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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* – Revised Draft (Agenda Paper 3C)**

References

- *Framework for the Preparation and Presentation of Financial Statements*
- IFRS 5 *Non-current Assets Held for Sale and Discontinued Operations*
- IAS 1 *Presentation of Financial Statements* (as revised in 2007)
- IAS 10 *Events after the Reporting Period*
- IAS 27 *Consolidated and Separate Financial Statements*
- IAS 37 *Provisions, Contingent Liabilities and Contingent Assets*

Background

1 Sometimes an entity distributes assets other than cash (non-cash assets) as dividends to its owners[*] acting in their capacity as owners. In those situations, an entity may also give its owners a choice of receiving either non-cash assets or a cash alternative. The IFRIC has received requests for guidance on how an entity should account for such distributions.

2 International Financial Reporting Standards (IFRSs) do not provide guidance on how an entity should measure distributions to its owners (commonly referred to as dividends). IAS 1 requires an entity to present details of dividends recognised as distributions to owners either in the statement of changes in equity or in the notes to the financial statements.

[*] Paragraph 7 of IAS 1 defines owners as holders of instruments classified as equity.

Scope

3 This~~[draft]~~ Interpretation applies to the following types of unconditional non-reciprocal distributions of assets by an entity to its owners acting in their capacity as owners:

(a) distributions of non-cash assets (eg items of property, plant and equipment, businesses as defined in IFRS 3, ownership interests in another entity or disposal groups as defined in IFRS 5); and

(b) distributions that give owners a choice of receiving either non-cash assets or a cash alternative.

4 This ~~[draft]~~ Interpretation applies only to distributions in which all owners of the same class of equity instruments are treated equally.

5 This ~~[draft]~~ Interpretation does not apply to a distribution of an asset that is ultimately controlled by the same party or parties ~~parent entity~~ before and after the distribution. In other words, this ~~[draft]~~ Interpretation does not apply to a distribution of an asset within the same group.[*] This exclusion applies to both the separate and consolidated financial statements of an entity that makes the distribution.

6 Paragraph B2 of IFRS 3 *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.

~~6 This [draft] Interpretation does not address when an entity should recognise a liability for a distribution. The applicable IFRSs and the *Framework* provide guidance on when an entity should recognise such a liability.~~

7 This ~~[draft]~~ Interpretation addresses only the accounting by an entity that makes an asset distribution.

Issues

8 When an entity declares a distribution and has an obligation to distribute the assets concerned to its owners, it must record a liability for the dividend payable (dividend payable). Consequently, this ~~[draft]~~ Interpretation addresses the following issues:

(a) When should the entity recognise the dividend payable?

(b) How should an entity measure the dividend payable?

(c~~b~~) When an entity settles the dividend payable, how should it account for any difference between the carrying amount of the assets distributed and the carrying amount of the dividend payable?

Consensus

When to recognise a dividend payable

9 The liability to make the distribution shall be recognised:

(a) when declaration of the dividend by management is approved by the shareholders, if the jurisdiction legally requires such approval and the declaration of the dividend is no longer at the discretion of the entity, or

(b) when the dividend is declared by management, if the jurisdiction does not legally require shareholders' approval and the declaration of the dividend is no longer at the discretion of the entity.

Measurement of a dividend payable

10~~9~~ An entity shall measure a liability to distribute non-cash assets as dividends to its owners ~~in accordance with IAS 37~~ at the fair value of the assets to be distributed.

11~~10~~ ~~Paragraph 36 of IAS 37 requires an entity to measure a liability at the best estimate of the expenditure required to settle the present obligation at the end of the reporting period. In addition, paragraph 37 of IAS 37 states that the best estimate of the expenditure required to settle the present obligation is the amount that an entity would~~

[*] Paragraph 4 of IAS 27 defines a group as a parent and all its subsidiaries.

~~rationally pay to settle the obligation at the end of the reporting period or to transfer it to a third party at that time. Consequently, to apply the requirements in IAS 37 to measure a dividend payable, an entity shall consider the fair value of the asset to be distributed.~~ If an entity gives its owners a choice of receiving either a non-cash asset or a cash alternative, the entity shall estimate the dividend payable by considering both the fair value of each alternative and the associated probability of owners selecting each alternative.

12~~11~~ At the end of each reporting period and at the date of settlement, the entity shall review and adjust the carrying amount of the dividend payable ~~in accordance with paragraph 59 of IAS 37~~, with any changes in the carrying amount of the dividend payable recognised in equity as adjustments to the amount of the distribution.

