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International
Accounting Standards
Board

INFORMATION FOR OBSERVERS

IFRIC meeting:	**September 2008, London**
Project:	**D23 *Distribution of Non-cash Assets to Owners* – Minor issues (Agenda Paper 3A)**

Introduction

1 This paper provides the staff analysis of minor other issues raised by the commentators on the proposals in D23 *Distribution of Non-cash Assets to Owners* and proposed changes to the Interpretation. These changes are reflected in the revised draft of the Interpretation (AP3C).

2 The staff does not intend to discuss these issues at the IFRIC meeting unless otherwise requested by IFRIC members.

Summary of minor comments with staff analysis and proposed changes

Issue No.	Paragraph in D23	Comments	Staff analysis	Proposed changes (paragraphs in AP3C)
Background (paragraphs 1-2 of D23) and Scope (paragraphs 3-7 of D23)				
No.1	| Par. 1	**Definition of "non – cash assets"(CL15,31,37)** The draft interpretation applies to 'distributions of non-cash assets'. This term should be defined in the interpretation because it is not a term currently defined in IFRS and it is not clear what items 'non-cash assets' encompass and in particular whether they would also include financial assets (e.g. receivables). (CL37)	Paragraph 1 of D23 defines "non-cash assets" as assets other than cash. Paragraph 6 of IAS 7 defines cash as cash on hand and demand deposits. The reason why cash distribution is scoped out from the Interpretation is that the carrying amount of cash is the same as its fair value. In this sense, "cash" could include cash equivalents (as defined in IAS 7) as they are subject to an insignificant risk of changes in value. No drafting change is proposed.	None
No.2	Par. 1 and 3	**Scope - combination of cash and non-cash assets** It is not clear to FAR SRS whether a distribution involving a combination of cash and non-cash assets would be within or outside the scope or whether only the non-cash asset	Paragraph 3 (a) says distribution of non-cash assets is within the scope. Therefore, only the non-cash assets are	None

		distribution part would be in the scope. Therefore, FAR SRS asks IFRIC to clarify this in the final interpretation. (CL11)	within the scope of the Interpretation. No drafting change is proposed.	
No.3	Par. 3	**Definition of to "unconditional" "non-reciprocal " distributions (CL8, 29, 33, 37)** According to D23.3 the Interpretation should be applied to unconditional non-reciprocal distributions of non-cash assets by an entity to its owners and to similar distributions that give owners a cash alternative. However, the IFRIC provides no guidance as to how "unconditional" and "non-reciprocal" are defined or in which circumstance a distribution is "unconditional" and / or "non-reciprocal". Therefore, we suggest that some clarifying guidance should be provided. (CL29)	Both words are used with their common everyday English meaning. Unconditional means unrestricted. Non-reciprocal means one-sided. A word search of the standards shows that 'unconditional' is used in a variety of other standards and it does not seem to have caused any problems. No drafting change is proposed.	None
No.4	Par. 3 (a)	**Scope – business as defined in IFRS3 (CL5,26)** D23 mainly refers to the distribution of non-cash assets, although the scope paragraph (3(a)) refers to ownership interests in another entity. In our experience, a common form of distribution is a de-merger or spin-off of a subsidiary comprising a business (in which control is lost). Although we would reach this conclusion based on the current drafting, we suggest that the IFRIC might usefully consider whether the distribution of a business should be addressed explicitly in the Consensus. (CL5)	The distribution of a business as defined in IFRS 3 is within the scope of the Interpretation. The staff propose the changes to paragraph 3 (a) to clarify this.	Amended par. 3 (a)

No.5	Par. 3	**Distribute-contribute schemes (CL 29)** We suggest that the IFRIC should include some guidance with regards to “distribute-contribute schemes” (or “pay-out-take-back“-method) in order to avoid any misuse in the context of distributions to owners (e.g. by distributing an asset that had been measured at cost and may be taken back on the balance sheet after (re-) contribution based on fair value).(CL29)	Preparers or auditors should determine the substance of the scheme transaction in question. No drafting change is proposed.	None
No.6	Par.5	**Spin-off, split-off, de-merger (CL18, 21,31)** We would like the scope specifically to indicate, at least in the Basis for Conclusions, that this Standard would apply to spin-offs effected through distributions. We would also like clarification as to whether a split-off (i.e. a transaction where a company is split into two separate entities, with the shareholders tendering their old shares in exchange for separate shares of the two new entities) would be covered by the Interpretation. On the same issue, we would like to point out that if these transactions are within the scope of the Interpretation, further guidance will be required. For example, guidance will be required on how to identify which of the two entities is considered to have distributed the other and therefore which entity is required to recognise the gain on distribution.(CL31)	Spin-off, split-off and de-merger are examples of non-reciprocal distributions to the owners. They are within the scope of the Interpretation unless they are common control transactions as defined in IFRS 3. Further guidance (on how to identify which of the two entities is considered to have distributed the other and therefore which entity is required to recognise the gain on distribution) is not within the scope of the Interpretation. Therefore, the staff do not propose any further guidance.	Added new BC11-13**.**

