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Research Memorandum 1996-26

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DIFFERENCES BETWEEN US GAAP AND DUTCH GAAP:

ADDITIONAL DISCLOSURE ON FORM 20-F

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1. Introduction

Dutch companies listed at stock exchanges in the United States have to file their annual reports on Form 20-F. Those annual reports have to comply with US GAAP which differ significantly from Dutch GAAP. Dutch GAAP are formulated less strictly and less extensively compared to US GAAP.
In the Netherlands and abroad, several studies have been conducted into the impact of differences between US GAAP and Dutch GAAP on net income and shareholders' eq-uity. This was done on the basis of the Form 20-F reports which contain reconciliation statements.[1]
The current study examines differences in disclosures due to differences between US GAAP and Dutch GAAP. This is done by comparing the annual reports on Form 20-F and the annual reports as published in the Netherlands of the respective companies.[2]

In the next section the research design is set out. Section 3 discusses the different disclosure elements. With respect to each disclosure element it is examined to what extent the companies supply additional information in their annual reports on Form 20-F. Furthermore, for each company and each disclosure element indices are calculated in order to express the extent annual reports on Form 20-F contain additional information compared to the annual reports published in the Netherlands (section 4). Finally, section 5 contains some concluding remarks.

2. Research Design

At the end of 1995, seventeen Dutch companies were listed at stock exchanges in the United States (NYSE or NASDAQ).. Listing requirements include filing an annual- report on Form 20-F with the SEC and the NYSE or NASD. Five of the seventeen companies listed at the end of 1995 were introduced on US stock exchanges during that year. Because these companies did not file a Form 20-F yet, they were excluded from the study. Furthermore, an insurance company was excluded because financial accounting and reporting requirements concerning insurance companies differ from those concerning commercial and industrial companies.
This leaves us with the following eleven companies:

- Advanced Semiconductor Materials International NV (ASMI);
- Koninklijke Ahold NV (Ahold);
- Akzo Nobel NV (Akzo);
- Elsevier NV (Elsevier);
- Heidemij NV (Heidemij);
- Koninklijke Luchtvaart Maatschappij NV (KLM);
- NV Koninklijke Nederlandsche Petroleum Maatschappij (KNPM);

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1 See, e.g., Vergoossen (1991), Weetman & Gray (1991), and Vergoossen & Polman (1995).

2 A study is this field was conducted by Link (1995).

- Océ-van der Grinten NV (Océ);
- Philips Electronics NV (Philips);
- PolyGram NV (PolyGram);
- Unilever NV (Unilever).

Form 20-F comprises nineteen Items divided among four Parts. Part I-111 mainly contain non-financial information, whereas Part IV contains the annual financial statements. There are two sets of financial statement requirements, viz. Item 17 and Item 18. The former contains the minimum disclosure requirements and generally does not require US GAAP disclosures if those disclosures are not required under the GAAP of the home country. Companies are permitted to use Item 17 for an exchange listing without raising new capital. The latter - Item 18 - must generally be used in a public offering of securities and requires full compliance with material financial disclosures required by US GAAP and Regulation S-X.[3] Of the companies mentioned above only Océ uses Item 17.

The disclosure requirements in the United States are generally much more elaborate than under Dutch GAAP. In order to determine the extent of additional disclosures provided in the annual report on Form 20-F, the financial statements as presented in the annual reports on Form 20-F of 1994 (Item 17 or 18) of the different companies are compared with those published in the Netherlands[4]. In the current study we confine ourselves to the following disclosure elements:

- acquisitions and dispositions,
- allowance for doubtful accounts,
- pensions:
  - pension provisions and
  - pension costs;
- postretirement benefits;
- income taxes:
  - deferred income taxes and
  - tax expense;
- liabilities, general;
- long-term liabilities;
- operating leases;
- (derivative) financial instruments:
  - concentration of credit risk,
  - fair value financial instruments,
  - derivative financial instruments;
- segmentation:
  - by industry segment,

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[3] Article 5 of Regulation S-X, Part 210, 'Form and Content of and Requirements for Financial Statements', is applicable to commercial and industrial companies.

[4] KLM and Océ have financial years which are not conterminous with the calendar year, ending on 31 March and 30 November respectively. References to financial year 1994 are to the financial years 1994/1995 and 1993/1994 respectively.

- by geographical area.

Obviously, this summing-up is not limitative. The disclosure elements chosen by us are more or less general in nature, i.e., they are not specific to a certain category of companies or to certain situations. It should be noted that we did not consider additional information that might be disclosed in the Management's Discussion and Analysis of Financial Condition and Results of Operations (MDA). Generally, additional disclosures in MDA are company-specific and vary from year to year, which means that it is difficult to generalize the findings.

The following types of additional disclosures can be distinguished:

- more detailed specifications,
- supplementary information concerning valuations,
- supplementary information concerning risks,
- other.

3. Disclosure elements

This section discusses in more detail the disclosure items listed in section 2.