Accounting for any difference between the carrying amount of the assets distributed and the carrying amount of the dividend payable when an entity settles the dividend payable

13 When an entity settles the dividend payable, it shall recognise the difference, if any, between the carrying amount of the assets distributed and the carrying amount of the dividend payable in profit or loss.

Presentation and disclosures

14~~3~~ An entity shall disclose the difference described in paragraph 13~~12~~ as a separate line item in profit or loss.

15~~4~~ An entity shall disclose the following information ~~required by paragraphs 84 and 85 of IAS 37~~, if applicable:

(a) the carrying amount of the dividend payable at the beginning and end of the period;

(b) the increase or decrease recognised in the period as result of a change in the fair value of the assets to be distributed

16~~5~~ If, after the end of a reporting period but before the financial statements are authorised for issue, an entity declares a dividend to distribute a non-cash asset, it shall disclose:

(a) the nature of the asset to be distributed;

(b) the carrying amount of the asset to be distributed at the end of the reporting period; and

(c) the estimated fair value of the asset to be distributed at the end of the reporting period, if it is different from its carrying amount.

Effective date

17~~6~~ An entity shall apply this ~~[draft]~~ Interpretation prospectively for annual periods beginning on or after [date to be inserted after redeliberations are complete~~exposure~~]. Retrospective application is not permitted. Earlier application is permitted. If an entity applies this ~~[draft]~~ Interpretation for a period beginning before [date to be inserted after redeliberations are complete~~exposure~~], it shall disclose that fact.

Illustrative example

This example accompanies, but is not part of, ~~[draft]~~ IFRIC X.

IE1 On 18 September 20X7 an entity declares that on 30 November 20X7 it will distribute as a dividend its two pieces of freehold land to its two owners acting in their capacity as owners. The entity has an obligation to deliver the assets concerned to its owners from 18 September 20X7. The owners have the same ownership interest in the entity and will each receive one piece of land.

IE2 On 18 September 20X7 the carrying amounts of freehold land A and freehold land B were CU1 million and CU2 million respectively. The two pieces of land had the same fair value of CU5 million each on 18 September 20X7.

IE3 This illustrative example assumes that the fair values and carrying amounts of the two pieces of land remained the same at the date of distribution.

IE4 The journal entries recorded by the entity at the date of declaration and the date of distribution are as follows:

On 18 September 20X7

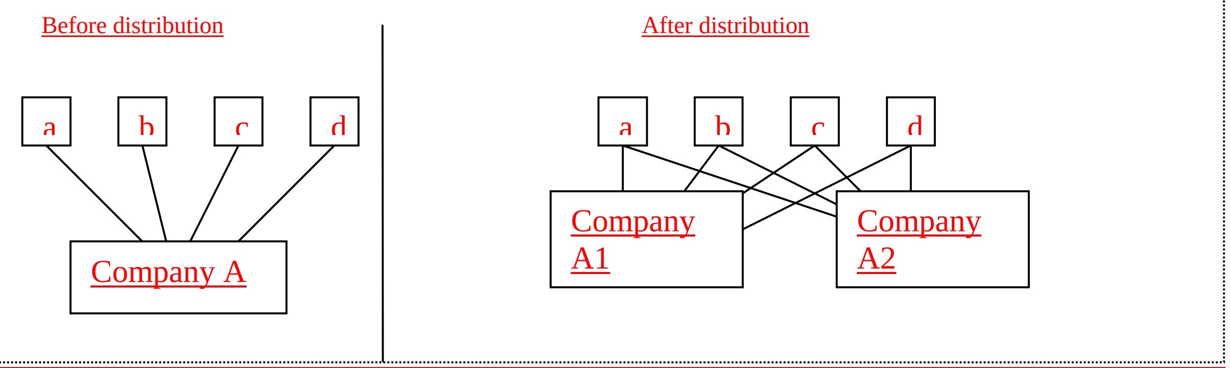
Dr	Distribution (retained earnings)	CU10 million	
Cr	Dividend payable		CU10 million

On 30 November 20X7

Dr	Dividend payable	CU10 million	
Cr	Freehold land A and B		CU3 million
Cr	Gain on derecognition of freehold land A and B (recognised as a separate line item in profit or loss)		CU7 million

Scope of the Interpretation (paragraphs 3-7)

