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**International
Accounting Standards
Board**

This document is provided as a convenience to observers at IASB meetings, to assist them in following the Board's discussion. It does not represent an official position of the IASB. Board positions are set out in Standards.

These notes are based on the staff papers prepared for the IASB. Paragraph numbers correspond to paragraph numbers used in the IASB papers. However, because these notes are less detailed, some paragraph numbers are not used.

INFORMATION FOR OBSERVERS

Board Meeting: 18 July 2007, London

Project: Annual Improvements

Subject: Dividends declared after the balance sheet date
(Agenda paper 5E)

1. The staff has identified that the following issue would be most appropriately resolved via the annual improvements process.

Issue: Should the guidance in IAS 10, *Events after the Balance Sheet Date*, relating to dividends be clarified to explain why a liability is not recognised for a dividend declared after the balance sheet date?

Staff recommendation

2. The staff recommends that the Board:
 - should add this issue to the annual improvements project; and
 - should amend IAS 10 as proposed in paragraph 10 of this paper.

Background

3. The staff has been notified of a potentially unclear explanation in the guidance in IAS 10. It relates to the explanation of why a dividend declared after the balance sheet date does not result in the recognition of a liability.

4. Paragraph 13 of IAS 10 refers to IAS 37 in connection with dividends that are authorised after the balance sheet date. It states that such dividends are not recognised because they do not meet the present obligation criteria in IAS 37:

‘If dividends are declared (ie the dividends are appropriately authorised and no longer at the discretion of the entity) after the balance sheet date but before the financial statements are authorised for issue, the dividends are not recognised as a liability at the balance sheet date **because they do not meet the criteria of a present obligation in IAS 37**. Such dividends are disclosed in the notes in accordance with IAS 1 *Presentation of Financial Statements*’
[emphasis added]

5. There is concern that the reference to IAS 37 may lead to confusion. Some may read the current guidance to imply that a liability can be recognised for dividends not declared until after the balance sheet date on the basis of a constructive obligation. Such circumstances may arise, for example, when there is an established pattern paying a dividend.

6. This concern was considered at the time that IAS 10 was revised. Paragraph BC4 of the Basis for Conclusions of IAS 10 states:

‘For this limited clarification of IAS 10 the main change made is in paragraphs 12 and 13 (paragraphs 11 and 12 of the previous version of IAS 10). As revised, those paragraphs state that if dividends are declared after the balance sheet date, an entity shall not recognise those dividends as a liability at the balance sheet date. This is because undeclared dividends **do not meet the criteria of a present obligation** in IAS 37 *Provisions, Contingent Liabilities and Contingent Assets*. The Board discussed whether or not an

entity's past practice of paying dividends could be considered a constructive obligation. The Board concluded that such practices do not give rise to a liability to pay dividends.' [emphasis added]

7. The staff believes that a clear statement in paragraph 13 of IAS 10 that is consistent with the explanation given in the Basis for Conclusions would address the concerns raised.

Staff recommendation

8. The staff recommends that IAS 10 is amended as proposed in paragraph 10 of this paper to explain clearly why no liability should be recognised for dividends declared after the balance sheet date.
9. **Does the Board agree?**

Drafting

10. The staff recommend that IAS 10 should be amended as follows:

Dividends

- 12 **If an entity declares dividends to holders of equity instruments (as defined in IAS 32 *Financial Instruments: Presentation*) after the balance sheet date, the entity shall not recognise those dividends as a liability at the balance sheet date.**
- 13 If dividends are declared (ie the dividends are appropriately authorised and no longer at the discretion of the entity) after the balance sheet date but before the financial statements are authorised for issue, the dividends are not recognised as a liability at the balance sheet date because no present obligation exists at the balance sheet date ~~they do not meet the criteria of a present obligation in IAS 37~~. Such dividends are disclosed in the notes in accordance with IAS 1 *Presentation of Financial Statements*.

Basis for Conclusions on Proposed Amendments to IAS 10 Events after the Balance Sheet Date

This Basis for Conclusions accompanies, but is not part of, the draft amendments.

Dividends

- BC1 The Board identified a potentially unclear explanation in the guidance in IAS 10. It relates to the explanation of why a dividend declared after the balance sheet date does not result in the recognition of a liability.
- BC2 The Board notes that some may read the current guidance to imply that a liability can be recognised for dividends not declared until after the balance sheet date on the basis of a constructive obligation. Such circumstances may arise, for example, when there is an established pattern of paying a dividend. The Board notes that this circumstance was considered at the time that IAS 10 was revised and the Board concluded that no liability should be recognised because there is no present obligation at the balance sheet date. This is described in paragraph BC4 of the Basis for Conclusions to IAS 10.
- BC3 The Board decided to address the potentially unclear explanation in paragraph 13 of IAS 10 by incorporating the explanation included in the Basis for Conclusions.