<u>Acquisitions and dispositions</u>

<u>The Netherlands (section 2:367 and 2:389, and guideline 2.03.6)</u>
Section 2:367 states that any movement during the financial year in each of the fixed asset items shall be shown in a reconciliation statement from which appear:

- the book value at the beginning of the financial year;
- the aggregate of the values at which assets acquired during the financial year are recorded in the books and the aggregate of the book values of assets no longer at the disposal of the legal person at the end of the financial year;
- revaluations;
- amounts written-off and downward adjustments;
- the book value at the end of the financial year.

Section 2:389 states that participating interests should be valued at net asset value. If the net asset value is lower than the acquisition price of the participating interest, the difference shall be classified as goodwill.
So in the case of acquisitions and dispositions the aggregate amount of the acquisition price, the selling price, amount of goodwill and the net asset value should be given.

<u>The United States (APB 18 para. 20)</u>
In Form 20-F information about the significant acquisitions and dispositions should be provided.

Example

Akzo (1994, p. 68) gives in its Dutch annual accounts the following information.

Financial noncurrent assets

Millions af guilders	Total	Non-consolidated companies	Loans to non-consolidated comoanies	Other financial noncurrent assets
Situation at December 31, 1993	1.128	915	49	164
Acquisitions	158	98	6	54
Deconsolidations/investments	163	91	28	44
Consolidations/divestments	(71)	(17)	(2)	(52)
Equity in 1994 earnings	115	115		
Dividends received	(124)	(124)		
Changes in exchange rates	(69)	(64)	(2)	(3)
Situation at December 31, 1994	1,300	1,014	79	207

In its Form 20-F (1994, p. 90-91) Akzo gives additional information about:

the purchase price (NLG 4.0 billion) of Nobel industries AB and the amount of goodwill of the transaction, namely NLG 3.4 billion

the selling price (NLG 215 million) of Pharma Chemistry business and the extraordinary gain (NLG 91 million) of this transaction.

the selling price (NLG 17 million) of Akzo's interest in Kuagtextil GmbH and the extraordinary loss (89 million) of this disposal.

Allowance for doubtful accounts

The Netherlands (section 2: 364 and suideline 2.12)

Section 364 states that receivables shall be shown separately in the balance sheet. Debtors should be stated at face value less provisions for bad debts (guideline 2.12.111). The provision for bad debts may be determined on either a genera1 or specific basis, or a combination of the two. In the balance sheet the provision of bad debts is not shown separately. Also in the notes to the annual accounts information about the bad debts is not given.

The United States (APB 12, para. 3 and S-X 12.09)

In Form 20-F a separate Schedule should be included in which the amount of allowance for doubtful accounts is given (Rule 12-09, Valuation and Qualifying Accounts). In this schedule information is given concerning:

the amount of allowance for doubtful accounts at the beginning of the year;

the additions charged to income;

the deductions;

the amounts of allowance for doubtful accounts at the end of the year.

Example

In the Dutch annual accounts of Océ no information about the allowance for doubtful debts is disclosed, while in the annual account on Form 20-F a special schedule with this information is presented. The copy of this schedule is shown below (Form 20-F, 1994, Schedule II).

SCHEDULE II

OCE-VAN DER GRINTEN AND SUBSIDIARIES

VALUATION AND QUALIFYING ACCOUNTS AS OF NOVEMBER 30, 1992, 1993 AND 1994

	Balance at beginning of period	Additions charged to income	Deductions	Balance at end of period
		(in millions)		
	Dfl.	Dfl.	Dfl.	Dfl.
1992				
Allowance for doubtful accounts:				
Accounts receivable	44,953	17,359	14,000	48,312
1993				
Allowance for doubtful accounts:				
Accounts receivable	48,312	14,972	16,039	47,245
1994				
Allowance for doubtful accounts:				
Accounts receivable	47,245	14,393	15,787	45,851

Pensions: provisions and costs

The Netherlands (section 2:374 and 375, and guideline 2.53)

In the Netherlands the following sections require disclosures about pensions. Section 2:374, subsection 4, under b, requires separate disclosure of the provision for pension liabilities. Section 2:375, subsection 1, under i, stipulates the separate disclosure of liabilities to pensions.

In the notes to the annual accounts the principles of valuation and determination of results relating to pension charges and pension provisions should be explained. It is recommended to mention the interest rate used as the discount factor.
Charges connected with pension rights are to be included in the

operating result with the expectation of the past-service charges in respect of new schemes or improvements in the existing pension schemes. Such past-service charges should be treated as extraordinary expenses.

The United States (SFAS 87)

SFAS 87 'Employers' Accounting for pensions' (para. 54) requires disclosures about the following:

- a description of the plan including employee groups covered, type of benefit formula, funding policies, types of assets held and significant nonbenefit liabilities;
- the amount of net periodic pension cost for the period showing separately the service cost component, the interest cost component, the actual returns on assets for the period, and the net total of other components;
- a schedule reconciling the funded status of the plan with amounts reported in the employer's statement of financial position, showing separately: the fair value of plan assets, the projected benefit obligation, the amount of unrecognized prior service cost, the amount of unrecognized net gain or loss and the amount of any remaining unrecognized net obligation or net asset.
- the weighted-average assumed discount rate and the rate of compensation rate (if applicable) used to measure the projected benefit obligation and the weighted-average expected long-term rate of return;
- some other information.

Example

In the Dutch accounts of Unilever mainly qualitative information is provided, while Form 20-F also contains quantitative information.