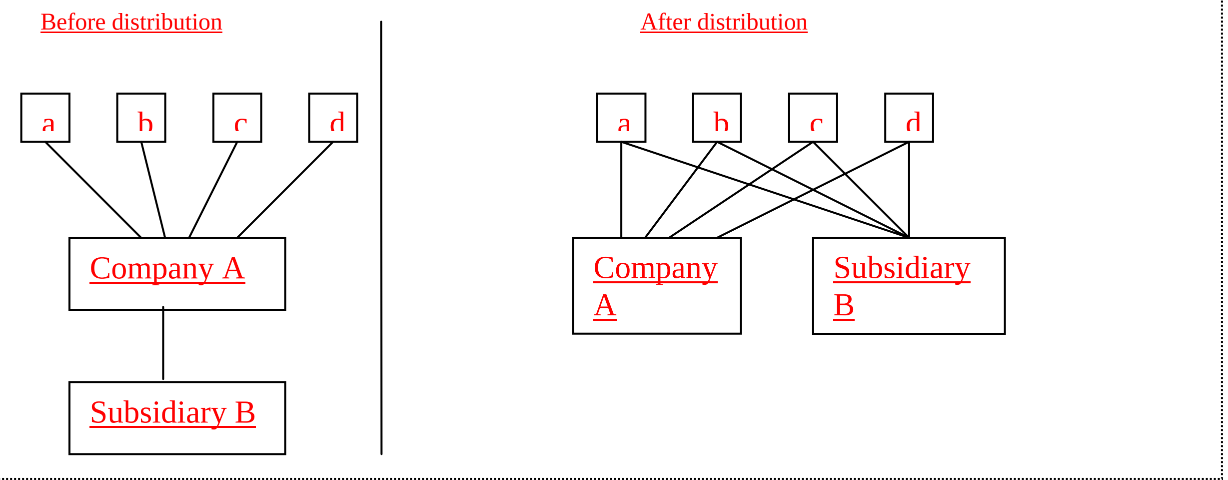
CHART 1



IE5 Assume Company A is owned by shareholders a, b, c and d. No one shareholder controls Company A and no agreement between the shareholders exists such that they control Company A jointly. Company A distributes certain businesses to the shareholders on a pro-rata basis resulting in the split of Company A into Company A1 and Company A2. This transaction is within the scope of the Interpretation.

IE6 However, if shareholder a controls Company A both before and after the transaction, the entire transaction (including the pro-rata distributions to the shareholders b, c and d) is not within the scope of the Interpretation.

CHART 2



IE7 Assume Company A is owned by shareholders a, b, c and d. No one shareholder controls Company A and no agreement between the shareholders exists such that they control Company A jointly. Company A owns all of the shares of Subsidiary B. Company A distributes all of the shares of Subsidiary B to its shareholders on a pro-rata basis, thereby losing control of Subsidiary B. This transaction is within the scope of the Interpretation.

IE8 However, if Company A distributes only a non-controlling interest in Subsidiary B to its shareholders and retains control of Subsidiary B, the transaction is not within the scope of the Interpretation. Company A controls Company B both before and after the transaction.

Appendix

Amendment to IFRS 5 *Non-current Assets Held for Sale and Discontinued Operations*

Paragraph 5A is added.

Scope

5A The classification, presentation and measurement requirements in this Standard applicable to a non-current asset (or disposal group) that is classified as held for sale also apply to a non-current asset (or disposal group) that is classified as held for distribution to owners acting in their capacity as owners (held for distribution to owners).

The subheading is amended and paragraph 12A is added.

Classification of non-current assets (or disposal groups) as held for sale or as held for distribution to owners

12A A non-current asset (or disposal group) is classified as held for distribution to owners when the entity is committed to distribute the asset (or disposal group) to the owners. For this to be the case, 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. 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.

Paragraph 15A is added.

Measurement of non current assets (or disposal groups) classified as held for sale

15A An entity shall measure a non-current asset (or disposal group) classified as held for distribution to owners at the lower of its carrying amount and fair value less costs to distribute.

Paragraph 44C is added.

Effective date

44C Paragraphs [5A, 12A and 15A] were added in [date to be inserted.] These amendments shall be applied prospectively to non-current assets (or disposal groups) that are classified as held for distribution to owners after the effective date of the amendments. An entity shall apply these amendments for annual periods beginning on or after [date to be inserted]. Retrospective application is not permitted.

In Appendix A Defined terms, a term is added.

Appendix A Defined terms

Costs to distribute The incremental costs directly attributable to the distribution of an asset (or **disposal group**), excluding finance costs and income tax expense.

Basis for Conclusions

This Basis for Conclusions accompanies, but is not part of,~~ draft~~ IFRIC X.

Introduction

BC1 This Basis for Conclusions summarises the IFRIC's considerations in reaching its consensus. Individual IFRIC members gave greater weight to some factors than to others.

