January 2024

Rechtstreeks

A message on reporting in the Netherlands from PwC

What happened?
The annual 2024 edition of the Dutch Generally Accepted Accounting Principles (Dutch GAAP) for medium-sized and large companies includes several changes to existing accounting standards, which are applicable to fiscal years beginning on or after 1 January 2024. Early adoption of the new accounting standards is recommended, unless stated otherwise.

These changes apply to all companies for which Dutch GAAP is the applicable accounting framework. Additional industry specific changes to standards (listed in the "600 chapters") are not included.

Which additional changes to Dutch GAAP are effective for financial years starting on or after 1 January 2023?

After the publication of the *Rechtstreeks* last year, two additional changes have been made to the Dutch accounting standards for financial years beginning on or after 1 January 2023, which were not included in the Dutch GAAP edition of 2022.

Firstly, changes have been made to DAS 400 'Directors' Report' and DAS 404 'Remuneration Report and Remuneration Policy' as a result of changes in the Code Corporate Governance. These changes are relevant for listed companies that are legally required to adhere to the Code or do so voluntarily.

The other change relates to DAS 272 'Income taxes'. In anticipation of the 'Wet Minimumbelasting 2024 (Pillar 2)' which will be effective as of December 31, 2023, the DASB has introduced a temporary mandatory exemption for fiscal year 2023 regarding deferred taxes relating to the 'Pillar Two model rules'. Furthermore, companies must disclose that they apply the mandatory exemption and must set out the expected effects of the Pillar 2 legislation. The provisions of the 'Pillar Two model rules' affect (subsidiaries of) companies with (consolidated) group revenues of more than 750 million euros.

What are the main changes for fiscal years starting on or after 1 January 2024?

The Dutch Accounting Standards Board (DASB) has decided to publish draft standards exclusively through 'RJ-Uitingen'. Draft standards will no longer be included in the annual edition of Dutch GAAP for the first time. The purpose of the DASB is to provide clarity on the status of the (draft) standards. Additionally, the DASB has decided to name each edition of the Dutch accounting standards after the year it applies to. Previously, each edition was named after the year of publication. This decision means that there will be no edition 2023. The main changes in accounting standards for 2024 are described below.

Going concern
In the revised DAS 170 'Discontinuity and material uncertainty relating to the entity's ability to continue as a going concern', the DASB has included a summary schedule of the reporting requirements per going concern scenario. DAS 170 distinguishes between four scenarios. The schedule on the next page sets out the reporting requirements per scenario.

Moreover, more information has been included in DAS 170 about the situation where a company may require financial support from third parties in order to continue operations. If the cooperation of these third parties is not yet entirely certain, but sufficiently probable to eliminate material uncertainty about going concern, then scenario 3 does not apply, but scenario 2 does.

	Scenario 1 – no uncertainty relating to going concern	Scenario 2 – concerns relating to going concern, but no material uncertainty	Scenario 3 – material uncertainty relating to going concern	Scenario 4 – inevitable discontinuity
Situation	There are no events or conditions that raise reasonable doubt about the entity's ability to meet its contractual obligations.	There are events or conditions that raise reasonable doubt about the entity's ability to meet its contractual obligations. However, there is no material uncertainty or there are sufficient mitigating factors.	There are events or conditions that raise reasonable doubt about the entity's ability to meet its contractual obligations. Moreover, there is a material uncertainty as to whether the mitigating factors are sufficient. However, there is a real possibility that the entity could meet its obligations (DAS 170.103 and 302-304).	There is no real possibility that the entity can meet its contractual obligations (DAS 170.103).
Accounting policy	Financial statements based on the going concern assumption			Financial statements on liquidation basis
	(DAS 170.101 and 105)		(DAS 170.101, 105 and 301)	(DAS 170.102, 105, 201-205 and 207)
Disclosures	No specific disclosures are required.	Disclose significant judgments and estimates (nature and assumptions) and uncertainties (nature and extent) if required to provide a true and fair view (DAS 110.129 and 135.203).	Explain that there is a material uncertainty about the entity's ability to continue as a going concern and provide an adequate explanation of the circumstances in which the entity currently operates (DAS 170.305). Disclose significant judgments and estimates (nature and assumptions) and uncertainties (nature and extent) if required to provide a true and fair view (DAS 110.129 and 135.203).	Disclose that the entity does not continue its operations and quantify the effect on the financial position and results of the entity (DAS 170.206). Usual disclosure requirements of Title 9 Book 2 of the Dutch Civil Code (DAS 170.207). Specific disclosure requirements relating to inevitable discontinuity (DAS 170.208).
	If the discontinuity scenario as referred to in DAS 170.104 applies, disclose this and set out the possible impact on the financial position and results. Also explain the nature of the (remaining) business activities and, if applicable, mention that the legal entity was established for a fixed period of time (DAS 170.104).			

