Upcoming Changes to the 2024 financial statements

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The 2024 financial statements will soon be prepared, and most of the changes for 2024 and beyond are already known. Good preparation is half the battle, so we are informing you through this publication about the most important new provisions as they are currently known.

1 Increase in threshold amounts for financial statements

The threshold amounts (total balance sheet and net turnover) of the size criteria mentioned in Title 9 Book 2 of the Dutch Civil Code have been increased. The third size criterion, the average number of employees, has not changed. These changes are relevant for legal entities for which the threshold amounts in financial statements determine the size regime. Based on this, it is determined which legal requirements and exemptions apply. The increased threshold amounts are (old threshold amounts between brackets:

	Micro legal entity	Small legal entity	Medium-sized legal entity	Large legal entity
Balance sheet total	≤ € 450.000 (≤ € 350.000)	≤ € 7,5 mio (≤ € 6 mio)	≤ € 25 mio (≤ € 20 mio)	> € 25 mio (> € 20 mio)
Net turnover	≤ € 900.000 (≤ € 700.000)	≤ € 15 mio (≤ € 12 mio)	≤ € 50 mio (≤ € 40 mio)	> € 50 mio (> € 40 mio)
Number of employees	< 10 (< 10)	< 50 (< 50)	< 250 (< 250)	> 250 (> 250)

1.1 Application of increased threshold amounts

The increased threshold amounts apply to financial years starting on or after January 1, 2024. The increased threshold amounts can also be applied to financial years starting on or after January 1, 2023. Additionally, the increased threshold amounts can be used for comparative figures to determine the size regime for the relevant financial year.

Example

A legal entity prepared the financial statements for the financial year 2022 based on the medium-sized regime, but based on the increased threshold amounts for both the financial year 2022 (comparative figures) and the financial year 2023, the legal entity classifies as small. In this case, the legal entity prepares the financial statements for 2023 according to the size regime of a small legal entity. For clarity, it is noted that the size regime for financial statements for financial years starting before January 1, 2023, is determined based on the then-applicable threshold amounts.

The increased threshold amounts can also be applied to the comparative figures for determining the size regime, but the two-year requirement remains applicable for both the application in 2023 and subsequent financial years. This means that the legal entity must meet two of the three requirements on two consecutive balance sheet dates to qualify as a certain category. For example, a legal entity must be small based on the new criteria for both 2022 and 2023 to qualify as a small legal entity in 2023, otherwise, the two-year requirement is not met.

2 Reporting in case of uncertainty about continuity

Several clarifications have been included in DAS 170 regarding reporting in case of uncertainty about continuity. The adjustments to DAS 170 focus on::

- Harmonization of the conceptual framework.
- Clarification of the assessment of whether there is a material uncertainty.
- Clarification of the disclosure requirements in the situation where there is material uncertainty about continuity.
- Inclusion of an overview of the different continuity situations and corresponding reporting requirements in an appendix to the guideline.

The conceptual framework uses the term "material uncertainty" instead of the former term "serious uncertainty".

2.1 Assesment of whether there is material uncertainty

When a legal entity is expected to no longer be able to meet its obligations on its own, it is important to determine whether additional cooperation from stakeholders can be obtained. Examples of stakeholder cooperation include:

- A shareholder guaranteeing the debts of the legal entity,
- A bank granting a waiver and suspending its right to demand early repayment of a loan, or
- A bank providing additional financing.

The DAS has clarified that when sufficient stakeholder cooperation is confirmed before the financial statements are prepared, there is no material uncertainty about continuity. When additional stakeholder cooperation is needed but not yet confirmed at the time of preparing the financial statements, there is an increased degree of uncertainty about continuity. This does not necessarily mean that there is material uncertainty about continuity. The DAS has clarified that based on the entirety of facts and circumstances, including the likelihood of additional stakeholder cooperation, it is assessed whether there is material uncertainty about continuity. It should be considered that if stakeholder cooperation is not yet fully certain, whether this cooperation is sufficiently likely that no material uncertainty about continuity remains.

2.2 Clarifications regarding disclosure

The new DAS 170 includes disclosure requirements for several situations for clarification. These are summarized below:

Continuity situations	Disclosure requirements
No uncertainty about continuity	No specific disclosure about continuity
Concerns about continuity, but no material uncertainty	Important assessments and estimates must be disclosed if necessary for the required insight
Material uncertainty about continuity	Adequate explanation must be given of the circumstances in which the legal entity finds itself. To be understandable and relevant, this disclosure must explicitly state, in accordance with Article 2:384 paragraph 3 of the Dutch Civil Code, that as a result of the described circumstances, there is material uncertainty about continuity.
Inevitable discontinuity	Liquidation principles and extensive disclosure required

Additionally, attention has been drawn in the DAS-statement itself (2023-3) to the disclosure of continuity risks in the management report. The management report must, based on the law, contain a description of the main risks and uncertainties faced by the legal entity. Users of the management report are thus enabled, in accordance with the requirements of DAS 400, to form a good picture of possible events or developments with significant consequences for continuity.

