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International Financial Reporting Interpretations Committee  
(IFRIC)  
30 Cannon Street  
London EC4M 6XH  
United Kingdom

Dear Sirs,

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

The Institute of Professional Accountants of Russia (IPAR) is pleased to respond to the International Financial Reporting Interpretations Committee's (the IFRIC's) draft interpretation D23 *Distributions of Non - Cash Assets to Owners* (hereafter referred to as the "draft interpretation").

We welcome guidance on the aspects of cash dividend payout substitutes as the pragmatic occurrence of such entity distributions to owners, we believe, is likely to gain an increasing level of momentum globally, particularly amongst "small - to - medium" sized organisations. Our views on the draft interpretation are as expressed in the paragraphs that follow.

International Financial Reporting Standards (IFRSs) do not currently provide any related guidance on how an entity should measure dividend distributions to its owners. We concur with particular reference being drawn to paragraph 36 of IAS 37 *Provisions, Contingent Liabilities and Contingent Assets*, regarding the best estimate of dividend distributions, as far as related liability measurability thereof is concerned. Justifying reasons, based on the need for the liability's measurement basis to consider the fair value of the non - cash asset being distributed, indicative of the need to derive a liability value using the best estimate of the expenditure required to settle the liability, are duly acknowledged and appreciated. We also support the initial recognition timing of the dividend based liability tracking the date the entity actually declares a related distribution and therefore has an obligation to deliver the assets concerned to its owners. Apart from the general recognition criteria guidance offered by IAS 37, IAS 10 *Events after the Balance Sheet Date*, paragraphs 12 and 13, lend additional support to the recognition date of a dividend payable. In this regard, it is pleasing to note the convergence and integration of the different international accounting standards within the IFRS framework.

Regarding the treatment, upon dividend payable settlement, of any difference between the carrying amount of the distributed assets and the carrying amount of the dividend payable, we note that the draft interpretation currently proposes that any such difference be recognised in profit or loss. The potential difference, as duly justified in BC29 of the draft interpretation, and with which we concur, should always likely be a credit balance (referred to herein after as the "credit balance"). Whilst acknowledging the "basis for conclusion" commentary offered by paragraphs BC28 - BC43, supporting the credit balance's income statement based treatment, we do have reservations on this related accounting treatment proposal.

We support the view currently offered by paragraph BC44 of the draft interpretation, and in turn, offer additional arguments towards the potential applicability of the "alternative" equity treatment.

Although IFRIC clearly acknowledges that an asset distribution to entity owners should be recognised as owner based changes in equity in accordance with IAS 1 *Presentation of Financial Statements* (as revised in 2007), the main point of challenge seems to be hinged on the view that the credit balance does not appear to arise from the distribution transaction but instead is representative of cumulative unrecognised gains associated with the distributed asset and is therefore reflective of the performance of the entity during the period the asset is held until actually distributed. We are of the opinion that the offered reasoning may well lead to an inappropriate accounting, particularly when considering an example where an asset that falls within the scope of IAS 16 *Property, Plant and Equipment* and an entity applies the revaluation model to the respective class of assets. Presuming such an asset was revalued just before the dividend declaration, the revaluation surplus would accordingly be recognised in equity. Ultimate asset derecognition, upon asset distribution, would further result, in accordance with IAS 16 paragraph 41, in the revaluation surplus being transferred directly to retained earnings, ie within the statement of changes in equity. A similar situation may arise with an intangible asset that is accounted for under the revaluation model in accordance with IAS 38 *Intangible Assets*. At the same time, if an entity would have selected the cost model under one of the above standards, applying the conclusion suggested in the draft interpretation would lead to a completely different accounting result.

We are of the view that the above point should, in substance, have a consistent degree of relevance in application to the subject matter at hand. We believe that the fair value excess over the historical carrying value of the distributed asset may well be specifically attributable to the asset for a host of different reasons (including but not limited to, for example, changes in the prevailing general macroeconomic environment, changes linked to the liquidity of the asset market facilitated through the deregulation of previously enacted market access restrictions, technological changes, etc) and therefore not indicative of performance income linked benefits accruing to the entity.

We are of the view that asset distribution transaction treatment should bear in mind the nature of the asset being distributed and the associated asset's derecognition accounting treatment that would have followed had an asset revaluation occurred prior to related dividend declaration. Specific reference is drawn to paragraph BC37 of the draft interpretation in this regard. There might even be justifiable merit in providing an income statement and equity based treatment option for accounting for such non-cash asset distributions, option fulfillment of which will be based on the nature of the assets distributed, ie ultimately centred on whether fair value asset gains would be recycled through the income statement or merely transferred to distributable earnings through equity. We do not think that this view would necessarily be contradictory but on the contrary, if appropriately structured and implemented, instead enhance the representational faithfulness of a set of financial statements involving such transactions.

We acknowledge and support, in principle, the current relevance of IFRS 5 *Non-current Assets Held for Sale and Discontinued Operations*, to non-current assets held for distribution to owners. Clearly, as indicated in BC47 of the draft interpretation, adopting the principles of IFRS 5 with the view towards providing supportive literature guidance on the accounting treatment of non-current assets held for distribution to owners, would necessitate related amendments to the current IFRS 5 version in this regard, as IFRS 5 presently applies to non-current assets (or disposal groups) *held for sale*.

In substance, we believe related classification criteria, as currently in place in paragraphs 6 - 9 and 11 - 12 of IFRS 5 are relevant, and although applicable modifications would need to be made with reference to asset distribution transactions, should extend and incorporate the subject matter at hand. We are of the view that entity commitment and probability (highly rated) should be driving forces in asset classification as "non-current assets held for distribution to owners". A formal and bona fide commitment should be in place emphasising the intent behind the asset distribution. The plan's initiation (evidenced, eg through formally approved minutes acknowledging and approving the plan, asset ownership title/ registration change investigative efforts, etc) would be indicative of managements' commitment to the transaction. Applicability reference to a general 12 month transaction completion period is relevant and would again, be further indicative of managements' plan fulfillment commitment. The obligating event, driven by the actual dividend declaration date and therefore initiating dividend liability recognition, may accordingly, well be different to management's date of plan commitment.

Lastly, we are supportive of prospective application of the draft interpretation (once related exposure follows) and of the view expressed towards the permissibility of earlier application adoption.

We would be pleased to discuss our comments with you or your staff at your convenience should the need arise. If you have any related questions or feedback, please do not hesitate to contact the undersigned at +7(495) 699 3053 or oom@ipbr.ru.

Sincerely,

Oleg M. Ostrovsky  
General Director