Mergers and acquisitions
In RJ-Uiting 2023-9, the DASB has included several clarifications regarding the accounting treatment of mergers and acquisitions.

To clarify and ensure alignment with IFRS 3, DAS 216 'Mergers and Acquisitions' contains guidance on transactions that are not part of an acquisition (settlement of pre-existing relationships). In the case of an acquisition, it is possible that the acquiror and the acquiree already had an existing relationship or other agreement before the acquisition date, or they may enter into an agreement unrelated to the acquisition (such as an agreement to compensate employees or former owners of the acquired party for future services). DAS 216 includes a new paragraph 216.201a, stating that the acquiring party should assess, based on the economic reality, whether such transactions should be accounted for as separate transactions.

In addition to this amendment, the following adjustments have been made to DAS 216:
- Clarification on how any third-party interest in a step acquisition is determined (DAS 216.204);
- Clarification on the situation in which the acquiree in a business combination repurchases several of its own shares from existing investors, causing the acquirer to obtain control (reverse dilution). In this case, the same provisions apply as for a step acquisition (DAS 216.205);
- Clarification on the accounting treatment of negative goodwill that does not relate to expected future losses. The disclosure requirements regarding this matter have also become more extensive (DAS 216.235 and 216.406);
- Various minor textual adjustments have been made as well.

Presentation of long-term prepaid expenses and accrued liabilities

By means of RJ-Uiting 2023-9, the DASB has clarified the presentation and disclosure requirements of long-term prepaid expenses and accrued liabilities. Regarding prepaid expenses, the following applies:

1. The provisions of DAS 190.206 must be followed to determine whether a prepaid expense should be presented as non-current or current.
2. If this assessment indicates that a prepaid expense should be presented as current, the company must disclose in the notes the portion of this prepaid expense that has a remaining maturity of more than one year.

For accrued liabilities, the following applies:

1. DAS 254.308 recommends classifying the short-term portion of long-term accrued liabilities (i.e., the portion with a maturity of less than one year) as current. If this short-term portion is presented as a non-current liability, the notes to the non-current liabilities must indicate the portion with a maturity of less than one year.
2. If the accrued liabilities are presented as current liabilities in their entirety, the notes must indicate the portion with a remaining maturity of more than one year.

The effective interest method for measuring a financial instrument at amortised cost in case of a change in the agreement

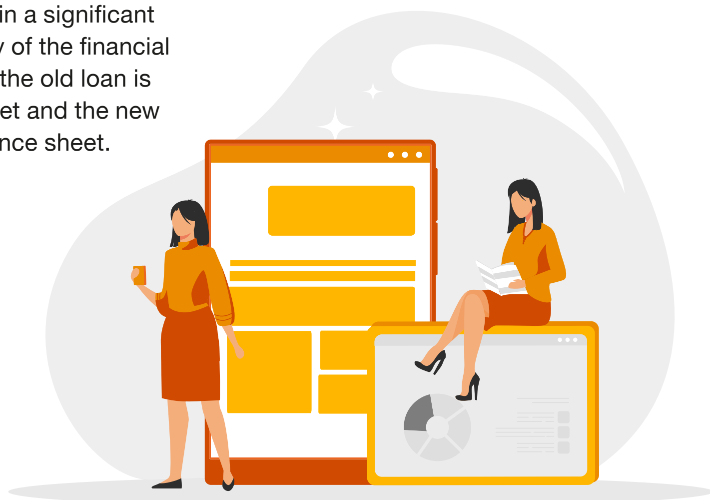
The DASB has included new provisions regarding changes in agreements that do not result in a significant change in the economic reality of the agreement. The contractual terms of a financial instrument may change during its term, such as the interest rate on a loan being adjusted. It must be assessed whether these changes result in a significant change in the economic reality of the financial instrument. If that is the case, the old loan is divested from the balance sheet and the new loan is recognised on the balance sheet.

