

Changes to Dutch Accounting Standards for large and medium-sized legal entities Changes to regulations for financial years as from 2013

In the annual edition 2012 of the Dutch Accounting Standards (DASs) for large and medium-sized legal entities, several standards have become final. These final standards are effective for financial years that start on or after 1 January 2013. Earlier application is recommended. New draft standards have been included as well. Draft standards do not yet formally apply. Anticipating the final standards, the Dutch Accounting Standards Board (DASB) does expect draft standards to already provide the accounting practice with a certain extent of support and guidance (DAS 100.206).

This publication outlines the changes in the DASs for large and medium-sized entities. Please note that industry specific changes (e.g., banks, pension funds, educational institutions, health care institutions, etc.) are not addressed.

Final standards

Consolidated financial statements under IFRS, separate financial statements under Part 9 Book 2 of the Netherlands Civil Code (application of “combination 3”)

In “combination 3” the consolidated financial statements are prepared under IFRS and the separate financial statements under Part 9 Book 2 of the Netherlands Civil Code (NCC), using the accounting principles applied by the legal entity in its consolidated financial statements. The basic principle is to keep the equity according to the separate financial statements equal to the equity according to the consolidated financial statements. DAS 100.107 clarifies that it is permitted to present associated companies that are consolidated in the consolidated financial statements at net asset value or in accordance with the equity method in the separate financial statements. The value at which these associated companies are measured in the separate financial statements is to be determined based on the principles applied in the consolidated financial statements. The presentation method does not affect this. Thus, in accordance with the consolidated principles a goodwill impairment is not reversed on presentation in accordance with the equity method. The difference between both possibilities exclusively concerns the presentation of the goodwill. Presentation at net asset value requires the goodwill to be presented separately under intangible fixed assets, whereas the goodwill is recorded as an element of the item associated companies on presentation in accordance with the equity method.

This form of application of the equity method deviates from the equity method as applied under IFRS (IAS 28) for the measurement of participating interests where significant influence is exercised on their commercial and financial policy (such as associates). We emphasise that “combination 3” results in recognition, measurement and presentation in the separate financial statements of associates in

accordance with the equity method (IAS 28). This is in line with the measurement of those associates in the consolidated financial statements.

In addition, DAS 214 “Financial fixed assets” includes some provisions on accounting in the separate financial statements – applying “combination 3” – for a business combination achieved in stages (DAS 214.312), the loss of control with retention of a remaining interest (DAS 214.312a), and transactions with minority shareholders with retention of control (DAS 214.312b). Such transactions are recognised in the separate financial statements as they were under IFRS in the consolidated financial statements. This prevents differences between the consolidated and the separate equity and result.

DAS 240.227c further indicates in what instances legal entities must form revaluation reserves relating to these transactions. This must be done for business combinations achieved in stages when an entity remeasures its previously held equity interest. Or in situations of loss of control with retention of the remaining interest where this remaining interest is remeasured. However, no revaluation reserve need be formed if frequent quotations exist for the remeasured interest (in accordance with article 390(1) Book 2 of the Netherlands Civil Code).

Impairments of fixed assets: allocation of goodwill on disposal of activities and reorganisations

The goodwill acquired in an acquisition is allocated to cash flow generating units or groups of such units. In situations where only an activity within such a unit is disposed of, DAS 121.515 stipulates that goodwill must be allocated to the disposed activity. This is relevant for determining the profit or loss on disposal.

Example: Allocation of goodwill on sale of an activity

A group of companies manufactures several types of paper-based packing materials, such as rolls, cardboard and cardboard boxes. Each product type represents a segment. In 2011, the group took over a paper factory and paid goodwill on this takeover. The paper factory produces paper - the most important raw material for the three different packing materials the group manufactures - by means of recycling. The paper factory sells both to the group and to external parties. The takeover resulted in synergies for the existing activities of the group. For this reason, the goodwill was not only attributed to the paper factory acquired, but also to the cash flow generating units of the acquiring group. After all, those cash flow generating units also benefit from the synergies of the takeover, irrespective of whether assets of the acquiree are included in those cash flow generating units.

