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**International
Accounting Standards
Board**

This observer note is provided as a convenience to observers at IFRIC meetings, to assist them in following the IFRIC's discussion. Views expressed in this document are identified by the staff as a basis for the discussion at the IFRIC meeting. This document does not represent an official position of the IFRIC. Decisions of the IFRIC are determined only after extensive deliberation and due process. IFRIC positions are set out in Interpretations.

Note: The observer note is based on the staff paper prepared for the IFRIC. Paragraph numbers correspond to paragraph numbers used in the IFRIC paper. However, because the observer note is less detailed, some paragraph numbers are not used.

INFORMATION FOR OBSERVERS

IFRIC meeting: September 2008, London
Project: **D23 Distribution of Non-cash Assets to Owners – Redrafting in response to decisions made in July meeting (Agenda Paper 3B)**

Introduction

- 1 In response to the decisions made by the IFRIC in the July meeting, this paper provides suggested redrafting in connection with:
- the scope of the Interpretation
 - the measurement of the dividend payable
 - the rationale for the conclusion that the settlement gain should be included in profit or loss
 - disclosure
 - when to recognise the dividend payable
 - amendments to IFRS 5.

Scope

- 2 In the July meeting, the IFRIC clarified that transactions in which the shares of group entities are distributed to shareholders outside the group do not meet the definition of common control transactions in IFRS 3 *Business Combinations* and would therefore be within the scope of the Interpretation. It requested that this issue be clarified in the Interpretation.
- 3 The staff has proposed changes to paragraph 6 of AP3C.
- 4 New illustrative examples were developed in the paragraphs IE5 to IE8 of “Illustrative examples” to highlight what transactions are within the scope.

Question for the IFRIC

5 Do you agree with the staff proposals in paragraphs 3 and 4?
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Measurement of the dividend payable

- 6 In the July meeting, the IFRIC decided to modify the proposal in D23 to require the dividend payable to be measured at the fair value of the assets to be distributed. The Interpretation would not link this conclusion to any individual standard. The staff has proposed changes to paragraphs 10 to 12 and paragraphs BC16 to BC31 of AP3C.

Question for the IFRIC

7 Do you agree with the staff proposals in paragraph 6?

Rationale for the conclusion that the settlement gain should be included in profit or loss

- 8 After having considered the comments received, the IFRIC decided not to adopt the alternative view set out in paragraph BC44 of D23 concerning the recognition of the gain on settlement directly in equity. However, the IFRIC directed the staff to provide in the final Basis for Conclusions further rationale for the conclusion that the settlement gain should be included in profit or loss.
- 9 In response, the staff has proposed changes to the following paragraphs of AP3C:
paragraph BC36: emphasis of “the entity perspective” in the *Framework*
paragraph BC47: inclusion of paragraph 55 of the *Framework*
The staff agrees that these are only minor modifications but after having reviewed the existing Basis, it is unable to develop any additional arguments.

Questions for the IFRIC

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| 10 Do you agree with the staff proposals in paragraph 9? What additional arguments for presenting the difference in profit or loss would you like the staff to include? Do you want to include in the final Basis the paragraph setting out the alternative of considering the distribution to be a single transaction with owners? |
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Other decisions made in July meeting (disclosure and when to recognise dividend payable)

- 11 In the July meeting, the IFRIC did not identify any serious concerns about the disclosure requirements proposed in paragraphs 13–15 of D23 and decided to proceed with them with a small change to paragraph 14. That change is reflected in AP3C.

12 In the July meeting, the IFRIC reached a consensus on when to recognise dividends payable and requested that guidance be added to the Interpretation. The staff proposes adding paragraph 9 of AP3C. Paragraph 6 of D23 was deleted.

Question for the IFRIC

13 Do you agree with the staff proposals in paragraphs 11 and 12?

Amendment to IFRS 5

14 In the July meeting, the IFRIC reconfirmed that:

- IFRS 5 should be applied to assets held for distribution to owners. The IFRIC would recommend that the Board amend IFRS 5 as part of its approval of the Interpretation to make it applicable to such distributions.
- IFRS 5 should be applied at the commitment date at which time the assets must be available for immediate distribution in their present condition and the distribution must be highly probable. For the distribution to be highly probable, it must meet the same conditions as for assets held for sale in paragraphs 8 and 9 of IFRS 5. The probability of shareholders' approval (if required in the jurisdiction) should be considered as part of the assessment of whether the distribution is highly probable.

15 The staff have included an Appendix in AP3C with the proposed changes to IFRS 5. Paragraphs BC58 to BC60 were added to the Basis for Conclusions of AP3C.

16 Do you agree with the staff proposals in paragraph 15?
