well as part of the cash. Debts to the bank are generally considered as part of the financing activities. The DASB has clarified when a debt to the bank is part of the cash (Standard 360.102a). If a bank overdraft that is an integral part of cash management is used, it is required to include such positions as part of the cash in the cash flow statement. These bank overdrafts positions are payable on demand. Such arrangements with banks are often characterised by the fact that the account balance often fluctuates between positive and negative. This is an indication that a bank overdraft is used for normal payment transactions and is therefore an integral part of a company's cash management. In such a situation, changes in the bank overdrafts are similar in nature to changes in cash.

Recognition for results of intercompany transactions in the financial statements

The DASB has clarified Standard 260 'Treatment of results on intragroup transactions in the financial statements' in terms of structure. The Standard is divided into:

a) participating interests measured at net equity value;
b) participating interests measured at cost or current value;
c) consolidation; and
d) recognition for intercompany transactions in the financial statements of the participating interest.

In addition, the DASB made clarifications on the following topics:

a) elimination of losses;
b) presentation of elimination amounts; and
c) eliminations in case of negative net equity value.

Ad a) Elimination of losses

If a legal entity transfers an asset or liability to a participating interest that is measured according to the equity method, only the result arising from this transfer must be recognised in proportion to the relative interest that third parties have in that participating interest (proportional result determination). No result arising from this transfer is recognised in proportion to the relative interest that the legal entity has in that participating interest. It has been clarified that this applies to both a profit and a loss. A loss that results from the transfer of a fixed asset can be considered an indication of impairment of fixed assets as referred to RJ 121 'Impairment of fixed assets', or of a lower realisable value of inventories as referred to in RJ 220 'Inventories'. The extent to which a loss should be recognized is determined by the applicable sections on impairment or lower net realisable value. This amount of impairment, if any, does not (by definition) correspond to the loss on the intercompany transaction.

Ad b) presentation of elimination amounts

Intercompany transactions can be divided into downstream, sidestream and upstream transactions. Standards 260.206 and 260.207 clarify how to present elimination amounts:

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	Intercompany transactions		
	Downstream	**Sidestream**	**Upstream**
Profit and loss account	The intercompany result to be eliminated is credited or debited to the line item in the profit and loss account that includes the intercompany transaction (for example net turnover or other income).	The elimination amounts are recognised in the line item 'result of participating interests'.	
Balance sheet	The elimination amounts are included in accruals or by including the value in the line item participating interests (if applicable).		The elimination amounts are included in accruals or by including the value in the line item participating interests (if applicable). Alternatively the elimination amounts can be credited or debited to the value of the asset acquired. In the case of a 100% participating interest, the intercompany transaction then does not lead to a difference between the book value of the asset in the separate financial statements and the book value of the asset in the consolidated financial statements.

The possibility of deducting the intercompany result to be eliminated from the result of the corresponding participating interest has been removed is case of a downstream sale.

Ad c) Eliminations in case of negative net equity value

Standard 260.204 clarifies that even in the situation where the value of a participating interest measured at net equity value is or becomes negative, the transaction result will only be realised in the event of a transfer to a third party or through depreciation. It has been clarified that even if the value of the participating interest under the equity method is negative and the investment is therefore measured at nil (Standard 214.339), the elimination of intercompany results is applicable as long as the assets in question have not yet been sold to third parties or otherwise realised. In this case, the eliminations are recognised as accruals.

Non-current prepayments and accrued income and non-current accruals and deferred income

The DASB has clarified the presentation and disclosure of non-current prepayments and accrued income and non-current accruals and deferred income.

If the prepayments and accrued income have a predominantly non-current nature, they are presented as non-current assets (Standard 224.102). If the prepayments and accrued income are presented separately under current assets in the balance sheet, the amount with a remaining term of longer than one year needs to be disclosed in the notes. If the prepayments and accrued income are combined with the other receivables, the disclosure for the total of the other receivables shall indicate up to what amount the remaining term is longer than one year (article 2:370(2) of the Dutch Civil Code).

