

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

25 April 2008

IFRIC Draft Interpretation D23 Distributions of Non-cash Assets to Owners

Dear Committee Members:

UBS appreciates the opportunity to comment on Draft Interpretation 23, *Distribution of Non-cash Assets to Owners*. We conceptually agree with the proposed guidance. However, the Draft Interpretation references IAS 37 as the appropriate measurement standard for non-cash assets distributed to owners and makes repeated use of the term fair value. Fair value is not a term used in current IAS 37, and we are concerned that use of this term could be interpreted by some to mean that IAS 37 requires liabilities in its scope to be measured at fair value. We note that the Draft Interpretation states that in order to measure the liability "an entity shall *consider* the fair value of the assets to be distributed." By using the term "consider" we believe that it is clear that it is not the IFRIC's intention to require the dividend liability to be measured at fair value or to imply that IAS 37 is a fair value measurement model. However, for the avoidance of doubt, we suggest that the IFRIC clarify, perhaps in the basis, that the Draft Interpretation should not be read so as to imply that IAS 37 requires liabilities to be measured at their fair value.

Paragraph 11 of the Draft Interpretation requires changes in the carrying amount of the obligation to be recognized as adjustments to the amount of the distribution. However the guidance does not specify whether this adjustment should be recognized in equity or profit or loss. The basis for conclusions clarifies that this adjustment should be recognized directly in the statement of changes in equity in accordance with IAS 1. We suggest that such guidance be included directly in the body of the Draft Interpretation.

Comments on the specific questions raised in the Draft Interpretation are included in the Appendix to this letter. If you have any questions or response please contact Ralph Odermatt at +44 236-8410 or John Gallagher at +1 203-719-4214.

Regards

UBS AG

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Appendix

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 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?

We conceptually agree with the proposals and agree that all dividends payable should be addressed by a single standard. We accept the Board's arguments that the most appropriate standard is IAS 37. However, we have certain concerns about the wording used in the Draft Interpretation. The term fair value is used throughout the Draft Interpretation and we are concerned that some may misinterpret its usage as requiring IAS 37 liabilities to be measured at fair value. We do not believe that this is the IFRIC's intention as the Draft Interpretation specifies that the liability should be measured by reference to the assets to be distributed. To avoid misinterpretation, the IFRIC should clarify that requiring consideration of the fair value of the assets should not be interpreted as requiring the obligation to be measured at fair value.

Further, the basis for conclusions notes that the Board also considered whether IAS 39 was the appropriate standard. It would be helpful if the Board explained what measurement differences would occur if the Draft Interpretation referenced IAS 39 rather than IAS 37.

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 recognized 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 recognized directly in equity (see paragraph BC44).

Which view do you support and why?

We support the view that any difference between the carrying amount of the assets distributed and asset's fair value on the date of distribution should be recognized in profit or loss. Distribution of such assets impacts the value of the entity as they are no longer available for use or sale. This also makes such distributions consistent with cash transactions, that is, the distribution could be viewed as two separate transactions, a sale of the asset and a declaration of a dividend on the proceeds. Thus, it is appropriate to reflect this change in value in profit and loss. However, we believe that any changes in the dividend liability between its recognition and the distribution date should be recognized in equity as clarified in the Draft Interpretation's basis. We recommend that such guidance be incorporated directly into the Draft Interpretation.

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?

- a. We agree that IFRS 5 should be applied to non-current assets held for distribution to owners. We believe that application of IFRS 5 as currently drafted would result in the assets being recognized as held for sale at the commitment date. We agree with this approach as it will result in consistent treatment of assets that the entity intends to sell and distribute. However, such presentation may be confusing when commitment date occurs earlier than obligation date. In such cases, the asset will be recognized as held for sale without recognition of the related dividend liability. This is because the dividend liability will only be recognized when the entity has a present obligation that meets the definition of a liability which will only occur on the obligation date. This issue could be addressed by added disclosure.
- b. As noted above, we do believe that there could be a difference between commitment date and obligation date.
- c. An example of a difference between commitment date and obligation date is when a proposed distribution requires shareholder approval. The commitment date would occur when management announces its plan to ask for shareholder approval, and the obligation date would be when that approval is granted.