

Accounting Standards Board

Aldwych House, 71-91 Aldwych, London WC2B 4HN

Telephone: 020 7492 2300 Fax: 020 7492 2301

www.frc.org.uk/asb



Comment Letters
International Accounting Standards Board
30 Cannon Street
London EC4M 6XH

20 March 2008

Dear Sir

Response to IFRIC D23 – Distributions of non-cash assets to owners

I am writing to give the views of the Accounting Standards Boards Urgent Issues Task Force (UITF) on IFRIC D23 'Distributions of non-cash assets to owners'.

The UITF has considered the guidance provided in the draft Interpretation and, on balance, the majority consider the guidance is a reasonable interpretation of existing International Financial Reporting Standards (IFRS).

We have set out, in the appendix to this letter, our response to the questions raised in the invitation to comment section of the draft Interpretation. Should you have any questions please do not hesitate to contact either myself or Michelle Crisp.

Yours faithfully

David Loweth
Technical Director
DDI 020 7492 2420
Email: d.loweth@frc-asb.org.uk

Appendix to D23 'Distributions of non-cash assets to owners'

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

The UITF agrees that the measurement of all dividends should be addressed by a single standard – irrelevant of the types of assets to be distributed. The UITF is, however, concerned that IFRIC's explanation for its reasons to select IAS 37 as the appropriate standard is not well articulated in the basis for conclusions to the draft Interpretation. The UITF therefore recommends that the IFRIC reviews paragraphs BC13 to BC16. To assist in this review the UITF notes the following matters in relation to these paragraphs:

(i) The UITF is in agreement that the most appropriate standards are either IAS 39 or IAS 37(BC14).

(ii) However, the UITF does not consider that BC15 clearly specifies why IAS 39 has been rejected as the most appropriate standard. It appears that the principal reason for rejection is that IFRIC decided in (i) above that all dividends payable should be measured in accordance with a single standard. As IAS 39 applies only to financial instruments, it would not be applicable where non-financial assets are distributed (BC15 notes that IAS 39 does not cover a liability to distribute non-financial assets to owners). The UITF notes, however, that where distributions are made, other than to a controlling party, in the large majority of cases they are likely to be financial assets (e.g. shares distributed in a demerger).

(iii) The UITF also considers that the reasons for rejecting the argument in BC15, that IAS 39 does not cover all dividends payable as it does not address non-contractual obligations, requires further explanation. The UITF does not consider the basis for conclusions adequately explains why the IFRIC did not consider that an obligation to make a distribution on an equity instrument is not a contractual obligation.

As a consequence of the above some UITF members consider that it might be useful if the draft Interpretation were to address only demergers where financial assets were being distributed to owners, thereby narrowing the scope of the draft Interpretation.

The UITF also considers it might be helpful to explain what differences might occur to the measurement of the dividend were IAS 39 applied rather than IAS 37. The UITF is of the view the main differences would arise firstly, from the requirement in IAS 37 to measure the liability at the best estimate of the expenditure required to settle the liability. This would require the entity to consider dividends that, although declared, are not paid whereas IAS 39 would not permit this estimate to be taken into consideration. Secondly, the requirement in IAS 39 to recognise as income or expense in the profit or loss any change arising from remeasurement of the carrying amount of a financial liability .

The UITF also notes that it supports IFRIC's decision to remove from the scope of the draft Interpretation distributions of an asset that are ultimately controlled by the same parent entity before and after the distribution (paragraph 5). The UITF notes that it would like to consider further whether, in these circumstances, the dividend should be measured in accordance with IAS 37. Presumably these matters will be addressed in the IASB project on common control transactions.

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 (see paragraph BC44).

Which view do you support and why?

The UITF notes the alternative views expressed in the basis for conclusions and considers that these provide useful reference material in understanding the IFRIC's deliberations.

The UITF, however, considers that it would be useful if the IFRIC also provided material that explains why the distributions of non-cash assets to owners differ from transactions with non-controlling interests (who might also be considered shareholders of the Group). In the UITF's view the difference arises because where non-cash assets are distributed there is a reduction in the value of the entity whereas transactions with non-controlling interest do not

change the overall economic value of the group. The UITF suggests this explanation is provided because the requirements arising from phase II of the Business Combinations project require transactions with non-controlling interests that do not give rise to a change of control to be recognised in equity and therefore the reasons for the different treatment needs to be provided.

In respect to transactions with non-controlling interests the UITF considers that it would also be helpful if the IFRIC confirmed that a distributions of shares held by a parent in its subsidiary, that does not give rise to a change of control, is outside the scope of the draft Interpretation. In this respect the UITF believes, but would like confirmation, that the distribution of – for example - 25% of a subsidiary where the parent entity retains 75% would be outside the scope of the draft Interpretation and that the accounting treatment set out in IFRS 3 'Business Combinations' would prevail.

After some consideration the majority of UITF members agree with IFRIC that the gain arises from the sale of assets rather than from the transaction with shareholders.

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 (see paragraphs BC45–BC48 of the Basis for Conclusions).

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?

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?
- (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 to determine that date?

The UITF is in agreement that IFRS 5 should apply to non-current assets that are held for distribution to owners.

In relation to question 3(a) (as to when an entity should apply IFRS 5) the UITF addressed the matter by first considering whether IFRS 5 should be applied where an entity makes a disposal via a distribution to shareholders and secondly considering when an entity has an obligation to make a distribution.

The UITF notes that IFRS 5 is currently applied when a sale is highly probable and the entity is committed to a plan to sell and an active programme to locate a buyer and complete the plan must have been initiated. The UITF can find no reason why these criteria (excluding the location of a buyer) should not be applied when a distribution of assets to owners is highly probable and the entity is committed to the plan to distribute the assets.

The UITF also notes that IAS 10 'Events after the balance sheet date' provides that a dividend is recognised when criteria for a present obligation in IAS 37 are achieved. The commitment by management to a plan to distribute assets does not meet the criteria for a present obligation within IAS 37.

As a consequence, in relation to question 3(b) the UITF is of the view that there is a distinction between the dates when an entity is committed to dispose of assets via a distribution and when an entity has obligation to distribute the assets. The UITF considers an obligation to distribute assets is achieved when a present obligation in accordance with IAS 37 is achieved.

The UITF therefore considers that an entity should apply IFRS 5 when the entity is committed to a plan to distribute the assets. An entity becomes committed when:

- the appropriate level of management are committed to distribute the non-cash assets;*
- and*
- shareholders' approval is highly probable.*