



LEMBAGA PIAWAIAN PERAKAUNAN MALAYSIA
MALAYSIAN ACCOUNTING STANDARDS BOARD

25th April 2008

The Chairman
International Financial Reporting Interpretation Committee (IFRIC)
30 Cannon Street
LONDON EC4M 6XH
UNITED KINGDOM

Dear Mr. Garnett,

**IFRIC Draft Interpretation D23 *Distributions of Non-cash Assets to Owners*
and D24 *Customer Contributions***

The Malaysian Accounting Standards Board (MASB) appreciates the opportunity to offer its views on the following 2 IFRIC Draft Interpretations:

- (i) D23: Distributions of Non-cash Assets to Owners; and
- (ii) D24: Customer Contributions.

D23 Distributions of Non-cash Assets to Owners

We support the issuance of an IFRIC Interpretation to provide guidance on the measurement of distributions of non-cash assets as dividends to the owners of an entity.

However, we are concerned that measurement of liability on the dividend payable at fair value on initial recognition may result in a mismatch with the corresponding non-cash asset to be distributed as dividend. This potential mismatch is due to different measurement basis adopted by an entity prior to the distribution.

D23 as it stands, may result in the financial statements of the entity not representing the true economics of the entity, particularly if such non-cash asset to be distributed is measured using the cost model. A higher liability is recorded at the date of recognition whilst the 'true' value of the non-cash asset given up is not reflected on the balance sheet. This issue of mismatch is critical if the timing of the recognition and settlement of the dividend payable are in different reporting periods.



Suggestion

A non-cash asset to be distributed should be remeasured based on the value of the asset at the time of distribution. The loss of future economic benefits of the non-cash asset to be distributed is a significant economic event, and therefore the value of such asset should reflect the change in how the future economic benefits of the asset is realised. This approach will be consistent with the principles in IFRS 5 which requires the remeasurement of an asset when there is a change in use of asset or IAS 36 which requires exchange of non-monetary assets to be recorded at fair value even there is no sale proceeds involved.

Other Suggestion

The Illustrative Example can be improved to provide better illustrations on how non-cash asset can be used for distribution. It is not common for an entity to distribute land as dividend.

D24 Customer Contributions

We support the conceptual basis of the draft Interpretation D24 but believe some of the provisions can be drafted better to clearly reflect their meaning. In other areas, more clarification is needed. The provisions in question are as explained below:

(a) Definition of customer and cash contributions

D24 defines a customer contribution as an item of property, plant and equipment that is contributed to an access provider which the provider is required to use it to provide access to a supply of goods or services to the customer/s. D24 defines a cash contribution as a payment of cash to an access provider to acquire or construct an item of property, plant and equipment that it must use to provide access to a supply of goods or services to a customer/s.

The above definitions appear to indicate that the contribution is in the form of a new asset that a service provider must use to provide the access to the supply of goods or services. However, this may not always be the case. There could be cases where the cash contribution is used to modify an existing supply line or property, plant and equipment to provide access to a supply of goods or services to a customer/s. There could also be



cases where the contribution is only to finance partly the property, plant and equipment used to provide access to the supply of goods or services.

We suggest the definition in D24 to be made clear whether the Interpretation applies to the cases mentioned in the preceding paragraph.

(b) Scope

Paragraph 4 of D24 states that the Interpretation applies to all situations in which an entity receives an item of property, plant and equipment or cash it is required to use to construct or acquire an item of property, plant and equipment that must be used to provide access to a supply of goods or services.

However, D24 is not clear on whether the Interpretation applies to situation where the asset contributed is used in conjunction with other assets to provide the access to a supply of goods or services. Therefore, we suggest the scope to be made clear on this aspect.

(c) Provision of access to supply of goods or services

Paragraph 11 of D24 requires the 'obligation to provide access to a supply of goods or services' (herein referred as 'obligation') to be reduced and revenue recognised as access to a supply of goods or services is provided. Paragraph 20 of D24 states that the period over which an entity has an obligation using a contributed asset may be shorter than the useful economic life of the asset, it cannot be longer.

We believe paragraph 20 of D24 - which prescribes the useful life of the contributed asset to be used as the parameter to determine the amortisation period - is prescriptive and had failed to take into account other circumstances, such as when the period of obligation using the contributed asset is longer than the useful economic life of the asset. This could happen in cases where the obligation is indefinite, perpetual or for exceptionally long period.

An example of such obligation is where a utility provider is required by law to provide the services, as pointed out in paragraph 18 of D24. In such a case, it is likely that the obligation would be longer than the economic useful life of the contributed asset. Therefore, to bind the amortisation period of the obligation with the useful life of the contributed asset would make paragraph 18 to be out of line with paragraph 20 of D24.



It would also be inappropriate to amortise the obligation over the exceptionally long or indefinite period as the revenue recognised would be negligible, resulting in an excessive built up in the obligation. The issue is aggravated by the need to consider the time value of money in measuring the obligation (paragraph BC22). If time value of money is to be taken into consideration, that requirement should be embodied in the Interpretation rather than the Basis for Conclusions which does not form an integral part of the Interpretation.

A better approach is for the Interpretation to provide general principles on amortisation of the obligation. However, additional guidance need to be provided to cater for circumstances as elaborated in the preceding paragraph.

(d) Determining whether the ongoing arrangement contains a lease

Paragraph 12 of D24 requires an entity that has received a contributed asset to assess whether the ongoing arrangement to provide access to a supply of goods or services using that asset contains a lease. Paragraph 14 of D24 states that if the arrangement contains an operating lease, the lease shall be accounted in accordance with IAS17. If the arrangement contains a finance lease, the entity does not have an asset that it may recognise. This is because the asset is recognised and the liability is settled immediately afterwards, and hence, the entity does not recognise either the contribution or the obligation to provide access.

The Interpretation needs to provide further guidance to facilitate the operationalisation of the requirement of paragraph 14. For example, it is not clear whether an entity needs to first recognise the contributed asset and the obligation, and immediately derecognise both the contributed asset and the obligation when the arrangement contains a finance lease.

(e) Accounting for a cash contribution

Paragraph 21 of D24 requires an entity that receives a cash contribution to first consider whether the asset that must be acquired or constructed as a result of receiving the cash contribution will meet the criteria for recognition as an item of property, plant and equipment of the entity. If not, the entity shall account for the cash contribution as proceeds for providing the asset to the customer, using IAS11 or IAS18 as applicable.



We suggest the Interpretation provides further explanation for cases where the cash contributions result in the application of IAS11 and IAS18 accordingly.

In addition, we noted paragraph BC25 states that there should be similar accounting outcome regardless whether the contribution is in the form of cash or property, plant and equipment. We believe it is important for this aspect to be clarified in the body of the Interpretation.

(f) Illustrative Examples

We suggest the Interpretation provides illustrative cases together with the appropriate accounting entries on accounting for: (a) contributed asset; and (b) cash contribution. The cases should also demonstrate arrangements involving a finance lease and operating lease respectively.

We thank you for the opportunity to give our comments. If you need further clarification on the response, please feel free to contact the undersigned at +603 2240 9200 or e-mail at nordin@masb.org.my.

Yours sincerely,

Dr. Nordin Mohd Zain
Executive Director