3 Clarification of presentation and classification of financial instruments

Three clarifications have been included in the guidelines DAS 240 and DAS 290:

- A clarification of the presentation within equity in the single financial statements of financial instruments that are classified as equity based on the legal form, while economically classified as debt.
- The addition of an additional example and the modification of an existing example under which contractual circumstances equity or debt is classified, and the removal of an existing example in DAS 290.
- A clarification of the definition of profit-dependent instruments and under which conditions there is a choice between classification as equity or debt.

3.1 Classification based on legal form in Single Financial Statements

If the classification of the financial instrument is based on the legal form in the single financial statements, the amount of the instrument must be presented separately within equity if it would be classified as debt based on economic reality. This was already an existing disclosure requirement, but the way in which separate presentation within equity should take place has been clarified by the DAS. The company has the choice to present this per type of financial instrument separately or as a total amount of these financial instruments. Additionally, the company must include a specification of the total amount divided into the categories of equity in the disclosure.

In a newly included example in the DAS, BV A has issued 8,000 ordinary shares with a nominal value of €100, totaling €800,000, and 200 preferred shares with a nominal value of €1,000 for a total of €200,000 with a fixed dividend, which is a market-conform remuneration, and an obligation to repurchase 5 years after the issuance of the instrument for €200,000. Additionally, BV A has a reserve of €2,000,000 consisting of retained earnings. The company chooses to classify financial instruments based on their legal form in the single financial statements. This means that despite the future repurchase obligation, the preferred shares remain classified as equity.

According to economic reality, this future repurchase obligation is classified as debt. Thus, a difference arises in equity between the single and consolidated financial statements, as this instrument must be presented based on economic reality in the consolidated financial statements. This looks as follows:

Balance Sheet (for financial years from 2024)

	Company only	Consolidated	Difference
Issued capital	1.000.000	1.000.000	0
Other reserves	1.800.000	1.800.000	0
Reserve with economic characteristics of debt	200.000	0	0
Total equity	3.000.000	2.800.000	200.000
Long-term liability	0	200.000	200.000

3.2 Examples of equity-debt

The second change relates to DAS 290, where some examples have been further clarified under which contractual circumstances equity or debt is classified. The examples in DAS 290 are based on the assumption that classification takes place based on the economic reality of the instrument:

- If a debt is repaid in a variable number of shares, it is classified as debt based on economic reality (example G).
- When a company is obliged to repurchase its own shares (written put option), a liability must be recognized for the present value of the future payments at the issuance of this option, even if this is still dependent on future exercise by the counterparty (clarification of example K).

3.3 Profit-dependent payments

This last change in DAS 290 relates to a clarification of the definition of "profit-dependent payments". The guidelines offer the choice to classify an issued non-mandatory redeemable instrument with profit-dependent payments as equity or debt. Profit-dependent payments are: "Non-discretionary payments that only occur if sufficient profit is made in any year after the issuance of the instrument, where the payment cannot exceed the profit made." This means that if the payment in any year is greater than the profit made in that year, it does not qualify as a profit-dependent payment.

Additionally, the DAS has clarified that if the instrument has a redemption obligation in addition to profit-dependent payments, the choice between equity and debt does not exist.

4 Processing results on intercompany transactions

The new guideline regarding the processing of results on intercompany transactions in the financial statements clarifies several matters that were not or insufficiently clear in the old guideline. This concerns the following topics:

- Elimination of losses
- Presentation of elimination amounts
- Eliminations in case of a negative net asset value
- Processing in the financial statements of the participation

4.1 Elimination of Losses

The DAS has clarified that a loss on an intercompany transaction is in principle proportionally eliminated. However, such a loss may indicate an impairment of fixed assets and for inventories, there may be a lower net realizable value.
This must be assessed based on the applicable guideline. The loss on the intercompany transaction is not necessarily equal to the loss that must ultimately be accounted for.

Example
Parent A sells a property with a book value of 70 to a 100% group company B for 50 euros. Consolidated, this initially has no effect. In principle, this loss of 20 euros must be fully eliminated in the single financial statements, as it has not yet been realized through transfer to a third party. Due to the lower selling price, BV A must apply the provisions of DAS 121 (Impairments). This applies to both the consolidated and single financial statements.
The realizable value is ultimately estimated at 60 euros, in this case, the value in use or indirect realizable value. This is 10 euros lower than the book value. So, although the intercompany loss of 20 euros is eliminated, an impairment of 10 euros must be recognized.
Since this occurs both consolidated and single and there is a 100% participation, there is no difference between the consolidated and single equity and result. After recognizing the impairment, an unrealized intercompany loss of 10 euros remains, which is included in the balance sheet. This intercompany result will be realized through depreciation over the remaining useful life or by sale to a third party.