The DASB recommends that the current portion of the non-current accruals and deferred income is classified as current liabilities (Standard 258.102). If the accruals and deferred income are presented separately under current liabilities in the balance sheet, the notes shall indicate up to what amount the remaining portion exceeds one year (Standard 258.107). If accruals and deferred income are combined with other payables, the disclosure for the total of the other payables shall indicate up to what amount the remaining portion is longer than one year (article 2:375(2) of the Dutch Civil Code).

Reporting in cases of uncertainty about continuity

Inevitable discontinuity exists when there is no realistic chance that a legal entity will be able to continue (part of) its business activities, because the legal entity is no longer able to meet its obligations independently and required additional cooperation from stakeholders cannot be obtained. If there is no inevitable discontinuity, the financial statements are

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prepared on the basis of the going concern assumption (Standard 170.301). When applying the going concern assumption, there may therefore be a material uncertainty about continuity. This is, for example, the case when the legal entity will no longer be able to meet its obligations on its own and it is not yet sufficiently plausible that sufficient required additional cooperation from stakeholders will be acquired, but there is a realistic chance that the legal entity will be able to continue (part of) its business activities.

If there are concerns regarding going concern, but no material uncertainty, this is disclosed if necessary for the required insight. If a material uncertainty about continuity exists, this is disclosed in the financial statements, including an adequate explanation of the legal entity's circumstances (Standard 170.305).

The DASB has included a summary table regarding the reporting requirements per continuity scenario:

<table>
<tr><th colspan="5">Continuity scenarios and relevant reporting requirements</th></tr>
<tr><th></th><th>Scenario 1:
No uncertainty about the continuity</th><th>Scenario 2:
Concerns about the continuity, but no material uncertainty</th><th>Scenario 3:
Material uncertainty about the continuity</th><th>Scenario 4:
Inevitable discontinuity</th></tr>
<tr><td>Description</td><td>No events or circumstances that may raise reasonable doubt as to whether the legal entity can meet its obligations.</td><td>Events or circumstances that may raise reasonable doubt whether the legal entity can meet its obligations, where there is no material uncertainty whether the mitigating measures are adequate.</td><td>Events or circumstances that may raise reasonable doubt whether the legal entity can meet its obligations, where there is material uncertainty whether the mitigating measures are sufficient. However, there is a realistic chance that the legal entity can meet its obligations. (Standards 170.103 and 170.302-170.304)</td><td>There is no realistic chance that the legal entity can meet its obligations (Standard 170.103).</td></tr>
<tr><td rowspan="2">Accounting policy</td><td colspan="3">Financial statements based on the going concern assumption.</td><td rowspan="2">Financial statements on liquidation basis (Standards 170.102, 105, 201-205, and 207)</td></tr>
<tr><td colspan="2">(Standards 170.101 and 170.106)</td><td>(Standards 170.101, 105, and 301)</td></tr>
<tr><td rowspan="2">Disclosure</td><td>No specific disclosure on continuity.</td><td>Significant judgments and estimates (nature and assumptions) and uncertainties (nature and magnitude), if necessary for the required insight (Standard 110.129 and Standard 135.203).</td><td>Disclose that material uncertainty about going concern exists, together with an adequate explanation of the legal entity's circumstances. (Standard 170.305)

Significant judgments and estimates (nature and assumptions) and uncertainties (nature and magnitude), if necessary for the required insight. (Standard 110.129 and RJ 135.203)</td><td>Under disclosure of impact on equity and results, explain that the legal entity's entire business is not continued. (Standard 170.206)

Usual disclosure requirements of Title 9 Book 2 of the DCC. (Standard 170.207)

