

**Financial Reporting Committee**

R Garnett Esq  
Chairman  
International Financial Reporting Interpretations Committee  
30 Cannon Street  
London  
EC4M 6XH

15 May 2008

Dear Bob

**IFRIC D23 “Distributions of Non-cash Assets to Owners”**

We are pleased to submit our comments on the above proposals.

**Who we are**

The Hundred Group represents the views of the finance directors of the UK's largest companies drawn largely, but not entirely, from the constituents of the FTSE100 Index. Our members are the finance directors of companies whose market capitalisation collectively represents over 80% of that of companies listed on the London Stock Exchange. While this letter expresses the views of The Hundred Group of Finance Directors as a whole, they are not necessarily those of our individual members or their respective employers.

**Summary**

We support the proposals in principle because we believe that there is merit in requiring an entity to account for distributions of non-cash assets to shareholders in the same way as if it had sold the assets to a third party and distributed the proceeds as a cash dividend to shareholders. We believe that in both scenarios the gain or loss arising reflects management's stewardship of the entity and should be reflected in the entity's financial statements.

We agree that distributions of an asset with the same group should be excluded from the scope of the interpretation. However, we suggest that this scope exclusion should be extended to de-merger transactions. Although the de-merged entity will be technically “outside the group”, on de-merger the shareholders of the parent and the de-merged entity will be the same. Accordingly, in our view, a de-merger is akin to a distribution within the same group and should similarly be excluded from the scope of the interpretation.

We also agree that the interpretation should only address distributions of assets by an entity to its owners acting in their capacity as owners and not exchange transactions between an entity and its owners.

## **Responses to specific questions**

**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 IAS37 *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 do not agree that a liability to distribute non-cash assets falls within the scope of IAS37 because when recognised the liability is uncertain neither as to timing or amount (IAS37 paragraph 10).

We are aware that the Board is considering amendments to IAS37 that, inter alia, would widen the scope of IAS37, but we would remind IFRIC that it should disregard potential future developments because its role is to consider issues within the context of *current* IFRSs and the Framework.

We suggest that the interpretation should simply require that when recognised the liability should be measured at the fair value of the non-cash asset (or group of assets) that is to be distributed. We believe that, in this case, fair value provides the most relevant information because it faithfully represents the value of the economic benefits that are to be transferred from the entity to shareholders.

**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 of Conclusions explains the reasons for this proposal. The Basis of 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?**

We believe that the gain or loss arising on the settlement of a non-cash distribution reflects management's stewardship of the entity (in the same way as if the gain or loss were realised on the sale of the non-cash asset to a third party).

We therefore consider it appropriate to recognise the difference between the carrying amount of non-cash asset (or group of assets) and the carrying amount of the dividend payable in comprehensive income.

While we can see an argument for reflecting the gain or loss in other comprehensive income, we are content for the gain or loss to be reflected in profit or loss provided it is required to be disclosed as a separate line item and is therefore transparent to users of the financial statements.

**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 IFRS5 *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 IFRS5 to non-current assets that are held for distribution to owners? If not, why and what alternative would you propose?**

The Board noted that IFRS5 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. For assets held for distribution to owners, this raises the following three questions:

- a) Should an entity apply IFRS5 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 IFRS5 at the commitment date, what is the difference? What indicators should be included in IFRS5 to help an entity to determine that date?

We concur in principle that an entity should apply IFRS5 when it is committed to make a non-cash distribution because the carrying amount of the non-cash asset (or group of assets) concerned will no longer be recovered through continuing use. However, we do not think that the requirements of IFRS5 will come into play very often in practice. From a measurement perspective, IFRS5 would have an effect only in the (probably) rare circumstances that the fair value of the non-cash asset (or group of assets) that is to be distributed is lower than its carrying amount. From a disclosure perspective, the effect of IFRS5 will be seen only if the period between the recognition and settlement of the liability straddles a reporting date (typically this period is short and is unlikely to straddle a reporting date).

Under IFRS5, a non-current asset (or disposal group) is classified as held for sale if, inter alia, the appropriate level of management is *committed* to a plan to sell the asset (or disposal group) and actions required to complete the plan indicate that it is unlikely that significant changes to the plan will be made or that the plan will be withdrawn (IFRS5 paragraph 8).

Under the Framework, a liability is recognised when there is a present *obligation* on the entity arising from a past event (Framework paragraphs 60-64). IAS10 specifies that an entity has an obligation to make a distribution only when the distribution has been appropriately authorised and is no longer at the discretion of the entity (IAS10 paragraph 13). Accordingly, it is customary for an interim dividend (which does not require approval by shareholders) to be recognised when it is paid and a final dividend to be recognised as a liability when it is declared (following approval by shareholders).

Whether there is a difference between the date on which a non-cash asset (or group of assets) that is to be distributed falls within the scope of IFRS5 (the commitment date) and the date on which the liability is recognised (the obligation date) depends on whether the requirement (if any) for shareholders to authorise the distribution proposed by management would prevent management from taking the view that its proposal is unlikely to be significantly changed or withdrawn.

While it is rare in practice for shareholders not to authorise a distribution proposed by management, we believe that it would be wrong to for management to take for granted the authority of shareholders. We therefore believe that in practice the commitment date will be the same as the obligation date, i.e. a distribution of non-cash assets would not come within the scope of IFRS5 until the distribution has been authorised by shareholders.

Please feel free to contact me if you wish to discuss our comments on the proposals.

Yours sincerely

A handwritten signature in blue ink, reading "Mark R. Smith", followed by a vertical line.

**Mark Smith**

*Secretary*

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