If there has been no significant change in the economic reality, the financial instrument remains on the balance sheet and the value of the financial instrument must be remeasured. The DASB has clarified that if the financial instrument was initially valued at amortised cost, one of the following two options must be applied:

a. The effect of the changed contractual cash flows is recognised directly in the P&L: the amortised cost is recalculated using the new cash flows discounted at the original effective interest rate. The difference between the initial amortised cost on the date of the change and the recalculated amortised cost is immediately recorded in the P&L.
b. The effect of the changed contractual cash flows is recognised in the P&L over the remaining expected term of the financial instrument by adjusting the effective interest rate: at the time of the changed terms, a new effective interest rate is determined, and the interest expense from the date of the change is adjusted. This distributes the effect on the income statement over the remaining term.

The DASB highlights that the choice between method a. or b. is not a free choice: the entity must consider all facts and circumstances when choosing one of the above methods.

On the next page, we have included an example taken from Appendix 1 of DAS 290:



Example

Business B.V. (borrower) has issued a five-year bond on January 1, 2022, with a nominal value of €100,000 and an annual coupon interest rate of 8%, priced at €92,418. The lender is Investor B.V. The effective interest rate can be calculated as follows:

-92,418 + 8,000/(1 / + r)^1 + 8,000/(1 / + r)^2 + 8,000/(1 / + r)^3 + 8,000/(1 / + r)^4 + (8,000 + 100,000)/(1 / + r)^5 = 0

This results in an effective interest rate of 10%. This leads to the following movement over the term of the bond:

	Coupon rate (8%)	Repayment	Interest costs (10%)	Value of the bond
01-01-2022				92,418
31-12-2022	(8,000)		9,242	93,660
31-12-2023	(8,000)		9,366	95,026
31-12-2024	(8,000)		9,503	**96,529**
31-12-2025	(8,000)		9,653	98,182
31-12-2026	(8,000)	(100,000)	9,818	0

Business B.V. will therefore record a liability of 92,418 as of January 1, 2022 (journal entry: DR bank; CR debt).
On December 31, 2024, the contractual terms of the bond have been revised. For the remaining two years, the coupon interest rate will be 5%. This change can have multiple causes, such as financial problems of the borrower (Business B.V.) and/or aligning the annual coupon rate with the prevailing interest rate. Business B.V. concludes that there has been no significant change in the economic reality of the bond. Based on the specific facts and circumstances, the company chooses one of two options:

Under option a, the amortised cost is recalculated based on the new coupon interest rate, but with the initial effective interest rate of 10%. This results in a recalculated amortised cost as of 31-12-2024 of: (5,000 / 1.1) + ((5,000 + 100,000) / 1.1^2) = 91,332. The difference between the initial amortised cost (96,529, refer to the schedule above) and the revalued amortised cost (91,332) of 5,207 is recognised as a gain in the P&L of 2024. Business B.V. makes the following journal entry:

Bonds	5,207		
@Interest income (P&L)		(5.207)	

In 2025 and 2026, the respective journal entries are as follows:

2025:	Interest expense (P&L)	9,132		(10% of 91,332)
	@Bank		(5,000)	
	@Bonds		(4,132)	
2026:	Interest expense (P&L)	9,545		(10% of 91,332 + 4,132)
	@Bank		(5,000)	
	@Bonds		(4,545)	
+				
	Bonds	100,000		
	@Bank		(100,000)	

Under option b., a new effective interest rate is calculated based on the modified contractual cash flows. From the moment the contractual cash flows are modified, the new interest rate is used for calculating the interest expense. The changes compared to the initial calculation of the effective interest rate are highlighted in the formula below:

-92,418 + 8,000/(1 / + r)^1 + 8,000/(1 / + r)^2 + 8,000/(1 / + r)^3 + 5,000/(1 / + r)^4 + (5,000 + 100,000)/(1 / + r)^5 = 0

The new effective interest rate is 6.92%. This leads to the following changes, which are highlighted:

	Coupon rate (8%)	Repayment	Interest costs (10%/6.92%)	Value of the bond
01-01-2022				92,418
31-12-2022	(8,000)		9,242	93,660
31-12-2023	(8,000)		9,366	95,026
31-12-2024	(8,000)		9,503	96,529
31-12-2025	(5,000)		6,678	98,207
31-12-2026	(5,000)	(100,000)	6,793	0