BC2 At present, International Financial Reporting Standards (IFRSs) do not address how an entity should measure distributions to owners acting in their capacity as owners (commonly referred to as dividends). The IFRIC was told that there was significant diversity in practice in how entities measured distributions of non-cash assets.

Scope (paragraphs 3–7)

Should the ~~proposed~~ Interpretation address all transactions between an entity and its owners?

BC3 The IFRIC recognised that an asset distribution by an entity to its owners is an example of a transaction between an entity and its owners. Transactions between an entity and its owners can generally be categorised into the following three types:

(a) exchange transactions between an entity and its owners.

(b) non-reciprocal transfers of assets by owners of an entity to the entity. Such transfers are commonly referred to as contributions from owners.

(c) non-reciprocal transfers of assets by an entity to its owners. Such transfers are commonly referred to as distributions to owners.

BC4 The IFRIC concluded that the~~ proposed~~ Interpretation should not address exchange transactions between an entity and its owners because that would probably result in addressing all related party transactions. In the IFRIC's view, such a scope was too broad for an Interpretation. Instead, the IFRIC concluded that the ~~proposed~~ Interpretation should focus on distributions of assets by an entity to its owners acting in their capacity as owners.

BC5 In addition, the IFRIC decided that the~~ proposed~~ Interpretation should not address distributions in which all owners of the same class of equity instrument are not treated equally. This is because, in the IFRIC's view, such distributions might imply that at least some of the owners receiving the distributions indeed gave up something to the entity and/or other owners. In other words, such distributions might be more in the nature of exchange transactions.

Should the~~ proposed~~ Interpretation address all types of asset distributions?

BC6 The IFRIC was told that there was significant diversity in the measurement of the following types of unconditional non-reciprocal distributions of assets by an entity to its owners acting in their capacity as owners:

(a) distributions of non-cash assets (eg items of property, plant and equipment, ownership interests in another entity or disposal groups as defined in IFRS 5 *Non-current Assets Held for Sale and Discontinued Operations*) to its owners; and

(b) distributions that give owners a choice of receiving either non-cash assets or a cash alternative.

BC7 The IFRIC noted that all distributions have the same purpose, ie to distribute assets to an entity's owners. It therefore concluded that the ~~proposed~~ Interpretation should address the measurement of all types of asset distributions with one exception set out in paragraphs 5 and 6 of the ~~proposed~~ Interpretation.

A scope exclusion: a distribution of an asset that is ultimately controlled by the same party or parties~~parent entity~~ before and after the distribution

BC8 In the Interpretation, t~~T~~he IFRIC considered whether it should address how an entity should measure a distribution of an asset (eg an ownership interest in a subsidiary) that is ultimately controlled by the same parent entity before and after the distribution. In many instances, such a distribution is for the purpose of group restructuring (eg separating two different businesses into two different subgroups). After the distribution, the asset is still controlled by the same parent entity (ie it is still within the same group[3]).

BC9 In addition, the IFRIC noted that dealing with the accounting for a distribution of an asset within a group would require consideration of how a transfer of any asset within a group should be accounted for in the separate or individual financial statements of group entities.

BC10 For the reasons described in paragraphs BC8 and BC9, the IFRIC concluded that ~~the proposed~~the draft Interpretation ~~D23~~ should not deal with a distribution of an asset that is ultimately controlled by the same parent entity before and after the distribution.

BC11 In response to comments received on the draft Interpretation, the IFRIC redeliberated whether the scope of the Interpretation should be expanded to include a distribution of an asset that is ultimately controlled by the same parent entity before and after the distribution. The IFRIC decided not to expand the scope of the Interpretation in the light of the Board's decision to add a project to its agenda to address common control transactions.

BC12 The IFRIC noted that many commentators believed that most distributions of assets to an entity's owners would be excluded from the scope of the Interpretation by paragraph 5. The IFRIC did not agree with this conclusion. It noted that in paragraph B2 of IFRS 3 *Business Combinations*, the Board concluded that a group of individuals would be regarded as controlling an entity only 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. In addition, in its project *Cost of an Investment in a Subsidiary, Jointly Controlled Entity or Associate*, the Board clarified in the amendments to IAS 27 *Consolidated and Separate Financial Statements* that the distribution of equity interests in a new parent to shareholders in exchange for their interests in the existing parent was not a common control transaction.