Specific disclosure relating to inevitable discontinuity. (Standard 170.208)</td></tr>
<tr><td colspan="3">If there is a discontinuity as referred to in Standard 170.104, explain this fact and disclose the possible impact on equity and result. Also explain the nature of the (remaining) business activities and, if applicable, mention that the legal entity has been established for a definite period of time (Standard 170.104).</td><td></td></tr>
</table>

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Clarifications on mergers and acquisitions

Several clarifications have been included in Standard 216 'Business combinations'. The most important clarifications relate to:

a) transactions that are not part of the acquisition;
b) minority share in a step acquisition;
c) reverse dilution leading to control;
d) recognition of negative goodwill that does not relate to expected future losses and expenses; and
e) disclosure of negative goodwill that does not relate to future losses and expenses.

Ad a) Transactions that are not part of the acquisition

The DASB has included provisions for the recognition of transactions that are agreed as part of an acquisition, but that are not in fact part of the acquisition. Examples include transactions that (1) in effect settle an existing relationship between the acquirer and the acquiree, and (2) compensate employees or former owners of the acquiree for future services. Based on economic substance, the acquirer assesses whether such transactions shall be treated as separate transactions (Standard 216.201a).

Ad b) Minority share in a step acquisition

The DASB has clarified how a possible minority share in a step acquisition is determined and recognised. In the event of a step acquisition, any minority share is recognised for the proportionate share in the fair value of the identifiable assets and liabilities at the acquisition date, even if an election is made not to revalue the identifiable assets and liabilities of the interest already held (Standard 216.204).

Ad c) Reverse dilution leading to control

Through 'reverse dilution' (a participating interest repurchases its own shares from other shareholders, which increases the relative interest of the participating legal entity in that participating interest) control can be obtained. The DASB has clarified that this should be accounted for as a step acquisition (Standard 216.205).

Ad d) Recognition of negative goodwill that does not relate to expected future losses and expenses

The DASB has formulated the recognition of negative goodwill in the profit and loss account that does not relate to expected future losses and expenses, in a more principle-based manner. Through this formulation, more justice is done to the actual situation (Standard 216.235).

Ad e) Disclosure of negative goodwill that does not relate to future losses and expenses

In the standards there were no specific disclosure requirements for negative goodwill that does not relate to future losses and expenses. The DASB has decided that for both negative goodwill that does not relate to future losses and expenses as well as for negative goodwill that does relate to future losses and expenses, the following should be disclosed in the notes (Standard 216.406):

- the periods in which the negative goodwill will be taken to the profit and loss account;
- the item in the profit and loss account in which the income related to negative goodwill is included;
- a movement schedule during the reporting period of the carrying amount of the negative goodwill;
- if negative goodwill relates to expected future losses: a description of these losses, their amount and the periods in which they will arise.

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Other developments

Exemptions based on the size of the legal entity

The law grants certain exemptions to legal entities not exceeding a certain size (except for certain legal entities such as public interest organisations). For this purpose, the law recognises four categories of legal entities, namely large, medium, small and micro. Legal entities are classified into one of these categories using the size criteria. The classification of legal entities into-categories is based on meeting two of the three size criteria on two consecutive balance sheet dates:

- balance sheet total;
- net turnover; and
- average number of employees.

The European Commission adopted a delegated regulation in October 2023 to increase the size criteria thresholds in the Accounting Directive by around 25% to compensate for inflation since 2013 (the last time the size criteria in the Accounting Directive were changed).

	Balans total new (old) EUR	Net-turnover new (old) EUR	Number of employees
Micro	≤ 450.000 (350.000)	≤ 900.000 (700.000)	≤ 10
Small	≤ 7.500.000 (6.000.000)	≤ 15.000.000 (12.000.000)	≤ 50
Medium	≤ 25.000.000 (20.000.000)	≤ 50.000.000 (40.000.000)	≤ 250
Large	> 25.000.000 (20.000.000)	> 50.000.000 (40.000.000)	> 250

The effective date of the revised size criteria will be for financial years beginning on or after 1 January 2024. Member states may allow companies to apply the provisions for financial years beginning on or after 1 January 2023.