In 2012, the production line that processes the paper into pulp (a part of the paper factory) was sold. Part of the goodwill that was attributed to the paper factory in 2011 is now attributed to the sale of the pulp production. The amount of the goodwill relating to the sold pulp production is determined based on the proportion of the value of the pulp production line to the value of the remaining, unsold parts of the paper factory.

In addition, DAS 121.516 stipulates that the goodwill must be reallocated to the respective - changed - units if a legal entity changes the composition of its cash flow generating units following a reorganisation.

Impairments of fixed assets: allocation of general business assets

It has been added to DAS 121.519 that insofar as general business assets cannot be allocated on a reasonable and consistent basis to the cash flow generating unit, the impairment test is to be performed for that unit without these general business assets. A test is also to be performed for the smallest group of cash flow generating units to which these general business assets can be allocated on a reasonable and consistent basis.

Example: Test on impairment of general business assets

A company has three cash flow generating units: A, B and C. An important change in the market occurred with a disadvantageous impact on cash flow generating unit A. The company will thus assess whether cash flow generating unit A was subject to impairment. The carrying values of A, B and C are 100, 150 and 200, respectively, so 450 in total. The activities of the company are carried out from a head office. The carrying value of the head office is 200, to be divided into the office building (150) and the research centre (50). The relative carrying values of the cash flow generating units are reliable indicators of the use of the office building for these cash flow generating units. The book value of the research centre cannot be allocated on a reasonably and consistently basis to the cash flow generating units.

The carrying value of the office building is allocated to the carrying value of the cash flow generating units. After that allocation, the carrying values of A, B and C amount to 120, 210 and 270, respectively, so 600 in total. The non-allocated carrying value of the research centre is 50.

The test for impairment of cash flow generating unit A is performed by:

1. Comparing the realisable value of cash flow generating unit A with its carrying value of 120 (without the research centre); and

2. Comparing the sum of the realisable values of cash flow generating units A, B and C with their total carrying value of 650 (including the research centre).

Foreign pension plans that are not comparable to the Dutch pension system

Foreign pension plans that are comparable to the Dutch pension system in terms of set-up and functioning are recognised and disclosed in accordance with the Dutch financial reporting rules. Previous provisions for foreign pension plans that are not comparable only stipulated that such plans should be measured at the best estimate based on an actuarial valuation method generally accepted in the Netherlands. It was not clear how actuarial results on such plans had to or could be recognised. In practice the interpretations differed. DAS 271.321 now clarifies that the standards on pensions under US GAAP, IFRS or IFRS-EU may be applied for such non-comparable foreign pension schemes. If this option is used, the pensions must be recognised, measured, presented and disclosed consistently under the standards chosen. Depending on the system applied, the actuarial results will not be recognised in the income statement but rather in other comprehensive income. In addition, the corridor approach can be applied provided the selected standards still permit this. If this option is not applied, actuarial results must be recorded directly in the income statement.

Notes on financial instruments measured at fair value

In respect of financial instruments measured at fair value, the legal entity discloses in the notes how this fair value has been determined. This provision already existed (DAS 290.916), but has not been recorded in an explicit statement ('stellige uitspraak'), which gave the impression that such disclosure was not mandatory. For this reason this provision has now been expressed in an explicit statement. It should be disclosed whether the fair value is based on quoted market prices, independent appraisals, discounted cash flow analyses or whether another appropriate method has been used. The notes should also disclose which important assumptions have been used to determine the fair value.

Draft standards

Presentation of gross versus net revenue (including taxes)

Net revenue only consists of amounts received for the company's own account; it does not comprise amounts received for third parties. For commission businesses, for instance, the commission income rather than the transaction value of concluded contracts will be reported as revenue. In situations where agents render services on a commission basis, too, only the provision received will be recognised as revenue. Nothing new so far.

