

D23 Comment Letters
International Accounting Standards Board
30 Cannon Street
London EC4M 6XH
United Kingdom

22 April 2008

Dear Sir/Madam,

IFRIC D23 Distributions of Non-Cash assets to owners

Mazars welcomes the opportunity to comment on the IFRIC Draft Interpretation D23 Distributions of Non-Cash assets to owners (referred to as D23). Our general comments are given below. Responses to the specific questions included in the Draft Interpretation refer to these general comments.

We agree that existing IFRS lacks guidance on the accounting for distributions of non-cash assets to owners. We therefore support the IFRIC's decision to develop guidance on this issue.

However, we would like to express the following concerns regarding the proposals in D23 :

1. Scope of D23 is unclear

D23 does not apply to a distribution of an asset that is ultimately controlled by the same parent entity before and after the distribution, i.e. distribution of an asset within the same group (§ 5). This exclusion applies to both the separate and consolidated financial statements of an entity that makes the distribution.

In the case of a sub group B presenting IFRS consolidated financial statements, B being consolidated in the IFRS financial statements of group A, it is not clear whether D23 applies to a non-cash distribution of B to A (in the consolidated financial statements of B). In other words, in the consolidated financial statements of B, should a non-cash distribution of B to A be analysed as a distribution within the same group or not ?

We understand that distribution of an ownership interest in an entity that is ultimately controlled by the same parent entity before and after the distribution according to IAS 27 (including transactions such as “partial spin off”) is out of the scope of D23. We think IFRIC should make it clear that such transactions are excluded from the scope of D23. We agree with this exclusion, as no assets are derecognised in this case. We believe IFRIC could indicate in the Basis for Conclusions that such transactions should only generate a transfer from “Reserves attributable to the equity holders of the parent” to “Minority interests” (for the fraction of the carrying amount of the net assets corresponding to the % of ownership interest distributed), as required in IAS 27 Revised. In this case, we suggest IFRIC recommends disclosing the fair value of ownership interest distributed.

2. We agree that the decision to distribute a non cash asset results in a liability, accounted for at the fair value of the assets distributed

According to D23 (§ 8), when an entity declares a distribution and has an obligation to distribute the assets concerned to its owners, it must record a liability for the dividend payable. We agree with this requirement.

According to D23 (§9), an entity shall measure a liability to distribute non-cash assets as dividends to its owners in accordance with IAS 37. We agree with this proposition, though we believe that, in theory, IAS 37 should apply to distribution of non financial assets and IAS 39 should apply to distribution of financial assets. Indeed, we think there should be little difference to account for the liability under IAS 37 or IAS 39. IAS 37 requires an entity to measure a liability at the best estimate of the expenditure required to settle the obligation. D23 indicates that an entity shall consider the fair value of the asset distributed to measure the amount of dividend payable. We agree with this approach in this specific case, but consider that the fair value of the expenditure does not always reflect the best estimate for other transactions under the scope of IAS 37. This point should be specified in the Basis for Conclusions.

3. We agree that any difference between the carrying amount of the assets distributed and the fair value of the assets distributed should be accounted, for under profit and loss when the entity settles the dividend payable

We acknowledge that an asset distribution is a transaction between an entity and its owners which could be recognised through equity. However, we believe that any difference between the carrying amount of the assets distributed and the fair value of the assets distributed (normally a gain) should be accounted for under profit and loss because it represents an unrecognised gain on the asset distributed. Indeed, we consider this transaction is similar, in substance, to selling the asset and distributing cash to owners.

We note that D23 indicates that the difference between the carrying amount of the assets distributed and the fair value of the assets distributed should be accounted for under profit and loss when the entity settles the obligation, i.e. distributes the assets. We agree with this requirement. Indeed, we think that derecognition of the assets distributed should be accounted for according to the requirements of IAS 27 for consolidated ownership interests, IAS 39 for financial assets and IAS 16 for Property Plant and Equipment. We believe that, in most cases, assets should be derecognised when the entity settles the dividend payable. We think the date of derecognition of assets distributed should be specified in the Basis for Conclusions.

4. The measurement of the liability proposed by D23 leads to a temporary drop in equity in the event the closing date falls between the date of the shareholders' meeting that decided to distribute the assets and the effective distribution of assets

We note that the requirements of D23 will lead to the accounting of a liability corresponding to the fair value of the assets distributed, while those assets will not necessarily be accounted for at their fair value. This could lead to a temporary drop in equity.

Indeed, in the event the closing date falls between the date of the shareholders' meeting that decided to distribute the assets and the effective distribution of assets, we note that, for distributed assets which are not measured at fair value and whose fair value exceeds their carrying amount, the accounting treatment indicated by D23 calls for reducing equity by the fair value of the distributed assets at the closing date, whereas these same assets are not remeasured at fair value. Indeed, according to D23, it is only at the date of distribution that the assets are remeasured and a capital gain is recognised.

We believe this drop in equity could be avoided by allowing the entity to remeasure the assets distributed when the liability is recognised. Remeasurement at fair value could be accounted for in equity until the assets are distributed, the amount accounted in equity being recycled in profit or loss at the date of the distribution. We acknowledge this proposition is not within the competence of IFRIC.

5. There should be one exception to the obligation to measure the dividend payable at fair value

We do not agree with IFRIC when it states that management knows the fair value of the asset, because it has to ensure that all owners of the entity within the same class are treated equally. Indeed, fair value is not necessarily needed to ensure equal treatment between owners when the entity has a sole owner or when the assets distributed are fungible.

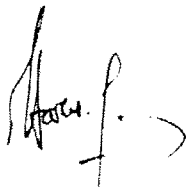
As we have mentioned in point 2, we consider IAS 39 should apply in theory to distribution of financial assets. We note that IAS 39 acknowledges that fair value of financial instruments cannot always be determined reliably. Therefore, we believe that an exception should be made to measure the dividend payable at fair value in the rare circumstances when the asset distributed is a non-listed equity investment whose fair value cannot be measured reliably.

6. We agree that an entity should apply the requirements in IFRS 5 to non current assets held for distribution to owners

We believe an entity should apply IFRS 5 when it is committed to make a distribution, and not when it has an obligation to distribute the assets. In many jurisdictions, we believe those dates could be different. Indeed, the date the entity has an obligation of distribution should refer to the decision of the shareholders Annual General Meeting, whereas the date the entity is committed to make a distribution should refer to the proposition of distribution made by the Board of directors, as we think the distribution is highly probable at that date. Therefore, assets held for distribution to owners should be classified as held for sale as required in IFRS 5 before the liability is recognised.

We would be pleased to discuss our comments with you and remain at your disposal should you require further clarification or additional information.

Yours sincerely



Michel Barbet-Massin
Head of Accounting Principles Department

Appendix :

Responses to the specific questions included in D23 refer to our general comments in the cover letter.

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

See point 2 of our cover letter.

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

See point 3 of our cover letter.

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

See point 6 of our cover letter.