Dutch annual accounts Unilever (1994, p. 19)

27 Pension schemes

In the majority of countries in which the Group operates, employees' retirement arrangements are provided by defined benefit schemes. These are either externally funded, with the assets of the scheme held separately from those of the Group in independently administered funds, or are unfunded but with provisions maintained in the Group balance sheet. All are subject to regular actuarial review. Actuarial advice is provided by both external consultants and actuaries employed by the Unilever Group.

Valuations are usually carried out using prospective benefit methods, the aims of which are to ensure that current and future charges remain a stable percentage of pensionable payroll. It is usually assumed that, over the long term, the annual rate of return on investments will be higher than the annual increase in pensionable remuneration and in present and future pensions in payment.

The market value of the assets of externally funded defined benefit schemes at 31 December 1994 was Fl. 19 015 million (1993: Fl. 21 458 million). The level of funding of all defined benefit schemes at the dates of the last valuations, in aggregate, was 122% (1993: 118%). The levels of funding represent the actuarial value of fund assets and the provisions held in the consolidated accounts at the dates of the most recent valuations expressed as a percentage of the aggregate benefits that had accrued to members at those dates, after allowing for expected future increases in pensionable remuneration and pensions in the course of payment.

Pension costs and company contributions to defined benefit schemes have been reduced in recent years by the amortisation of surpluses in some funds. This situation is expected to continue for a number of years, although there will be a gradual increase in costs and contributions as the level of surpluses declines.

The Group also operates a number of defined contribution schemes. The assets of all the Group's defined contribution schemes are held in independently administered funds. The pension costs charged to the profit and loss account represent contributions payable by the Group to the funds.

Additional disclosure in Unilever's Form 20-F (1994, p. FS 23-24)

The aggregate amount of net periodic pension cost for the principal defined benefit pension plans computed in accordance with SFAS 87 is presented below. At 3 1 December 1994 these plans reprcsented approxrmately 72% (1993: 85%; 1992: 84%) of all plans based on the market value of the funds plus the provisions held in the Group's accounts.

The following are the components of net periodic pensron cost tor the principal plans:

	Net periodic pension cost £ million		
	1994	1993	1992
Service cost	127	158	131
Interest cost	337	477	422
Actual return on assets	131	(1 304)	(517)
Net amortisation and deferral	(572)	781	37
Empioyee contributions		(10)	(9)
Total	23	102	64

During 1994 the Group also charged £75 million (1993: £38 million; 1992: £26 million) in respect of obligations arising on termmations of employmenr and f 19 million (1993: f 17 million: 1992: f 17 million) in contributions to defmed contribution plans.

In addition, £1 30 million (1093: £61 million: 1992: f62 million) was charged in the accounts for a large numoer of smaller defined benefit plans. This amount, mainly in connection with unfunoed plans, would not have been matenally aifferent under SFAS 87.

The following table summarises the funded status and the amounts which would be recognised in the Group's statement of financial position under SFAS 87 ior tne principal defined benefit plans.

	Assets exceed accumulated benefits £ million		Accumulated beneiits exceed assets f miilion	
	1994	1993	1994	1993
Accumulated benefit obligatron:				
Vested	(3 505)	(4 269)	(502)	(787)
Non-vested	(54)	(84)	(40)	(199)
Total	(3 559)	(4 353)	(542)	(986)
Projected benefit obligation	(4 112)	(5 147)	(708)	(1 214)
Market value of plan assets	5 314	6 647	6	79
Plan assets above/(below) projected benefit obligation	1 202	1 500	(702)	(1 135)
Unrecognised net transition liability/(asset)	(551)	(676)	(3)	91
Unrecognised prior service costs		80	1s	12
Unrecognised net (gain)/loss	(6::)	(661)	76	147
Minimum liability adjustment (a)			(5)	(80)
Pension prepayment/(liability)	65	243	(619)	(965)

(a) Under US GAAP the minimum liability would be offset by an intangible asset of the same amount.

In addition to the pension liability set out in the above table, approxrmately £870 million (1993: £600 million) is provided in the Grouo balance sheet in respect of a large number of smaller unfunded defined benefit plans. This amount would not be materially different under SFAS 87.

Assumptions (weighted average)	%	
	1994	1993
Discount rate	8.0	73
Salary increase	6.0	5.3
Return on assets	8.3	8.0
Cost of living increase	3.5	3.5

The weights used in determining the discount rates, salary increases and cost of living increases were the projected benefit obligations as at 31 December. The weights used in determining rhe long term rate of return on assets were the market values of plan assets as at 31 December.

Postretirement benefits

The Netherlands

In the Netherlands, there are no specific accounting standards concerning postretirement benefits.