The gain for Business B.V. as a result of the changed coupon interest rate will be reflected in the P&L over the remaining term of the loan. In 2025 and 2026 respectively, the following journal entries will be made:

2025:	Interest expense (P&L)	6,678	
	@Bank		(5,000)
	@Bonds		(1,678)
2026:	Interest expense (P&L)	6,793	
	@Bank		(5,000)
	@Bonds		(1,793)
+			
	Bonds	100,000	
	@Bank		(100,000)

Results on intercompany transactions
DAS 260 'The treatment of results on intercompany transactions in the financial statements' has been restructured to make it clearer and more readable. This chapter explains whether results on intercompany transactions can be considered as realised and profits can be recognised, or whether these should be eliminated from the consolidated and/or stand-alone result of the legal entity. DAS 260 now has the following structure (see below).

Below, we will discuss intercompany transactions in the stand-alone financial statements of the parent. The accounting treatment of intercompany transactions in the consolidated financial statements of the parent and the stand-alone financial statements of the subsidiary is explained in paragraphs 401, 402, 501, and 502 of DAS 260.

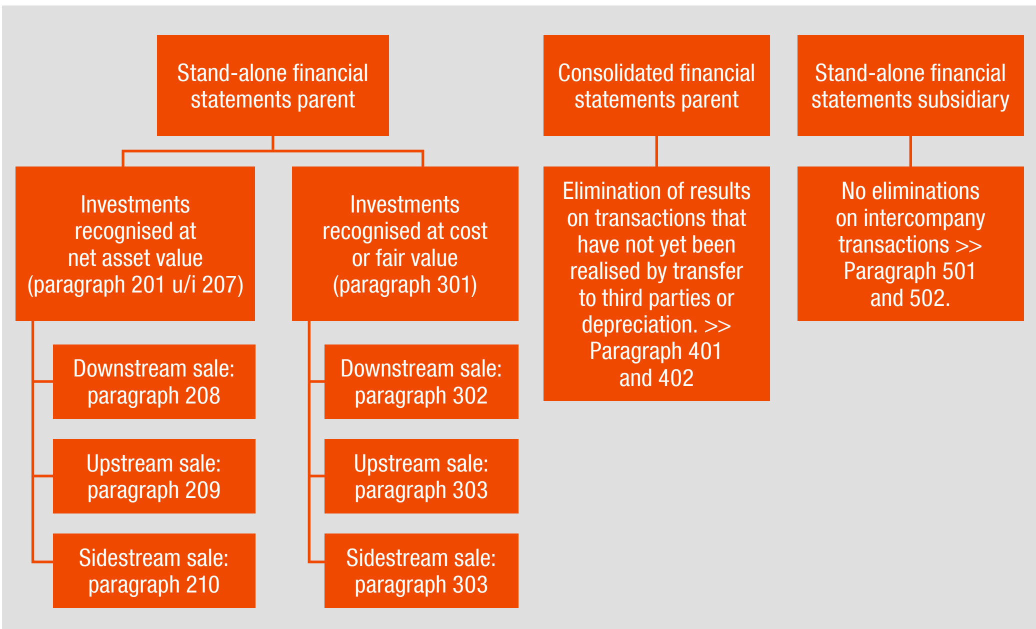
In the stand-alone financial statements of the parent entity that has recognised its subsidiaries using the net asset value method, only a proportional share of the intercompany transaction can be recognised as profit or loss based on the relative interest in the assets or liabilities transferred to third parties. This is called proportional profit determination. Realisation of the unrealised portion of the intercompany transaction only takes place through transfer to a third party of the asset or liability, or through depreciation. Distinction is made between downstream sales, upstream sales, and sidestream sales. An example is included below.

If the parent values its investments in the stand-alone financial statements at cost or fair value, no proportional profit determination takes place in intercompany transactions. The intercompany result is therefore directly and fully reflected in the financial statements to the extent that the transactions take place within the normal course of business at fair (market) prices. In a downstream sale, the entire result is directly recognised in the P&L. In an upstream sale or sidestream sale, no result is recognised in the P&L of the parent.

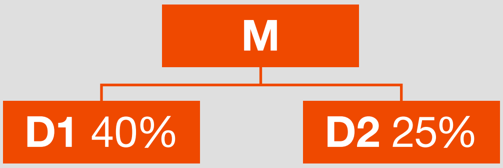
Exceptions exist if the transactions are solely aimed at justifying profit and thereby increasing distributable equity, while there is no actual change in economic circumstances. In these cases, there may be reason to consider the profit on the transaction as unrealised.