No.7	Par. 5	**Individuals controlling an entity** The draft interpretation applies to distributions other than those within the same group. It is not clear why distributions within the same group are excluded from the scope of the proposed interpretation and why the scope exclusion specifically addresses a controlling parent entity rather than a controlling party. We do not see any reason why distributions to a controlling individual are within the proposed scope of D23 but distributions to a controlling corporate entity are excluded. (CL37)	Paragraph B2 of *Business Combinations* states that "A group of individuals shall be regarded as controlling an entity when, as a result of contractual arrangements, they collectively have the power to govern its financial and operating policies so as to obtain benefits from its activities." Therefore, a distribution is outside the scope of this Interpretation only if a group of individual shareholders receiving the distribution has, as a result of contractual arrangements, such ultimate collective power over the entity making the distribution. The clarification is made by new paragraph 6.	Added new par. 6.
No.8	Par. 5	**Scope exclusion for a controlling entity** It is unclear whether the scope exclusion covers any distribution to a controlling corporate entity. Considering the illustrative example in D23, we understand that if the reporting entity were owned by two corporations in the proportion 60:40 rather than 50:50 as currently illustrated in the example, then the distribution to the controlling owner would be scoped out. We do not see a valid reason	The entire transaction is scoped out. If a controlling entity is involved as one of the owners of the entity in the transaction, the distribution to the non-controlling interests is also scoped out. This should be clarified in the	IE 6 and BC15

		for treating dividends differently depending on the ownership interest of the parties involved when the parties are treated equally based on their ownership interests.(CL37)	Illustrative Example and Basis of Conclusion.	
No.9	Par. 5	**Scope : de-merger** We suggest that this scope exclusion should be extended to de-merger transactions. Although the de-merged entity will be technically "outside the group", on de-merger the shareholders of the parent and the de-merged entity will be the same. Accordingly, in our view, a de-merger is akin to a distribution within the same group and should similarly be excluded from the scope of the interpretation.(CL52)	This de-merger transaction is within the scope of the Interpretation (see No.6). The *Framework* requires an entity to consider the effect of a transaction from the perspective of the entity for which the financial statements are prepared. Under the entity perspective, the reporting entity is deemed to have substance of its own, separate from that of its owners.	Emphasised the *Framework* in BC sections.
No.10	Par. 7	**Application by analogy** While we understand the reasons for limiting the scope of this interpretation (particularly in light of the common control project that the Board is now involved in), we have concerns that it will be applied by analogy to situations without a direct prohibition on doing so. (CL23)	The staff is of the view that prohibition on the application by analogy is not necessary. Only a narrow range of transactions is within the scope and common control transactions are explicitly scoped out in paragraph 5 of the Interpretation. None of the comment letters expressing this concern identified	None

			possible situations in which they felt the Interpretation could be inappropriately applied by analogy and the staff has not been able to identify any. No drafting change is proposed.	
No.11	Par. 7	**Dividend Reinvestment Plan** The AASB is concerned that D23 provides guidance that could be inappropriately used by analogy to other transactions. For example, the principles might be applied to Dividend Reinvestment Plans (DRP) whereby equity holders can elect to be paid in additional equity instead of receiving cash.(CL43)	The IFRIC concluded in the November 2007 meeting that when an entity has an obligation to make a distribution to its owners that gives them a choice of receiving a fixed amount of cash or a variable number of shares of an equivalent amount, the entity should recognise a liability for the entire dividend (ie no gain or loss should be recognised on profit or loss). The IFRIC also concluded that the Interpretation does not address this issue. No drafting change is proposed.	None
No. 12	Par. 3-7, BC21	**When fair value cannot be measured reliably** We suggest that the scope of the Interpretation be modified to either exclude the distributions of non-cash	BC20-25 of D23 fully discussed this issue.	None