The United States (SFAS 106)

SFAS 106 'Employers' Accounting for Postretirement benefits' specifies disclosure standards for companies with postretirement benefits. In this standards (SFAS 106, para. 74) disclosures are required about an employer's obligation to provide postretirement benefits and the cost of providing those benefits. An employer sponsoring one or more defined benefit postretirement plan(s) shall disclose, if applicable, the following information about those plans:

- a description of the substantive plan(s) including the nature of the plan, any modification of the existing tost-sharing provisions, any commitments to increase monetary benefits provided by the postretirement plan, employee groups covered, type of benefits provided, funding policies, types of assets held and significant nonbenefit liabilities;
- the amount of net periodic postretirement benefit cost showing separately the service cost component, the interest cost component, the actual returns on plan assets for the period, amortization of the unrecognized transition obligation or transition asset, and the net total of other components;
- a schedule reconciling the funded status of the plan(s) with amounts reported in the employer's statement of financial position, showing separately: the fair value of plan assets, the accumulated postretirement benefit obligation, the amount of unrecognized prior service cost, the amount of unrecognized net gain or loss and the amount of any remaining unrecognized net obligation or transition asset and the amount of net postretirement benefit asset or liability;
- the assumed health care cost trend rate(s) used to measure the expected cost of benefits covered by the plan for the next year and the trend rates thereafter;
- the weighted-average of the assumed discount rate and the rate of compensation (if applicable) used to measure the accumulated postretirement benefit obligation and the weighted-average of the expected long-term rate(s) of return on plan assets;
- some other information.

Example

In the Dutch accounts of Unilever mainly qualitative information is provided, while Form 20-F also contains quantitative information.

Dutch annual accounts of Unilever (1994, p. 20)

Unilever Group

Notes to the consolidated accounts

28 Port-retirement health benefits

Group companies provide post-redremenr health care benefics to a number of retired employees in certain countries, principally rhe United States, under several different plans rhich are predominantly unfunded. In assessing rhe liability in respect of these benefics. advice is obcained from independent acruaries. The valuations assume that medical cost inflation will fall from current levels over che next few years.

Unilever changed its accounring policy on post-retirement health benefits in 1993 to an accruals basis. The effect of the change was a charge of Fl. 602 million. ner of deferred tax relief of Fl. 350 million. to recognise rhe accrued obligation at 1 January 1993. This was dealt with as an adjusrment co profit retained.

Additional disclosure in Unilever's Form 20-F (1994, p. FS 24)

Group compances provide post-retirement health care benefits to a number of retired employees in certain countries, principally the United States. under several different plans which are predominantly unfunded.

Unilever changed its accounting policy in 1993 from recognising the costs of providing these benefits as they were incurred to an accruals basis, in order that such costs are charged to the periods benefiting from the employees' services. The effect of the change was a charge of £2 18 million, net of deferred tax relief of f 127 million, to recognise the accrued obligation at 1 January 1993, which was dealt with as an adjustment to profit retained at that date. In view of the immaterial effect on profits, comparative figures for prior years were not restated.

In assessing the liability in respect of these benefits, advice is obtained from independent actuaries. The valuations assume that medical cost inflation will fall from its current level of around 13% over the next few years and reach a constant level of around 6% by the year 2002. The weighted average discount rate assumed at 1 January 1994 was acound 7% and at 31 December 1994 was around 8.5%.

The net periodic post-retirement health care costs for 1994 consist of service costs of f 16 million (1993: f 11 million) and interest costs of £35 million (1993: f36 million). The provision of f489 million at 31 December 1994 (1993: f476 million) is made up of an Accumulated Post-retirement Benefit Obligation (APBO) of f444 million (1993: £525 million) plus an unrecognised net gain of £45 million (1993: unrecognised net loss of f49 million). The APBO is allocated f324 million (1993: £361 million) for retirees, £24 million (1993: f39 million) for employees eligible to retire and f96 million (1993: f 125 million) for other active employees. An increase of 1% in the assumed health care costs for each future year would have resulted in an additional APBO of f27 million at 31 December 1994 and an increase in the charge for the year of f3 million.

Income taxes: provisions and costs

The Netherlands (section 2:374 and 2:377 and guidelines 2.53.5)
Dutch law requires in the balance sheet separate disclosure of the provision of tax liabilities which may arise after the financial year but which must be attributed to the financial year or to a preceding financial year, including the provision for tax which may arise from a valuation in excess of cost (section 2:374, subsection 4, under a).
A deferred tax claim (deferred tax asset) should be included in the balance sheet if it is reasonable to suppose that it will be possible to realise the claim in due course. This deferred tax claim should be carried in the balance sheet in an amount not exceeding an existing deferred tax liability (guideline 2.53.528).

In the profit and loss account the amount of taxation on the result shall be separately disclosed (section 2:377, subsection 1, under a and b). This amount is calculated by applying the prevailing rates of taxation for the individual profit components, taking into account any departures from standard rates. This amount expressed as a percentage of the profit before tax is the effective rate of taxation (guideline 2.53.522). It is recommended to explain the difference between the effective rate of taxation and the standard rate of taxation in the notes. If these rates differ materially differ, this difference should be explained in the notes (guideline 2.53.523).