The revised size criteria must be transposed into national legislation before they take effect for Dutch companies. At the moment, it is not yet clear when the Dutch government will start the legislative process to amend Title 9 Book 2 of the Dutch Civil Code.

Sustainability Reporting

The scope of the Corporate Sustainability Reporting EU Directive includes large listed and non-listed companies (i.e. legal forms that fall within the scope of the existing EU Directive on financial statements, and insurance companies and credit institutions regardless of their legal form), as well as medium-sized and small listed companies (except for micro-entities).

The implementation of the EU Directive takes place in 4 stages:

- reporting from financial year 2024 for large public interest entities and large issuers with more than 500 employees;
- reporting from financial year 2025 for other large entities;
- reporting from financial year 2026 for listed small and medium-sized entities (except for micro-entities), small and non-complex credit institutions and insurance captives;
- reporting from financial year 2028 for third-country entities with a net turnover in the EU exceeding € 150 million and with at least one subsidiary within the EU falling within the scope of the EU Directive, or one branch in the EU with a net turnover exceeding € 40 million.

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The Corporate Sustainability Reporting EU Directive contains provisions in the area of non-financial information that must be included in the management report. The relevant disclosures must be based on the so-called 'double materiality perspective', which means that, on the one hand, insight must be provided into the impact of the company on sustainability aspects (people and environment), and on the other hand, how sustainability aspects impact the development, the performance and the position of the company.

The EU Directive itself describes the main features of the non-financial information to be provided. In addition, the EU Directive empowers the European Commission to set standards for sustainability reporting via so-called 'delegated acts'. The European Financial Reporting Advisory Group (EFRAG) is responsible for drawing up these standards (European Sustainability Reporting Standards, abbreviated to ESRS), which elaborate on the disclosure provisions of the EU Directive.

The non-financial information to be provided under the EU Directive and the standards in the management report must be subject to 'assurance with a limited level of certainty'. The assurance engagement can be assigned to an auditor or to an independent provider of assurance services (other than an auditor). The intention is to upgrade the required level of assurance to a 'reasonable level of assurance' in the future.

The standards for sustainability reporting (ESRS) shall require that the information to be reported is understandable, relevant, representative, verifiable, comparable, and presented in a fair manner. The standards shall specify what information companies must provide about:

- Environmental factors, including climate change mitigation, climate change adaptation, water and marine resources, resource use and the circular economy, pollution and biodiversity and ecosystems. These are the 6 environmental objectives that are also listed in the EU Taxonomy Regulation.
- Social factors, including equal treatment and opportunities for all, working conditions and respect for human rights, fundamental freedoms, democratic principles and norms outlined in the International Statute of Human Rights and other significant human rights treaties.
- Governance factors, including the role of the governing, executive, and supervisory bodies of the company, the key features of the company's internal control and risk management systems, corporate ethics and culture, the company's political engagement, management and quality of relationships with customers, suppliers, and communities affected by the company's activities.

The sustainability reporting standards specify forward-looking, retrospective, qualitative, and quantitative information.

By the end of 2022, EFRAG published a first set of 12 draft standards, comprising 2 general standards and 10 topical standards covering environmental, social and governance topics. The EU subsequently aligned these draft standards with various stakeholders, followed by the release of 12 revised draft standards in June 2023. At the end of July 2023, the EU finalised the 12 standards. Later in 2023, the final standards will be published through delegated regulations. The effective date of these standards will be the same as the effective date of the Corporate Sustainability Reporting EU Directive.

In addition, EFRAG will develop and publish additional standards for comment in the coming years, including standards for listed small and medium-sized entities, standards for third-country entities and sector-specific standards.

