

Update
Changes to Dutch Accounting Standards for small
legal entities
Changes to annual edition 2014



Changes to Dutch Accounting Standards for small legal entities

Changes to annual edition 2014

The annual edition 2014 of the Dutch Accounting Standards (DASs) for small legal entities includes several new standards. The annual edition 2014 is effective for financial years starting on or after 1 January 2015. However, some of the new standards already apply as from 1 January 2014. Earlier application of all new standards is recommended. New draft standards have been included as well. Draft standards do not yet formally apply. However, anticipating the final standards, draft standards do provide the accounting practice with a certain extent of support and guidance (DAS 100.206).

This publication outlines the major changes in the DASs for small legal entities.

New standards applicable to financial years starting on or after 1 January 2014

Pension provision major-shareholder and director (DGA)

For self-administered pension schemes for a major-shareholder and director, a provision is to be recognised for the accrued pension obligation as at the balance sheet date. This provision should be measured based on a generally accepted actuarial valuation method in the Netherlands. Former practice permitted measuring the provision under tax principles. However, this is no longer allowed for financial years starting on or after 1 January 2014.

For measurement under tax principles, a - high - 4% discount rate should be used and no age set-backs may be applied. Moreover, future indexations may not be taken into account in the measurement under tax principles, even if they are unconditional in nature. The Dutch Accounting Standards Board (DASB) argues that this practice results in understatement of pension provisions. The amount of this understatement has increased over the years, particularly due to the decrease in interest rates. For this reason, the DASB decided to no longer permit measurement under tax principles.

Note that small legal entities are, however, permitted to prepare their full financial statements under tax principles, including the self-administered pension provision for a major-shareholder and director (article 2:396, paragraph 6 Dutch Civil Code). This has not changed.

Financial instruments – hedge accounting

When a small legal entity applies hedge accounting, it should comply with the provisions of DAS 290 'Financial Instruments' included in the DASs for large and medium-sized legal entities. For this reason, changes in DAS 290 are also relevant for small legal entities that apply hedge accounting. The annual edition 2014 includes additional provisions on how ineffectiveness should be determined and recognised in the event of cost price hedge accounting and provides additional disclosure requirements.

Financial instruments – separating embedded derivatives

The DASs for small legal entities do not include any provisions on embedded derivatives or whether or not to separate them, nor do they include a reference to the DASs for large and medium-sized legal entities. Part 9 Book 2 DCC does not include any provisions on this either. Formerly, it was generally assumed that small legal entities never had to separate any embedded derivatives, given that medium-sized legal entities, too, were exempt from doing so. However, this exemption for medium-sized legal entities was cancelled as from 1 January 2014. The question now is how small legal entities must or can deal with embedded derivatives.

Since the DASs for small legal entities do not deal with this subject matter, nor include any reference to the DASs for large and medium-sized legal entities, small legal entities themselves will have to select an accounting method that provides relevant and reliable information for decision-making by financial statement users (DAS A1.202). In our opinion, small legal entities can also apply the rules for separating embedded derivatives, however, whether or not they are required to do so depends on the question whether separation is necessary to provide relevant and reliable information. This will have to be assessed in each situation individually. When embedded derivatives are not separated, they will effectively mostly be measured at cost and not written down to any lower fair value. The result is that any losses sustained on such embedded derivatives will not become visible.

Example: Embedded derivative in a loan agreement

Company A has received a loan from a bank with a term of 10 years. The loan agreement provides that the bank has the right to renew the loan for 5 years after expiry of the 10-year term at a predetermined interest rate (so-called "extendible loan"). The bank will avail itself of this option if this is favourable for the bank (and, thus, unfavourable to A) at the moment of renewal. In fact, A has sold (written) an option on an interest rate swap, a so-called swaption. This option concerns an embedded derivative.

New standards applicable to financial years starting on or after 1 January 2015

Principles in the event of discontinuity

If discontinuity is unavoidable, the financial statements should be prepared on that basis as well. To date no additional guidance had been provided on how the accounting standards for financial statements based on unavoidable discontinuity have to be interpreted. To provide for this, DAS A2.216 now includes a reference to new standards in the DASs for large and medium-sized legal entities (DAS 170.2).