The United States (SFAS 109)
SFAS 109 also requires the above-mentioned information. Furthermore, SFAS 109 (para. 43-49) requires the disclosure of:

- the total of all deferred tax liabilities, all deferred tax assets and the total valuation allowance;
- the net change during the year in the total valuation allowance;
- approximate tax effect of each type of temporary differences and carryforwards;
- information about temporary differences for which a deferred tax liability has not been recognized;
- the significant components of income tax expenses attributable to continuing operations for each year presented shall be disclosed;
- the amount of income expense or benefit to continuing operations and the amounts separately allocated to other items; those components would include, for example: current tax expense or benefit, deferred tax expense or benefit, investment tax credits, government grants, the benefits of operating loss carryforwards, tax expense that results from allocating certain tax benefits and some adjustments;
- the amount of income tax expense or benefit allocated to continuing operations and the amounts separately allocated to other items;
- a reconciliation using percentages or dollar amounts of (a) the reported amount of income tax expense attributable to continuing operations for the year (b) the amount of income tax expense that would result from applying domestic federal statutory tax rates to pretax income from continuing operations;
- the amounts and expiration dates of operating loss and tax credit

carryforwards for tax purposes and (b) any portion of the valuation allowance for deferred tax assets for which subsequently recognized tax benefits will be allocated to reduce goodwill or other noncurrent intangible assets of an acquired entity or directly to contributed capital.

Examole

The balance sheet of Akzo published in the Netherlands only shows an amount of NLG 408 million as provision for deferred taxes. In the annual accounts on Form 20-F this amount is split-up in deferred tax assets (NLG 410 million) and deferred tax liabilities (NLG 818 million). Besides, the tax effects of temporary differences that give rise to significant portions of the deferred tax assets and deferred tax liabilities.

The Dutch annual accounts of Akzo give information about the operating loss carryforwards for tax purposes. In the annual accounts on Form 20-F this amount of NLG 1.6 billion is also given. Besides, information is presented about which amount will expire within five years. Also information is disclosed about the utilization of the loss carryforwards.

In the profit and loss account of Akzo the income taxes on the operating income less financing charges is presented. In the notes to the annual accounts the tax charge on extraordinary items and the tax charge on earnings from nonconsolidated companies is given. This leads to a total tax charge of NLG 370 million. In the annual accounts on Form 20-F the above-mentioned information is presented. However, in the annual accounts on Form 20-F also the following information is provided:

- the pre-tax income in the Netherlands and from foreign operations;
- the tax charges/(benefits) in the Netherlands and from foreign operations; this amount is split-up in the current tax (NLG 381 million) and the deferred tax (NLG 11 million).

Finally, the Dutch annual accounts present an average tax rate of 28 %, whereas the annual accounts on Form 20-F discuss the difference between the corporate tax rate and the effective tax rate is explained.

Liabilities, general

The Netherlands (section 2:375 and quidelines 2.54, 2.55)

Dutch accounting standards do not contain disclosure requirements concerning unused lines of credit.

The United States (S-X 210.5-02.19 and 210.5-02.22)

The amount and terms of unused lines of credit should be disclosed.

Examole

The Form 20-F of Ahold contains the following supplementary information concerning its credit facility (1994, p.40):

"On March 29, 1994, Ahold entered into a five-year $400 million multi-currency revolving credit facility which replaced its $300 million revolving credit facility. These multi-currency revolving credit facilities were not drawn on during 1994 or 1993. The new credit facility bears interest at LIBOR (6.5% at January 1, 1995) plus 0.2% and expires in March 1999. The Company pays a facility fee of 0.15% per year on the total amount of the facility. The facility agreement contains restrictive covenants with regard to maintenance of certain financial ratios, all of which were compiled with during the year."

Long-term liabilitiee

The Netherlands (section 2:375 and guideline 2.54)
For each category of liabilities the amount due after more than one year should be disclosed, together with an indication of the interest rate thereon and separate disclosure of the amount due after more than five years (section 2:375 subsection 2).

The United States (SFAS 47 and S-X 210.5-02.22)
For each of the next five years the amounts due should be disclosed (SFAS 47, para. 10).
The purpose of the disclosures is to aid financial statement users in evaluating the amounts and timing of future cash flows.

Example
In the Form 20-F of Océ the long term debts amounting to NLG 625,018 are specified as follows:

1996	NLG 5,280
1997	NLG 203,824
1998	NLG 2,879
1999	NLG 35,740
After 1999	NLG 377,295

Operating leases

The Netherlands (section 2:381 and guidelines 1.05.1, 2.65.2)
The aggregate amount of long-term commitments to make payments in order to obtain rights of use or other rights which are not included in the balance sheet should be disclosed in the notes, with separate mention of the aggregate amounts due after more than one year and due after more than five years (guideline 2.65.203).

The United States (SFAS 13)
For operating leases having initial or remaining noncancelable lease terms in excess of one year the future minimum rental payments should be disclosed in aggregate and for each of the five succeeding years (SFAS 13, para. 16).

Example
Elsevier's Form 20-F (1994, p. F-28) contains the following information on leasing commitments that is not provided in the Dutch accounts.

25 Leasing commitments

Minimum future rental commitments under non-cancellable operating leases at December 31, 1994 were as follows:

	Operating leases
	(Inf. millions)
1995	72
1996	57
1997	53
1998	47
1999	42
2000 and thereafter	349
	620

Secmentation

The Netherlands (section 2:380 and suideline 2.71.6)
Net turnover should be segmented on the basis of the various business sectors and the various geographical areas in which the company is active (section 2:380). In addition to the legal requirements, the guidelines recommend large companies to segment operating result (2.71.618) and total assets (2.02.304) by industry and geographical area as well.