In addition to this restructuring of DAS 260, clarification has been provided on three subjects:

1. It has been clarified how losses on intercompany transactions should be eliminated and how this can be an indication of an impairment loss;
2. It is prescribed in which category the elimination amounts in the balance sheet and P&L should be presented in upstream sales, downstream sales, and sidestream sales;
3. It has been clarified how the elimination amounts should be processed if the net asset value of an investment is negative.



Example



M has a 40% interest in D1 and a 25% interest in D2. M values its investments using the net asset value method. Below, we will look at the examples from the perspective of M's stand-alone financial statements.

1. **Downstream sale:** M has delivered goods to D1 for €1,000,000 (sales amount) in the past year, with a profit margin of 20% of the selling price, resulting in a total profit of €200,000. D1 has resold half of these goods to third parties by the end of the year.

M has recorded a profit of €200,000 in its stand-alone financial statements for the transaction above. Half of the goods have not been resold to third parties outside the group. This is an unrealised profit. Additionally, M only has a 40% stake in D1. Therefore, M will need to eliminate: 50% (unsold portion) x 40% (M's stake in D1) x €200,000 (profit) = €40,000. Therefore, M makes the following journal entry for the elimination:

Revenue	40,000	
@Investment in subsidiary		(40,000)

If the remaining half of the goods is sold to a third party in the following year, this journal entry will be reversed in M's financial statements.

2. **Upstream sale:** D1 has delivered goods to M with a sales amount of €1,000,000 in the past year, with a profit margin of 20%. The goods have not yet been resold to third parties.

D1 has realized a profit of €200,000 on this transaction in its financial statements. The total profit for the year of D1 is €300,000. However, we are looking at the situation from M's stand-alone financial statements. Initially, M has recorded a result from participations in D1 of 40% of €300,000 = €120,000. A portion of D1's profit (and therefore a portion of the result from participations) relates to an unrealised profit resulting from an intercompany transaction. Therefore, M needs to eliminate: 40% x €200,000 = €80,000. M records a result from participations of: €120,000 - €80,000 = €40,000. Therefore, M makes the following journal entry for the elimination:

Result from participations	80,000	
@Investment in subsidiary		(80,000)

Alternatively, the elimination can be deducted from the carrying amount of the acquired goods on the balance sheet or as an accrual. If the goods are sold to a third party in the following year, this journal entry will be reversed in M's financial statements.

3. **Sidestream sale**: D1 sells an office building to D2 and makes a book profit of €100,000. Remember that M has a 40% stake in D1 and a 25% stake in D2.

M's share in the profit of D1 is 40%: €40,000. This would mean that M reports a result from participations of €40,000. However, since M's stake in the transferred property through D2 is still 25%, the income to be recognised in M's financial statements for this transaction is limited to 40% - 25% = 15%, which is €15,000.

If D2 had sold a comparable property to D1 with a book profit of €100,000, M would not recognise a result from participations in D2 in its financial statements because M's relative stake increases from 25% to 40%.

Other changes:

- In DAS 292 'Leasing', the option has been included to apply the provisions of IFRS 16 instead of DAS 292. This option was introduced in 2019 and the DASB has conducted an evaluation on it. The possibility to apply IFRS 16 instead of DAS 292 remains.
- In DAS 360 'The Cash Flow Statement', a provision has been added regarding the treatment of negative balances on bank accounts within the cash flow statement. Bank debts are generally considered financing activities. However, if negative current account positions with banks, which are immediately payable, are an integral part of an organization's cash management, they are included in the cash flow statement as part of the cash and cash equivalents.

For example: "A bank debt where an organization can only have a credit balance belongs to financing activities. A bank account where an organization can also have an overdraft position belongs to cash and cash equivalents."

