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**COMMENT LETTER**

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To  
International Accounting Standards Board  
30 Cannon Street  
London  
EC4M 6XH

Date  
25 April, 2008

*By email - CommentLetters@iasb.org*

Dear Sir,

**IFRIC Draft Interpretation D23 – Distributions of Non-Cash Assets to Owners**

We are pleased to have the opportunity to comment on the above draft interpretation, on behalf of BDO International<sup>1</sup>.

Our responses to your specific questions raised in the invitation to comment are set out below.

**Question 1: Specifying how an entity should measure a liability for a dividend payable**

*Paragraph 9 of the draft Interpretation proposes that an entity should measure a liability to distribute non-cash assets to its owners in accordance with IAS 37 Provisions, contingent liabilities and contingent assets. The IFRIC concluded that all dividends payable, regardless of the types of assets to be distributed, should be addressed by a single standard.*

*Do you agree with the proposal? If not, do you agree that all dividends payable should be addressed by a single standard? Why? What alternative would you propose?*

We agree that all dividends payable should be addressed by a single standard. IFRS is principles based and the derivation of detailed guidance from a range of standards should be avoided.

Distributions to owners do not differ from each other in substance merely by virtue of being satisfied in different assets any more than a distribution by bank transfer would differ from one by cheque. It is important to have a consistent measurement principle across all distributions.

We agree that IAS 37 appears to be the most relevant standard to be used for this guidance, as it is broad enough to encompass non-contractual obligations. While it might initially seem appropriate to follow guidance set out in IAS 39 to govern recognition and measurement, this would require a stretching of IAS 39's scope to include non-contractual obligations, which could create significant scoping and application issues in other areas in the future.

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<sup>1</sup> BDO International is a world wide network of public accounting firms, called BDO Member Firms, serving international clients. Each BDO Member Firm is an independent legal entity in its own country.

**Question 2: Specifying how any difference between the carrying amount of the assets distributed and the carrying amount of the dividend payable should be accounted for when an entity settles the dividend payable**

*Paragraph 12 of the draft Interpretation proposes that, when the dividend payable is settled, any difference between the carrying amount of the assets distributed and the carrying amount of the dividend payable should be recognised in profit or loss. Paragraphs BC28-BC43 of the Basis for Conclusions explain the reasons for this proposal. The Basis for Conclusions also includes an alternative view that the difference should be recognised directly in equity.*

*Which view do you support and why?*

We note that the reasoning behind measuring the liability in accordance with IAS 37 and accordingly recognising a gain when an asset of lower carrying value is used to satisfy this liability is set out in BC31. We agree that the entity has, either from holding gains or enhancements it has applied, the benefit of the asset's increase in value, and that the entity should recognise the crystallisation of the gain on disposal of the asset.

The alternative view, which would involve accounting for the difference in value as a transaction with owners, misrepresents the value that owners have actually received, since the net entry to equity would only be the asset's original carrying value. This would not serve the interests of non-member stakeholders, as a true picture would not be presented of ways in which owners are extracting value from the business, and could be open to abuse. It also appears more theoretically sound to analogue the distribution of assets to a disposal than to a more notional transaction whose "value" is dependent on a reasonably arbitrary set of factors (for instance, the depreciation rate that had previously been applied to an item of PP&E that is subsequently distributed).

**Question 3: Whether an entity should apply the requirements in IFRS 5 to non-current assets held for distribution to owners**

*Both the Board and the IFRIC concluded that the requirements in IFRS 5 Non-current Assets Held for Sale and Discontinued Operations should be applied to non-current assets held for distribution to owners as well as to non-current assets held for sale.*

*Do you agree that an entity should apply IFRS 5 to non-current assets that are held for distribution to owners? If not, why and what alternative would you propose?*

Again, on the principle that existing guidance should be used if it is available and serviceable instead of creating new tailored rules for each situation, we agree with the conclusion that IFRS 5 provides a workable set of requirements, and that distribution of assets to owners is sufficiently similar to a disposal to third parties to make the guidance relevant.

*The Board noted that IFRS 5 requires an entity to classify a non-current asset as held for sale when the sale is highly probable and the entity is committed to a plan to sell (emphasis added). For assets held for distribution to owners, this raises the following three questions:*

- (a) Should an entity apply IFRS 5 when it is committed to make a distribution or when it has an obligation to distribute the assets?*
- (b) Do you think there is a difference between those dates?*

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*(c) If there is a difference between the dates and you think that an entity should apply IFRS 5 at the commitment date, what is the difference? What indicators should be included in IFRS 5 to help an entity determine that date?*

For the purposes of distributions to owners, the trigger point for recognition of a dividend liability is the point where the entity is committed (i.e. the point at which a dividend is legally declared). In IAS 10, the declaration of a dividend after the balance sheet date is provided as an example of a non adjusting post balance sheet event, because the entity was not committed (by declaring the dividend) as at the balance sheet date. The equivalent here would be the application of IFRS 5 at the point when the entity is committed to make (i.e. on the declaration of) a distribution.

We believe that it could be argued that there is a difference between the date on which an entity is committed, and when it has an obligation, to make a distribution with the obligation occurring earlier. For example, it might be argued that a constructive obligation to make a distribution could arise with reference to the guidance set out in IAS 37.

We note that this point was discussed specifically by the IASB when the current version of IAS 32 was being developed, in the context of determining the distinction between debt and equity. That discussion was in the context of whether a large listed company with a history of making distributions each year should be regarded as having an obligation to make such distributions even though a dividend had not yet been declared, the argument being that in the absence of making a distribution the share price might suffer. We note that this argument was rejected.

We believe that the trigger for recognition of an obligation to make a distribution under the Interpretation developed from IFRIC D23 should be consistent with that used for other distributions. In consequence, we believe that an amendment to IFRS 5 should include guidance specifying that the date on which a dividend is declared should be viewed as being the commitment date.

We hope that our comments and suggestions are helpful. Should you wish to discuss any of the points we have raised, please do not hesitate to contact Helen Thomson, ph: +32 (0)2 778 01 30, or Andrew Buchanan, ph: +44 (0)20 7893 3300.

Yours faithfully,



BDO Global Coordination B.V.