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International
Accounting Standards
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INFORMATION FOR OBSERVERS

IFRIC meeting:	**September 2007, London**
Project:	**Accounting for non-cash distributions – An overview of papers (Agenda Paper 2)**

THE ISSUE

1. The issue is how an entity should account for *non-cash distributions* to its equity holders acting in their capacity as equity holders in its financial statements.

A SUMMARY OF THE IFRIC DISCUSSIONS AT ITS PREVIOUS MEETINGS

2. At its May 2007 meeting, the IFRIC commented that there had been significant diversity in practice regarding how an entity should account for demergers and other in-specie distributions. Consequently, the IFRIC decided to take the issue on to its agenda.

3. At its July 2007 meeting, the IFRIC discussed the scope of the project. The IFRIC agreed that the project should:

   - address *all* non-cash distributions;

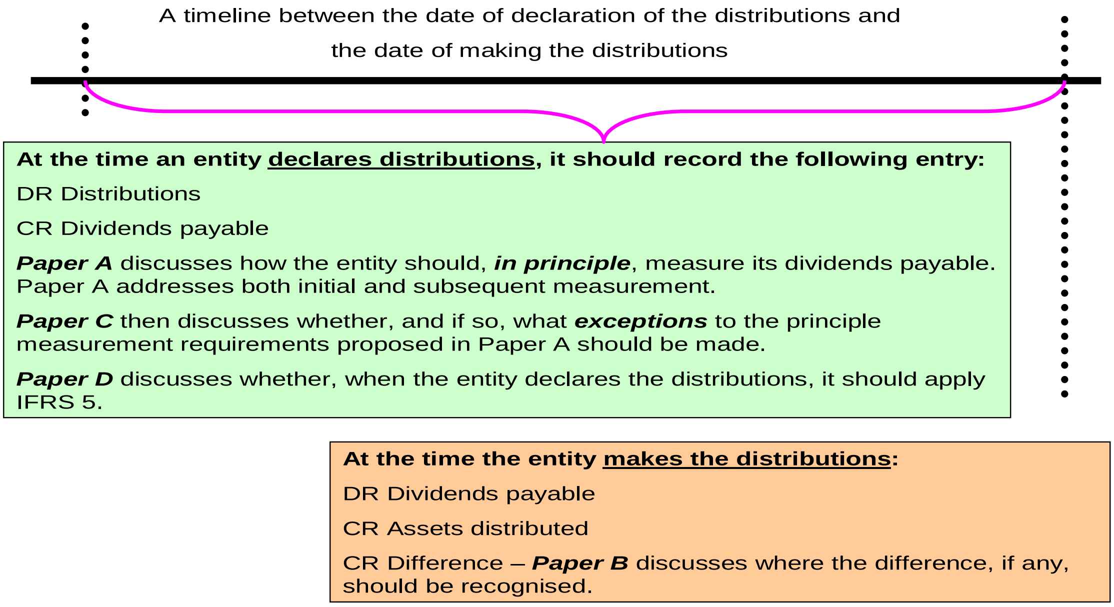
- define a distribution as *an unconditional non-reciprocal transfer* of assets by an entity to its equity holders acting in their capacity as equity holders;
- focus on the financial statements of the entity that makes the distributions; and
- focus on situations in which all equity holders of an entity within the same class are treated equally.

4. In July 2007, the IFRIC preliminarily discussed how an entity should account for non-cash distributions. The IFRIC asked the staff to develop a further paper, focusing on:

- When an entity *declares* distributions, how the entity should measure non-cash distributions and the corresponding dividends payable; and
- When an entity *distributes* the relevant assets to its equity holders, how any difference between the carrying amounts of the assets distributed and the carrying amount of the dividends payable should be accounted for. This question effectively asks whether the difference, if any, should be recognised in profit or loss.

AN OVERVIEW OF PAPERS

5. This set of papers discusses how an entity should account for non-cash distributions *from the time it declares the distributions to the time it makes the distributions*. The diagram below gives a summary of Papers 2A – D.



6. Paper 2C discusses whether, and if so what, exceptions to the principle measurement requirements proposed in Paper 2A should be made. In particular, Paper 2C considers the following possible exceptions:

   - Distributions of ownership interests that are not traded in an active market and whose fair value cannot be reliably measured;
   - Distributions of intangible assets that are not allowed to be recognised under IAS 38 *Intangible Assets*; and
   - Distributions of ownership interests in subsidiaries that are for the purpose of group restructuring (eg separating two different businesses into two different groups).