Changes in other laws and regulations in 2023/2024 impacting financial reporting

Changes in size criteria expected for determining the size of companies for financial reporting as micro, small, medium-sized or large

The threshold amounts for financial reporting will be increased. In October 2023, the European Commission decided to increase the threshold amounts (or size criteria) for the reporting of micro, small, medium-sized, and large entities within the EU for the first time since 2013, also in response to the rising inflation levels in recent years. These adjustments still need to be incorporated into Dutch legislation in Title 9 Book 2 of the Dutch Civil Code and will apply to financial years commencing on or after January 1, 2024. The legislator may choose to expedite this date, but not before January 1, 2023. The threshold amounts are a maximum and may possibly be set lower in Dutch legislation, but not higher. In the past, the Dutch legislator has used the maximum threshold amounts. The application, effective date, and transitional provisions (for example, if the new size criteria become effective from January 1, 2023, can they also be applied to comparative figures?) for the application of the new size criteria in the Netherlands are currently unknown (as of mid-December 2023). The draft legislation is expected to be introduced in the spring of 2024. The threshold amounts to determine whether an organisation classifies as micro, small, medium-sized or large are determined by three criteria: net revenues, total assets, and average number of employees. The current and adjusted maximum thresholds (including 25% inflation and rounded up) are:

The threshold amounts determine, among other things, whether the company is subject to a mandatory audit and whether the CSRD will apply, as the latter applies to all large legal entities. Currently, companies are subject to a mandatory audit if they meet at least two of the three criteria on two consecutive balance sheet dates:

- The total assets have a value of at least €6,000,000
- The net revenues are at least €12,000,000
- There are at least 50 employees

Due to the increase in the first two criteria, fewer companies will be subject to a mandatory audit. Additionally, fewer large companies will need to meet the requirements for sustainability reporting (CSRD and related ESRS).

Amendments to DAS 271 'Employee Benefits' and DAS 610 'Pension Funds' following the new Pension Act

As a result of the new Pension Act, changes are expected in the reporting of pensions. At the moment, these changes are not yet known. The Dutch Accounting Standards Board (DASB) is expected to issue a RJ-Uiting on this matter in 2024 (refer to: https://www.rjnet.nl/uitingen/).

Changes in DAS 272 'Income taxes' due to the Pillar 2 model rules

As of December 31, 2023, the 'Wet Minimumbelasting 2024 (Pillar 2)' will come into effect. RJ-Uiting 2023-14 addresses the measurement and disclosure of these new taxes for entities that are part of a large group with a (consolidated) group turnover of at least 750 million euros. The 'Pillar 2' tax rules are intended to ensure that large enterprises (both multinationals and Dutch groups) pay a minimum tax rate of 15% on the income in the jurisdictions where they operate. In response to this, a temporary mandatory exemption for tax deferrals resulting from Pillar 2 has

Maximum thresholds for size criteria of Dutch entities
(subject to amendment of Title 9 Book 2 of the Dutch Civil Code in spring 2024)

	Balance sheet total (EUR)		Net revenues (EUR)		Number of employees
	Old	New	Old	New	(unchanged)
Micro	≤ 350,000	≤ 450,000	≤ 700,000	≤ 900,000	<10
Small	≤ 6,000,000	≤ 7,500,000	≤ 12,000,000	≤ 15,000,000	<50
Medium	≤ 20,000,000	≤ 25,000,000	≤ 40,000,000	≤ 50,000,000	<250
Large	>20,000,000	>25,000,000	>40,000,000	>50,000,000	>250

Source: European Commission (DG FISMA)

been included in DAS 272 ‘Income taxes’. The following disclosure requirements apply for the reporting years 2024:
- A disclosure that the mandatory exemption for the processing of deferred taxes has been applied;
- A disclosure of the Pillar 2 tax expense (or benefit) included in the tax expense (or benefit) (for the ultimate parent company) or a disclosure of the received Pillar 2 recharge included in the tax expense (or benefit) (for the other companies);
- A disclosure of the method of any recharging.

Developments in sustainability reporting
In 2024, the new European Corporate Sustainability Reporting Directive (CSRD) will come into effect. This brings a significant expansion of the number of companies that are required to report on the impact of their business activities on the environment and society. It is expected that over 50,000 European companies will fall within the scope of this directive. This reporting must be done in a separate report accompanying the financial statements and must be audited by an accountant. The aim is to accelerate the transition to a sustainable economy.

