



Association pour la participation des  
entreprises françaises à l'harmonisation  
comptable internationale



Mouvement  
des Entreprises de France  
MEDEF

A F E P

Association Française des Entreprises Privées

IFRIC  
30 Cannon Street  
London EC4M 6XH  
UK

Paris, April 18, 2008

**Re : D 23 *Non-cash dividends***

ACTEO, AFEP & MEDEF welcome the opportunity to comment on the IFRIC exposure draft "D23 : *Non-cash dividends*".

We support the issuance by IFRIC of an interpretation on non-cash dividends in view of eliminating the divergence of practice that may have arisen and in order to ensure a faithful representation of those distributions, in compliance with the existing standards.

We tend to support the analysis carried out by the IFRIC in the draft interpretation. However we observe that applying D23 would lead in certain circumstances to accounting mismatches which in our view are not acceptable. As a result, we believe existing IFRS should be amended before D23 is finalised. To avoid accounting mismatches, one solution might be to create a specific category of assets held for distribution that would be measured at fair value as of the date the distribution is decided. Our rationale is explained in detail in the appendix.

In addition, we believe that the interpretation should require, as a first step once the distribution is made, to assess whether the conditions for derecognition of the asset are met.

Should you wish any supplementary comment or explanation, please do not hesitate to contact us.

Yours sincerely,

**ACTEO**

**Patrice MARTEAU**  
Chairman

**AFEP**

**Alexandre TESSIER**  
Director General

**MEDEF**

**Agnès LEPINAY**  
Director of economic  
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## **APPENDIX 1 to ACTEO, AFEP & MEDEF letter commenting ED 9 Joint Arrangements :**

### **Answers to the invitation to comment**

#### **Foreword : *Not all distributions will generate a liability***

The interpretation excludes implicitly situations when the distribution decision would be made in such conditions that the asset should be derecognized immediately. In those circumstances, no liability would be recognized. We believe that the final interpretation should acknowledge, one way or another that such circumstances may arise. The first question an entity needs to answer is whether the asset to be distributed meets derecognition criteria.

#### ***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 ?*

ACTEO, AFEP & MEDEF support the proposal that all dividends payable, regardless of the type of asset to be distributed, should be addressed by one single standard to ensure that all dividends payable are accounted for in the same way. The existing IAS 37 as implemented in practice seems to us a good candidate. Furthermore we believe that the economic representation of the distribution is indeed the fair value of the asset. As a result we agree that the liability should be measured at initial recognition at an amount equal to the fair value of the asset.

We note however that such a measurement would create an accounting mismatch between the liability and the asset, in circumstances where the asset is accounted for at cost less depreciation and impairment. This accounting mismatch is all the more unfortunate that the asset is to be used to settle the liability in full at the time the distribution becomes effective. We therefore do not approve of the IFRIC finalizing any interpretation on the basis of D23.

Instead we believe the IFRIC should recommend the IASB to amend existing IFRS, so that the asset be remeasured at fair value at the time the liability is recognized. To that purpose we include suggestions for a possible amendment of IFRS 5 in our answer to question 3.

#### ***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 ?*

We agree with the IFRIC that any difference between the carrying amount of the assets distributed and the carrying amount of the dividend payable at settlement date should be recognized in profit or loss. The difference results in our view from the increase in value of the asset throughout prior periods. It has been generated from past decisions to invest, hold and manage the asset and not by the distribution transaction. Actually we believe that the impact on the entity's profit or loss should be the same whether the entity transfers the asset directly or whether the entity has to sell it before settling the liability in cash.

***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 ?*

Although IFRS 5 refers specifically to cash flows arising from the asset to be primarily recovered by sale, we believe that in substance the objective of the standard is to highlight that assets held for sale will no longer contribute to, and be available for, the operations of the entity. Assets held for distribution do play in our view the same economic role as assets held for sale and therefore should be presented similarly, if and when they meet IFRS 5 criteria.

We believe that the entity becomes committed to make a distribution only when the shareholders have made the decision. Indeed management has received delegation to decide of disposals of assets whereas management does not decide, only propose, distribution. As a result we believe that commitment and obligation coincide. Consequently IFRS 5 criteria cannot be met before the entity has incurred the liability. We agree that the interpretation should clarify that commitment and obligation dates are the same.

However, we believe that the IASB should amend IFRS 5 further, and identify a separate category of assets held for distribution. Assets or disposal groups would be classified as held for distribution as soon as the distribution decision is made and the entity becomes irrevocably liable to its shareholders. In addition, the classification as held for distribution would trigger the remeasurement of the asset at fair value.

We recommend measuring the assets held for distribution at fair value in order to eliminate the accounting mismatch highlighted in our answer to question 1. In addition, we believe that there are sufficient distinctive characteristics between assets held for distribution and assets held for sale to justify a different measurement basis :

- at the time assets would be classified as held for distribution, all terms of the transaction with the entity's shareholders would have been already agreed, whereas assets can be classified as held for sale when management is committed to a plan to sell only;
- distributions are not exchange transactions; as a result the entity does not expect any asset in exchange for the asset held for distribution and hence does not bear the risk of non-performance by the counterparty. In contrast, an entity having secured a sale transaction for an asset held for sale runs the risk that the third party fails to perform under the contract.

The gain arising from the revaluation of the asset should be recorded in P/L. We believe that this is consistent with our analysis that the disposal of the asset is fully secured.

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