



LONDON SOCIETY
OF CHARTERED
ACCOUNTANTS

3 April 2008

International Accounting Standards Board
First Floor
30 Cannon Street
London
EC4M 6XH

Dear Sir

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

With a membership in excess of 30,000, the London Society of Chartered Accountants (LSCA) is the largest of the regional bodies which form the Institute of Chartered Accountants in England & Wales (ICAEW). London members, like those of the Institute as a whole, work in practice or in business. The London Society operates a wide range of specialist committees including Technical, Taxation, Regulation and Ethics Review and Financial Planning, which scrutinise and make representations to bodies such as yourselves.

We welcome the opportunity to comment on IFRIC Draft Interpretation D23 and set out below our overall and specific comments.

Overall comments

We do not support the draft interpretation for the reasons set out below.

Purpose of interpretation?

We understand that the IFRIC is aiming to ensure the full liability for any dividend payable, whether payable in cash or some other asset, is recognised in accounts. However, we question the usefulness and purpose of the interpretation as we believe the scope is too limited to be useful. When dividends are payable in cash, the liability is automatically recorded. Dividends in specie are most typically made within group situations and may, for example, be settled by land and buildings being transferred between group companies (usually at book value). In such a situation, the interpretation will not apply.

Fair distribution?

We note that BC21 states that the management of an entity is expected to know the fair value of any asset that is being distributed to owners so that all owners of the entity within the same class are treated equally. Whilst we agree that management should be aware of the true worth of any asset held by the entity, we do not see that there is a specific need to obtain a professional fair value of a non-cash asset that is being distributed so long as all of the shareholders in a class are receiving the appropriate proportion of that asset in accordance with their actual shareholdings. In the UK, for instance, assets do not need to be fair valued in order to make a distribution so it seems unduly onerous for an entity to have to incur the cost of

obtaining a valuation of a non-financial asset solely for the purpose of it being distributed to the very people who already own it.

Legally, it is only essential for there to be sufficient distributable profits to cover the book value of the asset transferred. Furthermore, it is unlikely that a building will be distributed to a number of shareholders so we believe in most cases it will be reasonably easy to ensure that all shareholders are fairly treated even if the entity does not know the exact monetary worth of the individual portions received.

Recognition or disclosure?

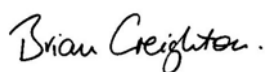
We are concerned that the IFRIC may be focussing too heavily on the fair value of what has been given away as a dividend in specie rather than requesting sufficient disclosure to be given in the accounts so that stakeholders can fully assess the nature of the asset that has been distributed as well as its worth. After all, the overall reduction to retained earnings arising from a dividend in specie, (ie the original recorded distribution less any profit recognised on "disposal"), will be the same as the initial carrying value of the asset that has been distributed in specie. We are therefore not convinced that showing a liability at fair value at the year end is of particular use when details of what has been (or will be) distributed could instead just be disclosed. We do not think that recognition in the accounts on a grossed up basis between retained earnings and the income statement is essential so long as disclosure is sufficient.

Specific comments

On the assumption that the IFRIC proceeds with its proposals, our responses to the specific questions raised in the Draft Interpretation are set out in the attached appendix.

We trust you find our comments helpful in the consultation process and please do not hesitate to contact our Chairman, Brian Creighton, on +44 (0) 20 7893 3415 if you wish to discuss any of our comments further.

Yours sincerely

A handwritten signature in black ink that reads "Brian Creighton." The signature is written in a cursive, flowing style.

Brian Creighton
LSCA Technical Committee Chair

Specific Questions Asked in the Draft Interpretation

1 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 agree that all dividends payable should be addressed by a single standard regardless of the type of assets that will be satisfying that distribution. We do not believe that distributions to owners should be accounted for differently according to their form or nature of settlement. Referring to a single standard should assist preparers achieve both consistency of accounting treatment between companies and over time which will improve the understandability of accounts. Referring to a number of IFRS standards would unnecessarily complicate the recognition of dividend payables and would not give rise to any benefit and could even lead to an inconsistent measurement basis.

However, we do not believe that the draft IFRIC serves this purpose. It scopes out both distributions in which owners of the same class of equity instrument are not treated equally and also dividends within groups. We therefore believe that a separate project should be undertaken, probably by the IASB, to address the accounting for all dividends.