Briefly summarised, the liquidation basis of accounting implies that the shareholders' equity should equal the sum of the expected balance left after liquidation. The liquidation basis of accounting should, hence, provide insight into the extent to which the liabilities can be met and into the balance expected to be available after settlement of all liabilities.

This will be realised by (DAS 170.201):

- recognizing all assets in the balance sheet - irrespective of whether they were already included in the balance sheet - and measuring them at the expected - realizable value;
- recognizing all liabilities and measuring them at (the best estimate of) the amounts required to settle the respective liabilities; and
- recognizing prepayments and accruals for the expected - future - costs and revenues up to the expected liquidation date.

The transition to the liquidation basis of accounting will be recognised prospectively (i.e., in the profit and loss account). The comparative figures will not be restated (DAS 170.205). Furthermore, DAS 170 indicates which additional disclosures are required in case of unavoidable discontinuity.

The financial statements should only be prepared on a liquidation basis if the going concern assumption is cancelled and the legal entity is expected not to be able to meet its liabilities (DAS A2.213). In situations where the legal entity is expected to be able to meet its liabilities, the financial statements should be prepared based on the usual principles (DAS A2.213a). This concerns legal entities that have been incorporated for a definite period of time, or if a decision has been made after incorporation to liquidate the legal entity or to cease all its business operations (DAS 170.104). However, in these situations all of the activities of the legal entity are discontinued. For this reason, those situations should be disclosed in the financial statements.

Business combinations of entities under common control

Business combinations of entities under common control can only be recognised according to the purchase accounting method if this is in line with the economic substance of the transaction (DAS B3.202). The DASB does not provide guidance as to when this is the case. In our opinion it should be assessed to what extent the economic substance changes as a result of a business combination under common control. If the economic situation does not change or only to a very limited extent, in our view it is more difficult to justify recognition of transactions according to the purchase accounting method.

If recognition does not take place according to the purchase accounting method, a choice should be made between the pooling of interests method and the carryover accounting method. Under both methods the book values of the assets and liabilities of the respective entities are combined. As a result, no goodwill arises. Under the pooling of interest method, the combination is recognised as if it already existed at the beginning of the financial year recognised for comparison. Under the carryover accounting method the combination is recognised on the acquisition date and the comparative figures are not restated.

The accounting treatment chosen must be disclosed in all cases (DAS B3.203).

Draft standards

Termination benefits

Draft standards clarify that termination benefits should be distinguished from benefits in exchange for service. Termination benefits should be expensed as a lump sum at the moment the legal entity has demonstrably and unconditionally committed to pay a termination benefit. If the dismissal is part of a restructuring, the legal entity should include the costs of a termination benefit in a restructuring provision.

Contact information

If you have any questions, comments or suggestions, please contact Corné Kimenai (ckimenai@deloitte.nl) and Inge van Sloun (ivansloun@deloitte.nl).



Corné Kimenai RA

ckimenai@deloitte.nl
+31 088 288 0162



drs. Inge van Sloun RA

ivansloun@deloitte.nl
+31 088 288 2699

Deloitte refers to one or more of Deloitte Touche Tohmatsu Limited, a UK private company limited by guarantee (“DTTL”), its network of member firms, and their related entities. DTTL and each of its member firms are legally separate and independent entities. DTTL (also referred to as “Deloitte Global”) does not provide services to clients. Please see www.deloitte.nl/about for a more detailed description of DTTL and its member firms.

Deloitte provides audit, tax, consulting, and financial advisory services to public and private clients spanning multiple industries. With a globally connected network of member firms in more than 150 countries and territories, Deloitte brings world-class capabilities and high-quality service to clients, delivering the insights they need to address their most complex business challenges. Deloitte’s more than 200,000 professionals are committed to becoming the standard of excellence.

This communication contains general information only, and none of Deloitte Touche Tohmatsu Limited, its member firms, or their related entities (collectively, the “Deloitte network”) is, by means of this communication, rendering professional advice or services. No entity in the Deloitte network shall be responsible for any loss whatsoever sustained by any person who relies on this communication.