EU Taxonomy Regulation

From 1 January 2022 (de facto from financial years starting on or after 1 January 2021), large PIE's that are required by the Bbnfi ('Disclosure of Non-Financial Information Decree') to include a non-financial statement in the management report must provide additional sustainability disclosures in this statement. The additional disclosure requirements arise from the EU Taxonomy Regulation and an associated delegated regulation, both of which have direct effect in the member states. Standard 400.3015 points out additional obligations for the content of the non-financial declaration.

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The EU Taxonomy Regulation is part of the measures taken by the EU on sustainability and sustainability reporting, and includes a listing of economic activities that can be classified as environmentally sustainable ('green'). These disclosure requirements will be phased in for financial companies and non-financial companies starting from 1 January 2022.

The starting point of the EU Taxonomy Regulation is that companies within its scope shall include, in their non-financial statement, information on how and to what extent the activities of the company are related to economic activities that can be classified as environmentally sustainable. This shall be done using prescribed key performance indicators (KPI's) for each type of company. Within this framework, it must be assessed the extent to which the economic activities of the company contribute to six environmental objectives, namely:

1. climate change mitigation;
2. climate change adaptation;
3. the sustainable use and protection of water and marine resources;
4. the transition to a circular economy;
5. pollution prevention and control; and
6. restoration of biodiversity and ecosystems.

For the assessment against these six environmental objectives, the European Commission publishes, through delegated regulations, a list of economic activities that have the potential to be environmentally sustainable (eligible economic activities for the taxonomy) and the so-called 'technical screening criteria' for these economic activities. To classify an economic activity as environmentally sustainable (activity aligned with the taxonomy), it must meet both the 'technical screening criteria' and the 'minimum safeguards'. The technical screening criteria correspond to requirements that indicate that an economic activity substantially contributes to one or more of the six environmental objectives and does not significantly harm any of the other environmental objectives.

Financial companies:

From 1 January 2024 (de facto from financial years starting on or after 1 January 2023), financial companies within the scope of the EU Taxonomy Regulation must disclose the following for the first two environmental objectives:

- (for asset management companies) the information to be reported in accordance with Annexes III, IV and XI of the Delegated Regulation;
- (for credit institutions) the information to be reported in accordance with Annexes V, VI and XI of the Delegated Regulation;
- (for investment firms) the information to be reported in accordance with Annexes VII, VIII and XI of the Delegated Regulation;
- (for insurance and reinsurance companies) the information to be reported in accordance with Annexes IX, X and XI of the delegated regulation;
- for the activities added in 2023 related to the first two environmental objectives, and for all activities related to the other four environmental objectives:
  - the proportion in total assets of exposures to taxonomy non-eligible and taxonomy-eligible economic activities;
  - the qualitative information referred to in Annex XI of the delegated regulation.

From 1 January 2026 (de facto for financial years beginning on or after 1 January 2025), financial companies falling within the scope of the EU Taxonomy Regulation must provide the following disclosures for all six environmental objectives:

- (for asset managers) the information to be reported in accordance with Annexes III, IV, and XI of the delegated regulation;
- (for credit institutions) the information to be reported in accordance with Annexes V, VI, and XI of the delegated regulation;
- (for investment firms) the information to be reported in accordance with Annexes VII, VIII, and XI of the delegated regulation;
- (for insurance and reinsurance companies) the information to be reported in accordance with Annexes IX, X, and XI of the delegated regulation.

Non-financial companies:

Starting from 1 January 2025 (de facto for financial years beginning on or after 1 January 2024), non-financial companies falling within the scope of the EU Taxonomy Regulation must provide the following disclosures for all six environmental objectives:

- the proportion of taxonomy non-eligible and taxonomy-eligible economic activities in total turnover, capital expenditure and operational expenditure;
- the accompanying information to be reported in accordance with Annexes I and II of the delegated regulation.