What is new is that some draft paragraphs include concrete indicators for determining whether amounts are received for an entity's own account or for that of third parties. These indicators have been derived from IFRS and relate to the economic benefits and risks of a legal entity, e.g., inventory risk and credit risk. Another important indicator is who has primary responsibility for the supply of the goods or services.

These draft paragraphs also clarify that the same goes for taxation. This has, in fact, also been laid down by law: Article 377(6), Book 2 NCC stipulates that sales taxes, such as VAT, do not belong to the net revenue. Yet this can be different for other taxes.

Example: Excise tax presentation in the income statement

Company A imports wines from all reputed wine regions around the world and sells them in the Netherlands. The company is liable for Dutch excise duties in respect of the imported wines. The importer holds an excise warehouse. The excise duties are chargeable as the wines are removed from the excise warehouse. Dutch excise duty is a tax that is chargeable on imported or produced quantities of a product, in respect of which the importer or manufacturer runs significant risks:

- excise duties are also chargeable on excise goods that are missing from the excise warehouse and on goods that have gone lost without this being demonstrable;
- the importer or manufacturer is completely free to charge on the excise duties in their selling prices. Goods may very well be sold below their excise value. Nor does an increase or reduction of the excise duties have to lead to a change of the selling price. Obviously, this immediately affects the results realised by the importer or manufacturer; and
- there is no excise refund scheme if the eventual buyer does not pay the invoice.

So the excise duties included in the price charged by the importer or manufacturer to the consumer will belong to the net revenue of that importer or manufacturer. This may be different for foreign excise duties, depending on the applicable excise regulations.

Disclosure of audit fees

Article 382(2), Book 2 NCC obliges large legal entities to disclose the audit fees paid by them during the financial year. With a Draft Directive, the DASB aims to remove a lack of clarity regarding the application of this article. The basic assumption is that the disclosure should serve to assess the independence of the external auditor who audited the financial statements.

The law requires audit fees to be disclosed on a consolidated basis. Apart from the fee for work performed by the external auditor and the audit firm he/she belongs to, the DASB recommends to also disclose the fees paid to the national or international network the external auditor is part of. If applicable, the DASB also advises to disclose that a material part of the subsidiaries included in the consolidation is audited by another external auditor, mentioning the fees paid to this auditor. Finally, the DASB recommends including this information in the notes to the consolidated financial statements.

The Draft Standard also provides for legislative changes that have been introduced on 1 October 2012 with the Act implementing Simplification and Flexibilisation of Private Limited Liability Company Law (*"Invoeringswet vereenvoudiging en flexibilisering BV-recht"*). These imply that :

- the audit fees must also be disclosed by legal entities that prepare financial statements under IFRS-EU; and
- the exemption from disclosure of audit fees by group companies only applies if the audit fees are disclosed in the consolidated financial statements of a "European" parent company.

Other changes

Flexibilisation of private limited liability company law

As of 1 October 2012, major changes have been introduced for Dutch private limited liability companies (BV) due to the coming into force of the Act on the Simplification and Flexibilisation of Private Limited Liability Company Law (*"Wet vereenvoudiging en flexibilisering BV-recht"*) and the accompanying Implementation Act (*"Invoeringswet vereenvoudiging en flexibilisering BV-recht"*). The new legislation also has consequences for financial statements relating to financial years covering 1 October 2012. So for the majority of the companies this will be the financial year 2012. The related changes to the DASs have been published in DASB-Statement 2012-4 in July 2012. These changes are also included in the 2012 annual edition of the DASs. The most remarkable change is the potential effect on the formation of the statutory reserve for participations. From 1 October 2012 onwards, in some instances this reserve is to be formed by majority shareholders, too. The consequences for the financial statements also relate to:

- cancellation of a number of statutory reserves;
- classification and measurement of shareholdings;
- converting share capital denominated in foreign currencies; and
- a number of repairs to Part 9, Book 2 of the Netherlands Civil Code.

Contact information

If you have any questions, comments or suggestions, please contact Corné Kimenai: e-mail ckimenai@deloitte.nl.