The United States (SFAS 14)
Segment information is required concerning a company's (a) operations in different industries, (b) foreign operations and export sales, and (c) major customers. For each industry and geographical segment companies have to report revenue, operating result (in case of geographical segments it is allowed to segment net income instead) and identifiable assets. With respect to each industry segment companies should also disclose depreciation and capita1 expenditures. Companies that make 10% or more of its revenue from sales to a single customer are required to disclose the identity of the segment and the amount of revenue involved (SFAS 14, para. 22-27, 35 and 39)

Example
In contrast to the accounts published in the Netherlands, Form 20-F of Philips (1994, p. 75) provides information by industry segment on the assets employed and the depreciation of property, plant and equipment.

*(22) **Information relating to Product Sectors and Geographical Areas** (contmued)*

Reporting by Product Sector

Assets employed	1992	1993	1994
Lighting	5,613	5,634	5,507
Consumer Electronics	11,121	9,627	9,696
Cther Consumer Products	7.900	9.353	10,569
Components and Semiconductors	8,756	7.470	8,338
Professional Products and Systems	6,320	4.864	4,914
Miscellaneous	2.824	2,323	2,133
Not attributable to a specific product sector	6,312	7,013	6,964
Total	48,846	46,284	48,121

Depreciation of Property, plant and equipment	1992	1993	1994
Lighting	323	274	338
Consumer Electronics	974	935	794
Other Consumer Products	ra2	283	291
Components and Semiconductors	893	965	844
Professional Products and Systems	283	271	259
Miscellaneous	408	231	221
Not artrtburable to a specific product sector	117	50	163
Total	3,480	3,009	2,910

Financial instruments

The Netherlands
In the Netherlands, there a are specific accounting standards concerning financial instruments/derivatives.

The United States (SFAS 105, 107 and 119)
SFAS 105 specifies disclosure standards for financial statements of companies with off-balance-sheet risk of accounting loss and significant concentrations of risk.
Disclosure of extent, nature, and terms of financial instruments with off-balance-sheet risk:

the face or contract amount (or the notional amount if there is no face or contract amount);

the nature and terms, including at a minimum, a discussion of credit and market risk, cash requirements of the instrument, and the related accounting policies.

Disclosure of credit risk of financial instruments with off-balance-sheet credit risk:

the maximum amount of accounting loss that would be incurred if any party failed completely to perform according to the terms of the financial instrument with off-balance-sheet risk, even if

this is a remote possibility, and the collateral or other security for the amount due, if any, was absolutely worthless;
the existing policy of the company for determining the amount of collateral or other security required to support financial instruments subject to credit risk, information about the company's access to that collateral or other security, and the nature and a brief description of the collateral or other security.

Disclosure of concentrations of credit risk of all financial instruments:

information that identifies the activity, region, or economic characteristics of each significant concentration of credit risk;
the maximum amount of accounting loss that would be incurred if the individual or group that makes up the concentration of credit risk failed completely to perform according to the terms of the financial instrument contract, even if this is a remote possibility, and the collateral or other security for the amount due, if any, was absolutely worthless;
the existing policy of the company for determining the amount of collateral or other security required to support financial instruments subject to credit risk, information about the company's access to that collateral or other security, and the nature and a brief description of the collateral or other security.

SFAS 107 includes disclosure standards about fair value of financial instruments:

a company should disclose the fair value of financial instruments for which it is practicable to estimate that value. It also should disclose the method(s) and significant assumptions used to estimate the fair value of financial instruments;
if it is not practicable for a company to estimate the fair value of a financial instrument, or a class of financial instruments, the company should disclose information pertinent to estimating the fair value, such as the carrying amount, effective interest rate, and maturity, and provide an explanation of why it is not practicable to estimate fair value.

SFAS 119 prescribes new disclosures about derivatives and other financial instruments:

most disclosures about financial instruments will have to distinguish between instruments held or issued for trading purposes and those held or issued for purposes other than trading. Prior to SFAS 119 no such distinction was required;
disclosure of the nature, terms and contractual or notional amount of all derivative financial instruments is required. Prior to SFAS 119, certain derivatives were exempt from this requirement;
the average fair value of derivatives held or issued for trading purposes during the period should be reported;
the net gains and losses arising from trading activities should be disaggregated and the classes of instruments giving rise to those gains and losses should be identified;

companies should describe the objectives and strategies for holding or issuing derivatives and identify the classes of derivatives used in achieving those objectives;

additional **specific** disclosures about anticipated transactions hedged with derivatives are required;

fair value information for **all** financial instruments should be presented along with related carrying amounts and must distinguish between **assets** and liabilities. If those disclosures are made in more than one footnote, a sumrnary table that contains the fair values and carrying amounts should be provided.

<u>Example</u>

In the Dutch **accounts PolyGram provides** no information on financial instruments, whereas Form 20-F **discusses** this subject **rather** extensively (1994, p. F 25-26).

Financial instruments and risk management wirh of-baiance sheet risk

The Company enters inro forward foreign exchange contracts, put options and foreign currency swaps with well established commercial banks to hedge currency exposures as a result of transactions denominated in foreign currencies that arise in the normal course of business. Occasionally, interest rare swaps are concluded to convert floating interest rates to fixed interest rates or vice versa. The Company does not enter into speculative posirions. Therefore rhe timing of recognizing related gains and losses is marched with the underlying positions being hedged.