		assets for which fair value cannot be measured reliably (for example, unquoted equity instruments).(CL31)	No drafting change is proposed.	
Consensus (Paragraphs 9 – 15 of D23)				
No.13	Par.11	**Wording of D23.11 (CL29, 33)** For clarity, we suggest that the paragraph conclude as follows: '… as adjustments to the amount of the distribution i.e. in equity'. (CL33)	Agreed.	Par. 12.
No.14	Par.11	**Changes in fair value subsequent to the commitment date** Once an entity declares an in-specie distribution and is committed to this distribution, then the economics of the underlying asset have been transferred to its shareholders. As a result we do not believe that it is appropriate to continue to recognise income statement volatility caused by changes in fair value subsequent to the commitment date. (CL36)	The IFRIC concluded that, because any adjustments to the estimate of the dividend payable reflect changes in the estimate of the value of the distribution, they should be recognised as adjustments to the amount of the distribution. No drafting change is proposed.	None
No.15	Par.9-11	**Concerns regarding the possible impact on related party accounting** The AIC members have additional concerns that the guidance of D23 may have an indirect impact on the accounting for transactions with related parties. On one	The staff does not agree that application by analogy to all related party transactions could be required. The	None

		hand, the AIC observed that the IFRIC concluded that the draft Interpretation should not address exchange transactions between an entity and its owners because that would probably result in addressing all related party transactions. Such a scope would be too broad for an Interpretation (D23.BC4). On the other hand, the AIC has concerns that especially the measurement guidance of D23.9-11 could be required to be applied in analogy to similar transactions with related parties.(CL29)	Interpretation is clear that it does not consider exchange transactions. The staff also notes that in the Basis for Conclusions on IAS 27R the Board has made it clear that it thinks the accounting for RPTs is an accounting policy choice. No drafting change is proposed.	
No.16	Par. 13	**Presentation and disclosures** We do not see a need for presentation of a gain on distribution as a separate line item in profit or loss. Instead, we would generally suggest that it be disclosed separately in the notes.(CL37)	The IFRIC concluded that the separate presentation rather than the disclosure in the notes due to its potential importance of the amounts in the financial statements. The staff is of the view that the separate line item should be required as long as the amount is material. If it is not, note disclosure is also unnecessary.	None
Others (non-specific to the paragraphs)				
No.17		**SME reporting** This issue is of significant practical concern to SMEs that are often involved in these types of distributions and would benefit from having principles to apply in this area. An IFRIC Interpretation will not necessarily ensure that diversity in this area is eliminated and therefore we would recommend that this issue be specifically addressed in any forthcoming SME standard. (CL7)	Noted. However, it is not the IFRIC's responsibility to discuss the scope of IFRS for private entities (formerly SME reporting). No drafting change is proposed.	Will bring to the attention of the IFRS for PEs team.

No.18		**Treatment of transaction costs** We note that the interpretation does not provide guidance on the treatment of transaction costs incurred in such a transaction and whether those costs are attributable to the sale of an asset and expensed or whether those costs are attributable to a dividend payment and are included in the total dividend. (CL8)	The staff is of the view that transaction costs to distribute are deducted from fair value of the assets to be distributed when applying paragraph 15 of IFRS 5 (ie measurement of an asset at the lower of its carrying amount and fair value <u>less costs to distribute</u>). Included in proposed amendment to IFRS.	Amendment to IFRS 5
Basis for Conclusions				
No.19	BC5	**Basis for conclusions – BC5** We believe that Basis for Conclusions paragraph BC5 needs to be more specific in terms of whether or not an analogy can be drawn to this IFRIC for transactions that have some features of distributions but may be more in the nature of exchange transactions.(CL31)	The IFRIC concluded that non-pro rata distributions are scoped out as they are likely to be exchange transactions in nature. The Interpretation specifically deals with non-exchange transactions. Identifying whether a particular transaction is exchange or non-exchange is beyond its scope.	None
Illustrative Examples				

No.20	IE	**More examples** We do not agree that the worked example provided in the proposed Interpretation is appropriate. We consider it to be too simplistic and insufficiently representative of the types of transactions this document covers to make the example helpful. We would prefer that the example referred to items of property, plant and equipment or other assets that are more likely to be the subject of the transfers being envisaged. (CL7) As general comment the BASB encourages IFRIC to include more illustrative examples reflecting better the context and technical complexity of IFRIC Draft Interpretation D23. (CL11) We also suggest that an example be provided to illustrate the accounting for a distribution that gives the owners a choice of receiving either non-cash assets or a cash alternative.(CL16) We need another example which is added to the case of 'Changes in the carrying amount of the dividend payable at the end of each reporting period.' (CL20) We propose that the IFRIC consider broadening the example to incorporate some further principles that are addressed in the draft Interpretation. These could be: • a scenario where fair values change between the	The staff is of the view that no more examples are necessary unless the IFRIC wants to include specific situations in response to the commentators.	None

		declaration and distribution dates; • the inclusion of a minority interest; and/or • having a reporting date between the declaration and settlement date (to illustrate the re-measurement and adjustment of the dividend distribution as discussed in paragraph10 of the draft Interpretation). (CL33)		