We note that in BC15 the draft interpretation recognises that IAS 39 primarily sets out the accounting for financial instruments and does not address either non-contractual obligations or liabilities to distribute non-financial assets to owners. However, IAS 37 does not fully address the dividend issue either.

Although IAS 37 may be thought of being the more relevant standard to cover non-contractual obligations, we believe that IAS 39 would generally give a more appropriate answer when the carrying value of the liability is revised over time. For instance, a dividend payable would initially be measured at fair value under both IAS 37 and 39 but over time the measurement of the liability could be very different when unclaimed dividends are considered. Specifically, IAS 37 would require the best estimate of the liability to be recorded which would be based on the expected cash (or other asset) outflow. This could lead to a significant debit to equity in the year of recognition which could then be subsequently revised in the following year(s) creating a large credit. By contrast, IAS 39 would require the company to record the (higher) amount that is still actually payable until there is definitive evidence that the amount is no longer payable. This would be the more meaningful measure as that is the obligation.

We also note that, from a group perspective, a distribution of either a financial or a non-financial asset does not necessarily neatly fit in to either IAS 37 or IAS 39. We have shown above that where unclaimed (cash) dividends are concerned, IAS 37 will not give rise to recognising the technically correct obligation but IAS 39 does not provide a complete answer where non financial assets (excluding the gift of shares) are concerned. For these reasons we believe that a separate project should look at this issue in more depth and cover all dividends payable and not just certain non-cash asset distributions.

2 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?

If a full liability is to be recognised in the accounts, then we support the recognition of the difference between the carrying amount of the asset to be distributed and the dividend payable to be shown in the income statement at the point of the actual distribution. This is on the basis that a liability has been recognised in the accounts based on the amount of the distribution that was thought payable. If this subsequently is found to be effectively overstated then the liability should be written down through the income statement in accordance with normal accounting practice. It is also consistent with the fact that the gain really relates to a movement on the fair value of the asset and is effectively a profit on disposal (although the gain could in some ways be thought of as being artificial as the shareholders have chosen to make the distribution to themselves). We do not believe that the uplift is actually part of the overall distribution made to owners, as recognised in BC31.

The alternative view does have an initial appeal in that the dividend recognised in equity is being adjusted to the carrying amount of the asset that is being removed but this approach fails to recognise the actual worth of the dividend that has been distributed, ie the fair value of the asset no longer held by the company. As such, it does not fully satisfy the IFRIC's intention for a dividend to be fully recognised. Neither, in the absence of detailed disclosure, does it give stakeholders the full story of what has been gifted to shareholders by way of dividend. This approach to the presentation of the "gain" could also be open to abuse. For example, a company could have a history of making distributions by way of dividend in specie and therefore deliberately carry properties at cost rather than fair value or depreciate them aggressively. In these situations, the full worth of a distribution in specie to owners could be severely masked as the amount transferred at an undervalue on settlement of the liability would not be fully reflected in equity. In addition, the credit taken to the income statement could significantly increase earnings per share.

3 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?

We agree that IFRS 5 should be revised in order for it to cover the situation of a distribution to owners. There is little merit in creating a new standard to cover a situation which can be reasonably easily fixed by slightly revising an existing standard. IFRS 5 provides a easily workable solution to recognise a “disposal” to owners.

We would therefore suggest that reference to IFRS 5 is made within the consensus of the interpretation and it was not just included in the basis for conclusions.

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?

We believe that the entity should apply IFRS 5 when it is committed to make a distribution and that distribution will be satisfied by a non-cash asset. In practice, there will probably be little time between the date that the company becomes committed to the distribution and when it has an obligation to distribute the assets as it will be the owners who are approving the initial distribution and it is that approval which triggers the obligation to distribute the assets. The actual date that the asset is transferred to the owner is irrelevant as this event is purely the satisfaction of a liability that has been recognised at an earlier date.

We note that in the UK IFRS 5 will only be relevant to final dividends in specie rather than interim dividends as the latter will only be reflected once the directors have decided to distribute in this way and have actually satisfied the liability so nothing will be carried in the balance sheet.