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Changes in Standards for micro and small entities

Main changes in the Standards for Annual Reporting for micro and small entities (RJk) applicable for financial years beginning on or after 1 January 2023

The main changes resulting from the 2022 edition (applicable for financial years beginning on or after 1 January 2023) for small legal entities are:

- Amendments in B2 'Tangible fixed assets' regarding the clarification of major components of tangible fixed assets, replacement investments and major maintenance costs as described in the paragraph 'Main changes applicable from financial year 2023'.
- Amendments in B13 'Profit and loss account' regarding the presentation of private motor vehicle and motorcycle tax (bpm) as described in the paragraph 'Main changes applicable from financial year 2023'.
- The DASB has issued a pre-announcement for new paragraphs in RJk B15 'Income taxes' regarding the 'Pillar two model rules' as described in the paragraph 'Main changes applicable from financial year 2023'.

Main changes in the Standards for Annual Reporting for micro and small entities (RJk) applicable for financial years beginning on or after 1 January 2024

The DASB recently published the 2024 edition of the Standards for Annual Reporting for micro and small entities (RJk). This edition is applicable for financial years beginning on or after 1 January 2024, unless otherwise indicated. The main changes resulting from the 2024 edition for small legal entities are:

- Amendments regarding clarifications about the presentation and classification of financial instruments as equity or liability as described in the paragraph 'Main changes applicable from financial year 2024'. Standard B12.112 in the RJk bundle refers to the RJ bundle for the classification of a financial instrument as equity or liability in the consolidated financial statements. Therefore these changes are also applicable for small legal entities.
- Amendments regarding substantive clarification on the accounting of results on intercompany transactions in the financial statements as described in the paragraph 'Main changes applicable from financial year 2024'. Standard B3.403 in the RJk bundle refers to the RJ bundle for the accounting of the results on intercompany transactions in the financial statements. Therefore, these changes are also applicable for small legal entities.
- Amendments to A2 'Recognition and Measurement' regarding the clarification on reporting in cases of uncertainty about the continuity, as described in the section 'Main changes applicable from financial year 2024'.
- Amendments to B3.2 'Mergers and acquisitions' regarding the clarifications on mergers and acquisitions, as described in the paragraph 'Main changes applicable from financial year 2024'.
- The DASB has clarified the presentation and disclosure of non-current prepayments and accrued income and non-current accruals and deferred income:
  - If the prepayments and accrued income are predominantly non-current, they are presented as non-current assets. If the prepayments and accrued income are presented separately under current assets in the balance sheet, disclosing the amount with a remaining term of longer than one year in the notes can be considered (Standard B5.2.203).
  - The DASB recommends that the current portion of the non-current accruals and deferred income is classified as current liabilities (Standard B9.402). If the accruals and deferred income are presented separately under current liabilities in the balance sheet, disclosing up to what amount the remaining portion exceeds one year can be considered (Standard B9.403).

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- The DASB has added a provision to the Guidance for application of tax policies. If in the tax return goodwill, originated from the acquisition of shares, is recognised in equity this goodwill shall be treated in the same manner in the financial statements on the basis of the tax policies (RJk D3.1.202 and RJk D3.2.202). This means that if goodwill is credited or charged to equity in the tax return, this goodwill shall also be credited or charged to equity in the financial statements.
- The DASB has added a provision that the accounting for tax corrections in the financial statements follows the tax accounting. This means that if a correction in the tax return results in an adjustment to the taxable profit for the relevant (prior) financial year, the tax correction shall be accounted for retrospectively in the comparative figures of the current year's financial statements, regardless of the magnitude of the correction. The adjustment of the comparative figures does not constitute a change to the financial statements of the prior financial year. If in the tax return a tax correction leads to an adjustment to the taxable profit for the current financial year, the tax correction shall be accounted for prospectively in the current year's financial statements, regardless of the magnitude of the correction (RJk D3.1.402 and D3.2.402).

In conclusion

Sources

The information in this factsheet has largely been derived from the introduction (Ten Geleide) of the editions 2022 and 2023 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.

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