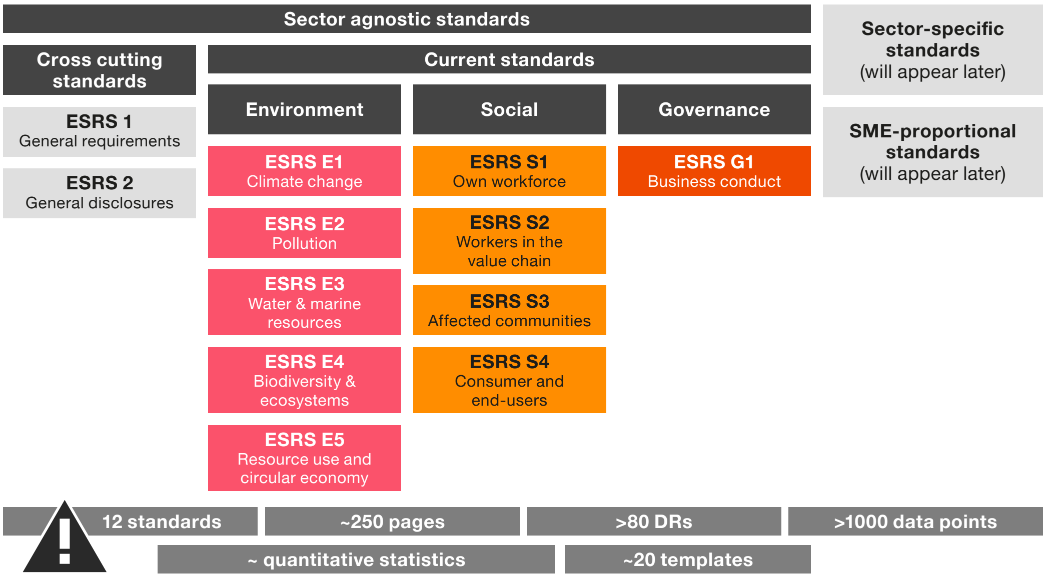
The image below summarises important aspects of this new CSRD regulation:

In addition to the CSRD, separate ESRS have been issued. The ESRS provide further elaboration on the CSRD (similar to the Guidelines for Annual Reporting in addition to Title 9 Book 2 DCC). Companies are required to report on activities that have a material impact, both financially from the perspective of the company and in terms of the impact of the company’s activities on the environment and society (double materiality). This not only involves reporting on specific data points, but also on the goals that the company has set to become more sustainable, the measures it intends to take, and the progress made in this regard; thus, both accountability information and forward-looking information. On the next page is an overview of the different ESRS with links to the respective standards:

Corporate Sustainability Reporting Directive (CSRD)

Who?	Significant expansion of the scope of sustainability reporting (NFRD): * **FY 2024** reporting **2025: PIE’s with > 500 employees (current NFRD)** * **FY 2025** reporting **2026: Large European entities** * **FY 2026** reporting **2027: Listed SMEs** * **FY 2028** reporting **2029: Entities from a third country**
What?	* **Expansion of the contents** of sustainability reports * The EU creates its own **reporting standards** (advised by EFRAG) * **Double materiality** concept as starting point for CSRD implementation
Where?	Sustainability report as mandatory component of the Management report. A separate chapter is required.
How?	**An electronic document** and **tagging** of sustainability reports is mandatory. Both information about the CSRD/ESRS and disclosures regarding Art. 8 Taxonomy Regulation must be tagged digitally.
Responsi-bility?	Responsibility of management and the government and a **new role for the audit committee**.
Assurance?	**Limited assurance** is mandatory as of the first reporting period; in a later phase, there will be a transition to **reasonable assurance.**

The European Sustainability Reporting Standards (ESRS)



For more information about the CSRD and the ESRS, including (free) webinars and e-learns, we refer you to our *PwC website*.

Changes in reporting for small entities
The table below is an overview of changes for small legal entities:

Changes in reporting for small entities	
Financial reporting in case of a material uncertainty relating to going concern	RJk A2
Recognising results on intercompany transactions in the financial statements	RJk B3.4
Dividends from investments in which no significant influence is exercised on the business and financial policies are reported as the first item of financial income as 'distributions from assets not measured at net asset value'	RJk B3.1
The changes for medium-sized and large entities regarding mergers and acquisitions also apply to small entities	RJk B3.2
Presentation of long-term prepaid expenses and long-term accrued liabilities	RJk B5.2 en B9.4
Changes to financial statements prepared using the tax basis of accounting	RJk D3.1 en D3.2
Changes in the recognising negative balances on bank accounts within the cash flow statement	RJk B7
Provisions of the 'Pillar Two model rules'	RJk B15

More information?

Do you want more information regarding the subjects described above?
Your contact at PwC is happy to help you.