Deliveries of product from the factories to the operating companies are settled in the local currencies of the operaring companies. In order to hedge the related currency exposures. forward exchange contracrs are concluded and put-options boughr. As at December 31, 1994 rhe Company had forward exchange contracts selling various currencies forward against German Marks, totalling NLG 17 million (1993: NLG 30 million and NLG 49 million against Dutch Guilders and French Francs). All these forward contracts mature during the period February 1995 through January 1996.

The Company also entered into put oprions for various currencies with a notional amount of NLG 10 million as at December 3 1, 1994 againsc German Marks, which ar expiry date can be exercised at the discretion of the Company. At December 31, 1994 there is a deferred loss of NLG 0.3 million.

As part of normal cash management three currency swaps were concluded selling Canadian dollars. German Marks and Netherlands Guilders againsr US Dollars. The contracts all matured in January 1995. At December 3 1, 1994 rhere is a deferred gain of NLG 0.3 million.

During 1990. rhe Company concluded a currency and interest swap agreement with a well established commercial bank wherebv NLG 42 million were swapped for 135 million Swedish Krona. The agreement's settlement date was August 1999. However, rhe Company decided to sell the swap in February 1994 and realized a gain of NLG 11 million rhereon.

The Company has entered into an interest race swap relaring to a norional amount of US$ 4.5 million expiring January 1996. whereby a floating interest rate based on 6 month LIBOR (effective rate at December 31, 1994 was 6.6%) was exchanged for a ñxed rate of 6.16%. At December 31. 1994 there is a deferred gain of NLG 2.4 million.

During 1994 the Company has concluded foreign exchange conrraca whereby the value of the US$200 miilion Subordinated Notes issued by PolyGram Finance BV has been locked into the valuation as recorded on the balance sheet at December 3 l, 1994. At December 31, 1994 there is a deferred gain of NLG ll million.

(All amounts expressed in millions of Setherlands guilders. unless othemise stated)

In 1994 two options on interest rate swaps (a payers and a receivers swaption) were entered into with the same bank whereby effectively the interest rate on the USS 58 million tranche of the Notes to be rolled over in January 1996 is fixed for a period of 5 years between 7.2% and 7.8%. The amount paid for these swaptions is included in receivables and prepaid expenses and will be amortited over 5 years to the income statement as part of interest expense starting January 1996. At December 31, 1994 there is a deferred gain of NLG 1.5 million.

risk

Credit risk represents the accounting loss that would be recognized at the reporting date if counterparties failed completely to perform as contrscted. The Company does not have significant exposure to any individual customer or counterparty.

To reduce exposure to credit risk, the Company performs ongoing credit evaluation of its customers' financial conditions but does not generally require collateral. The Company invests available cash and cash equivalents with various banks.

The Company is exposed to credit-related losses in the event of non-performance by counterparties to financial instruments, but given their high credit ratings, it does not expect any counterparties to fail to meet their obligations.

Fair values

Fair value estimates are made at a specific point in time, based on relevant market information and information sbout the financial instrument. Although management uses its best judgemenr in estimating the fair value of these financial instruments, there are inherent weaknesses in any estimation technique. Therefore the estimates presented are not necessarily indicative of the amounts thar the Company couid realize in a current market exchange or thc value that ultimately will be realized by the Company upon maturity or disposirion.

	December 31, 1993		December 31. 1994	
	Carrying Amount	Estimate Fair value	Carrying Amount	Estimated Fair Value
Assets				
Cash	582	582	753	753
Receivables	2.504	2,504	3,196	3,197
Other financial assets	77	77	94	94
Liabilities				
Accounts payable	2.716	2.716	2,553	2,853
Debt	440	429	492	456
Off-Balance Sheet Financial Instruments				
Foreign exchange forward contracts	8	7	—	0.4
Unrealized gain on interest rate swap	—	—	—	1.4

Cash. Receivables and Accounts Payable

The carrying amounts approximate the fair values because of the short maturity of these instruments.

4. Disclosure indices

In section 3 we discussed the differences between US GAAP and Dutch GAAP for each disclosure item in detail. With respect to each disclosure item we presented an example to illustrate differences in disclosure that emerged from the differences between US GAAP and Dutch GAAP.
In this section we examine:

- to what extent the disclosure differences between the Forms 20-F and the Dutch annual accounts vary among the disclosure items and
- to what extent the disclosure differences vary among the companies involved in the study.

With respect to each disclosure item we compared the annual accounts on Form 20-F with those published in the Netherlands. This was done for the eleven companies involved in the study.
We distinguish the following three categories:

1. only in Form 20-F: Form 20-F provides additional information, e.g., more detailed specifications, supplementary information concerning valuations or supplementary information concerning risks;
2. also in Dutch accounts: the information provided on Form 20-F is also included - on a voluntary basis - in the Dutch annual accounts;
3. infonnation not provided: the information is not applicable (e.g., disclosure about acquisitions or dispositions is left out because they did not occur) or the information which is required under US GAAP is provided neither in Form 20-F nor in the Dutch annual accounts (e.g., when a company uses Item 17 or does not meet requirements under US GAAP for some other reason). Obviously, the cause of the omitting information is not always clear (because it is not applicable or requirements under US GAAP are not met for some reason).