4.2 Presentation of elimination amounts

In the current guideline, only for downstream transactions, i.e., sales from the parent company to a participation, it is prescribed how the eliminations must be processed in the balance sheet and profit and loss account.
In the new guideline, this has been further elaborated for all types of transactions, including sidestream and upstream transactions. This is schematically included below:

Type of transaction	Balance sheet	Profit and loss account
Downstream	Participations or accruals	Item in which the transaction is processed
Sidestream	Participations or accruals	Result of participations
Upstream	Participations or accruals or value of the acquired asset	Result of participations

4.3 Eliminations in case of a negative net asset value

Participations with a negative net asset value are valued at zero, with a provision possibly being recognized, depending on the facts and circumstances. In such a situation, there may also be intercompany transactions where the question is how eliminations should be processed in that case.
A new paragraph in DAS 214 indicates that even with a negative net asset value, realization only occurs upon transfer to a third party or by depreciation of the asset, which means that eliminations of intercompany results must still be accounted for.
Additionally, it is indicated that these eliminations must be accounted for as accruals in this case, not through the item Participations as this item is already valued at zero.

4.4 Processing in the financial statements of the participation

For downstream and sidestream transactions, where a subsidiary acquires assets or liabilities from the parent or another subsidiary, the DAS has clarified that the subsidiary does not need to eliminate intercompany results in its own financial statements. Instead, the acquisition of these assets or liabilities should be accounted for based on the applicable standards. Therefore, subsidiary B that purchases a property from parent A must apply DAS 212 Tangible Fixed Assets, where the initial valuation normally takes place at cost.

5 Changes in the Cash Flow Statement

There are two changes regarding the cash flow statement (DAS 360):

- Definition of cash in the cash flow statement
- In which situation debit balances on bank accounts are part of cash

5.1 Definition of cash in the cash clow Statement

According to the current definition, cash in the cash flow statement includes: cash, bank account balances, bills of exchange and checks, demand deposits, and highly liquid short-term assets.
According to the new definition, cash in the cash flow statement includes: liquid assets (cash, bank account balances, bills of exchange, and checks), demand deposits, and cash equivalents. Cash equivalents are highly liquid assets that:

- Can be easily converted into cash without restrictions; and
- Are not subject to significant risks of changes in value.

Example

Suppose a company has a deposit for a maximum period of 6 months with the following conditions:

- *If the deposit is withdrawn early, the company receives 1.0% interest*
- *The 1.0% is equal to the regular interest on demand deposits*
- *The company's intention is to meet short-term liquidity needs, but if liquidity is not needed, the company can benefit from higher interest*

In this case, the deposit classifies as a cash equivalent in the cash flow statement because:

- *The deposit can be easily converted into cash*
- *There are no significant risks of changes in value*
- *Even with early withdrawal, at least the regular short-term interest is received*
- *The purpose is to meet short-term liquidity needs*

5.2 In which situation debit balances on bank bccounts are part of cash

Under the old rules, no distinction was made between loans provided by banks and debit balances on bank accounts. Therefore, debit balances on bank accounts were not considered (and thus not deducted from) cash under DAS.

The new rules indicate that debit balances on bank accounts can be part of cash in the cash flow statement if certain conditions are met:

- The debit balance is immediately callable on demand; and
- The debit balance is an integral part of the entity's cash management

Furthermore, DAS indicates that such arrangements with credit institutions are characterized by the fact that the account balance often fluctuates between positive and negative.
If the above conditions are not met, the debit balance is included as part of financing activities in the cash flow statement.

6 DAS Statement on Pillar 2 income taxes

The introduction of a global minimum tax (Pillar 2) as part of the OECD agreement on the revision of the international tax system has been implemented in the Netherlands through the Minimum Tax Act 2024. The main points of these "Pillar Two model rules" are as follows::

- The goal is for large multinational groups to pay a minimum amount of tax on income in each jurisdiction where they operate.
- To this end, a system of additional taxes is applied, which ensures that the total amount of income taxes to be paid on profits in each jurisdiction is at least the minimum rate of 15%.
- Primarily, the ultimate parent company of a group is required to pay the additional tax, in the jurisdiction where it is established, on the profits of its subsidiaries that are taxed at less than 15%.

DAS Statements 2023-14 and 2024-3 are relevant for Dutch entities that will have to comply with the "Minimum Tax Act 2024, or Pillar 2," based on the "Pillar Two Model rules" of the OECD. This concerns multinational and domestic groups with consolidated group revenue of more than EUR 750 million. DAS 272 also applies to minimum taxes arising from enacted or announced tax legislation aimed at implementing the Pillar 2 model rules published by the Organization for Economic Co-operation and Development (OECD). As an exception to the requirements in DAS 272, an entity should not recognize deferred tax assets and liabilities related to Pillar 2 income taxes. Additionally, the notes should provide insight into the expected effects of the Pillar 2 legislation.

New Regulations

New Regulation	Where to Find the New Regulation
1. Application of Increased Thresholds	DAS Statement 2024-4: Change in Thresholds
2. Reporting Uncertainty About Continuity	DAS Statement 2023-03: Changes in DAS 170
3. Clarification of Presentation and Classification of Financial Instruments	DAS Statement 2023-04: Changes in DAS 240 and DAS 290
4. Processing Results on Intercompany Transactions	DAS Statement 2023-08: Changes in DAS 260 DAS Statement 2022-09
5. Changes in the Cash Flow Statement	DAS Statement 2023-01: Changes in DAS 360
6. DAS Statement on Pillar 2 Income Taxes	DAS Statements 2023-14 and 2024-3: Change in DAS 272

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