

IFRIC D23 Comment Letters  
International Accounting Standards Board  
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Stockholm, April 29, 2008

## Draft Interpretation D 23

### Distributions of Non-cash Assets to owners

The Swedish Enterprise Accounting Group (SEAG) is a forum for Chief Accountants from the largest Swedish listed companies. SEAG is administered by the Confederation of Swedish Enterprise, to which most participating companies of SEAG are joined.

After discussions with our colleges around in Europe regarding the D23 we have come to the same conclusion as was issued to you from the SwissHoldings.

Below is a copy of the response sent to you from SwissHolding to which we give our full support. We only would like to add as a general remark that based on past experience, to our knowledge, no company has come up with the idea to report this type of transactions over the income statement up until this date.

#### **A. General Remarks**

We are rather uncomfortable with the proposed interpretation for several reasons, which we list below before going on to address the specific questions you raised in the draft.

- The draft seems innocuous in dealing with a minor point lacking clarity, but we believe that the potential impact is in fact more far-reaching. Consequently we have serious doubts whether it is appropriate due process to consider the matter via an interpretation. The majority of transactions of this nature are likely to be significant spin-offs rather than distributions of individual assets, and the proposals would mean a quite appreciable change in practice in this area. Some of our member companies have considerable past experience in this field and are extremely concerned about the implications of this proposal. This is because that to put a fair value on a distribution in kind will de facto result in the requirement to use the "fresh start" fair value approach when establishing the balance sheet of the spun-off entity. This is a substantial change from current practice and in our opinion needs full Board and IASB due process before such a radical change is introduced. It would also result in considerable challenges in preparing an historic track record for the

spun-off entity which is normally required by regulatory authorities if the entity is to be quoted on an exchange. Spin-offs are in substance very closely linked to consideration of situations with common control, and it would be more appropriate to consider their treatment in the project dealing with that topic, along with acquisitions involving common control. As a minimum, therefore, spin-offs should be scoped out of this interpretation.

- We fear that we are again in the situation, as with IFRIC 3, of having an interpretation which is (possibly) in line with existing standards but which does not produce a sensible answer. We use the qualification "possibly" because we do not interpret IAS37 as requiring measurement at fair value: we do not see "expected value" as meaning a (hypothetical) transfer value, including some profit margin, at reporting date in some non-existent market. It is also worth bearing in mind that such transactions are made – by definition – with related parties, so that it may be difficult to talk in terms of "fair value" in many circumstances.

- A distribution is in our view a transaction with owners without P&L effect.

- The proposal would in most cases create a meaningless mismatch in the balance sheet between the liability and the asset. This militates against common sense as both refer to the same object. (IFRS3R appears to recognise this by ensuring that assets linked to liabilities in acquisition accounting are measured on the same basis.)

- - The owners and investors need to have information on the current value of the assets being distributed, but we believe that this is better achieved by disclosure (inter alia among the disclosures on related parties) than by creating fictive, theoretical accounting entries which are not judged particularly useful by users or preparers.

- A little more consideration needs to be given than in D23 to the interrelationship of the dividend declaration and the conditions for de-recognition of the assets involved: in many cases these may already be met at the point of declaration.

## **B. Specific Questions**

**Question 1:** *Do you agree with the proposal? If not, do you agree that dividends payable should be addressed by a single standard? Why? What alternative do you propose?*

We do not agree. In addition to the reasons given in the General Remarks above, we think that:

- There is no compelling reason of substance why similar but not identical transactions have to be dealt with in the same standard – this is purely a matter of form – especially where this leads to conclusions which do not align with common-sense solutions. This would be the case with the recognition of a liability at a different amount from that of the asset. We see as a more rational alternative the commonly used approach in spin-offs of de-recognising the assets at their carrying value with no P&L impact: if it is necessary to record a liability because the conditions for de-recognition are not yet met (control, transfer of risks and rewards etc.), this should be at the same carrying amount.

**Question 2:** *Specifying how any differences 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. Which view do you support and why?*

As explained above, we believe that any dividend payable should be recorded at the carrying amount of the asset. A transaction with owners should not result in an effect on P&L.

**Question 3:** *Whether an entity should apply the requirements in IFRS5 to non-current assets held for distribution to owners. Should an entity apply the requirements in IFRS5 to non-current assets held for distribution to owners?*

Following on from our remarks above, we do not believe that IFRS5 requirements would in general be appropriate. Firstly, applying IFRS5 to assets committed to be distributed but still being used by the entity would in our view lead to a distortion of economic reality as their depreciation would cease. Secondly, in many circumstances the value defined by IFRS5 will often still result in a mismatch between asset and liability (if the latter were at fair value.) We also considered whether the assets involved should be transferred to a single current heading in the balance sheet: we concluded, however, that this information is better given as a disclosure, rather than changing the presentation of assets generally still being used in the entity's operations.

- 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?*

As said above, IFRS5 should not be applied. A dividend payable equal to the book value of the assets to be distributed should be recorded when the dividend is declared, as with cash dividends.

- b) *Do you think there is a difference between those dates?*

There will often be a difference between dividend declaration date and the date of the actual distribution (point of de-recognition.)

- 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?*

Any changes in the carrying value of the assets between declaration and de-recognition/distribution should be reflected in the carrying amount of the dividend payable and in equity.

Yours sincerely,

CONFEDERATION OF SWEDISH ENTERPRISE

Carl-Gustaf Burén  
Secretary of the Swedish Enterprise Accounting Group