***Table 1:** **Disclosure per** item **by the eleven companies involved in study**[5]*

Disclosure item	Number of companies that disclose: only in Form 20-F	also in Dutch accounts	information not provided	Index
Balance sheet:				
• acquisitions and dispositions	3	4	4	0.43
* allowance for doubtful accounts	9	2	0	0.82
* pension provisions	8	1	2	0.89
• postretirement benefits	4	2	5	0.67
• deferred income taxes	8	3	0	0.73
* liabilities, general	6	4	1	0.60
• long-term liabilities	8	2	1	0.80
Profit and loss account:				
• pension costs	8	1	2	0.89
* income taxes	9	2	0	0.82
Notes:				
• operating leases	1	3	1	0.70
• concentration of credit risk	5	4	2	0.56
• fair value financial instruments	9	2	0	0.82
• derivative financial instruments	6	3	2	0.67
• segmentation by industry segment	4	3	4	0.57
* segmentation by geographical area	4	5	2	0.44

In order to give an indication of the differences among the disclosure items indices are calculated. Table 1 shows that the indices on pension provisions and pension costs are the highest (0,89), followed by the allowance for doubtful debts, tax expense and fair value of financial instruments (0.82). This means that the Forms 20-F examined in the current study contain more often additional disclosures on these items than on the other items. In the latter three cases nine companies provided the additional disclosures required under US GAAP only in their Forms 20-F, whereas two companies included the additional disclosures - which are not required under Dutch GAAP - in the annual accounts published in the Netherlands as well. On the other hand, the index on acquisitions and dispositions (0.43) and that on segmentation by geographical area (0.44) are the lowest. With respect to segmented information by geographical area five companies provided the information that is only required under US GAAP also in their Dutch annual accounts.

[5] In the calculation of the indices the companies that do provide the disclosure items neither in their Forms 20-F nor in the annual accounts published in the Netherlands are not included.

Table 2: Disclosure of different items per company[6]

Company	Number of disclosure items: only in From 20-F	also in Dutch accounts	information not provided	Index
ASMI	0	10	5	0.00
Ahold	13	0	2	1.00
Akzo	13	2	0	0.87
Heidemij	10	2	3	0.83
KLM	8	1	6	0.89
Océ	9	0	6	1.00
Philips	12	2	1	0.86
PolyGram	11	2	2	0.85
Elsevier	12	2	1	0.86
KNPM	0	15	0	0.00
Unilever	10	5	0	0.67

The indices in table 2 give an indication of the extent the companies involved in the study provide additional disclosures in their Forms 20-F. It appears that two companies - ASMI and KNPM - do not provide additional information in their Form 20-F. This means that they include the information that is only required under US GAAP also in the annual accounts published in the Netherlands. Ahold and Akzo, on the other hand, provide additional disclosures in their Form 20-F with respect to 13 of the 15 items. The index of Océ amounting to 1.00 can be explained by the fact that this company uses Item 17, which means that US GAAP disclosures are not required if those disclosures are not required under Dutch GAAP. On six of the fifteen disclosure items Océ does provide additional information neither in the Form 20-F nor in the Dutch annual accounts.

5. Concluding Remarks

It appears that the financial statements in the annual report on Form 20-F generally contain information supplementary to that in the financial statements published in the Netherlands. The extent to which supplementary information is provided differs among the companies involved and the disclosure elements examined in the current study.
KNPM and ASMI provide all the information that is disclosed in their Forms 20-F also in the financial statements as published in the Netherlands. This means that the Forms 20-F of these companies do not contain any additional information on the areas under examination. This is in contrast to Ahold whose Form 20-F provides additional information on all the applicable disclosure elements.
The results of the study show that the willingness of the companies to provide supplementary information in the financial statements published in the Netherlands on the different disclosure items is consistently low. Only with respect to segmented information that is merely required under US GAAP, the companies appear to be more willing

[6] In the calculation of the indices the disclosure items which are provided neither in the Forms 20-F nor in the Dutch annual accounts are not included.

to disclose it also in the financial statements published in the Netherlands.
This induces information dissymmetry between investors in the Netherlands and the United States which is not desirable. In our opinion all the information that has to be provided under US GAAP and is included in the annual report on Form 20-F should also be provided in the financial statements published in the Netherlands.
The additional disclosures included in the Forms 20-F could be of considerable importance to investment analysts that use annual reports. They provide information which could be useful in assessing the future performance of companies.
In connection with the information dissymmetry indicated above a study of Rees (1995) is of interest. Rees examined the information contained in reconciliations to earnings based on US GAAP by non-US companies. The information content issue of the US GAAP reconciliations was evaluated by examining stock price reactions surrounding the filing of the Form 20-F with the SEC. The event study results suggest that the US GAAP reconciliation provides information to the market at the time of its release. Generally, the release of US GAAP reconciliations coincide with the release of additional disclosure in the footnotes. In continuation of the current study and that of Rees it would be interesting to examine the extent additional disclosure in the footnotes is incrementally informative to the market.

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