BC13 Consequently, the IFRIC decided that the Interpretation should clarify that unless there is a contractual arrangement among shareholders to control the entity making the distribution, transactions in which the shares or the businesses of group entities are distributed to shareholders outside the group (commonly referred to as a spin-off, split-off or demerger) are not transactions between entities or businesses under common control. Therefore they are within the scope of the Interpretation.

BC14 Some commentators on D23 were concerned about situations in which an entity distributes some but not all of its ownership interests in a subsidiary and retains control. They believed that the proposed accounting for the distribution to the non-controlling interest in accordance with D23 was inconsistent with the requirements of IAS 27 *Consolidated and Separate Financial Statements* (2008). That Standard requires changes in a parent's ownership interest in a subsidiary that do not result in a loss of control to be accounted for as equity transactions. The IFRIC noted that the Interpretation does not apply to such transactions. Therefore, it does not conflict with the requirements of IAS 27.

BC15 Some commentators on D23 were also concerned about situations in which a subsidiary with a non-controlling interest distributes assets to both the parent and the non-controlling interests. They questioned why only the distribution to the controlling entity is excluded from the scope of the Interpretation. The IFRIC noted that when the parent controls the entity before and after the

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3 Paragraph 4 of IAS 27 *Consolidated and Separate Financial Statements* defines a group as a parent and all its subsidiaries.

transaction, the entire transaction (including the distribution to the non-controlling interest) is not within the scope of the Interpretation and is accounted for in accordance with IAS 27.

How should an entity measure a dividend payable? (paragraphs 10~~9~~–12~~11~~)

BC16~~1~~ IFRSs do not provide guidance on how an entity should measure distributions to owners. However, when an entity declares a distribution and has an obligation to deliver the assets concerned to its owners, it must recognise a dividend payable.

BC17~~2~~ The IFRIC noted that a number of IFRSs address how a liability should be measured. Although IFRSs do not specifically address how an entity should measure a dividend payable, the IFRIC decided that it could identify potentially ~~a~~ relevant standards and apply their~~its~~ principles to determine the appropriate measurement basis.

Which IFRSs ~~is the most~~are are relevant to the measurement of a dividend payable? ~~(paragraph 9)~~

BC18~~3~~ The IFRIC considered all IFRSs that prescribe the accounting for a liability. Of those, the IFRIC concluded that IAS 37 *Provisions, Contingent Assets and Contingent Liabilities* and IAS 39 *Financial Instruments: Recognition and Measurement* were the most likely to be relevant. The IFRIC concluded that other IFRSs were not applicable because most of them addressed only liabilities arising from exchange transactions and some of them were clearly not relevant (eg IAS 12 *Income Taxes*). As mentioned above, the ~~proposed~~ Interpretation addresses only unconditional non-reciprocal distributions of assets by an entity to its owners.

BC19~~4~~ Given that all types of distributions have the purpose of distributing assets to owners, the IFRIC decided that all dividends payable should be measured the same way~~in accordance with a single standard~~, regardless of the types of assets to be distributed. This also ensures that all dividends payable are measured consistently.

BC20~~15~~ Some believed that IAS 39 was the appropriate standard to be used to measure dividends payable. They believed that, once an entity declared a distribution to its owners, it had a contractual obligation to distribute the assets to its owners. However, IAS 39 would~~does~~ not cover all dividends payable: it ~~primarily~~ sets out the accounting for financial instruments but does not address non-contractual obligations. In addition, it covers some but not all obligations that require an entity to deliver non-cash assets to another entity. It does not cover a liability to distribute non-financial assets to owners. The IFRIC therefore concluded that ~~IAS 39~~it was not appropriate to conclude that all dividends payable should be within the scope of IAS 39.

BC21~~16~~ The IFRIC then considered IAS 37, which is generally applied to liabilities other than those arising from executory contracts and those addressed by other IFRSs. IAS 37 requires an entity to measure a liability on the basis of the best estimate of the expenditure required to settle the present obligation at the end of the reporting period. Consequently, in draft Interpretation D23 the IFRIC decided that it was appropriate to apply the principles in IAS 37 to all dividends payable (regardless of the types of assets to be distributed).

BC22 However, in response to comments received on D23, the IFRIC reconsidered whether the Interpretation should specify that all dividends payable should be measured in accordance with IAS 37. The IFRIC noted that many respondents were concerned that D23 might imply that the measurement attribute in IAS 37 should always be interpreted to be fair value. This was not the intention of D23 as that question is part of the Board's project to amend IAS 37. In addition, many respondents were not certain whether measuring the dividend payable 'by reference to' the fair value of the assets to be distributed required measurement at their fair value or at some other amount.

BC23 Therefore, 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 without linking its conclusion that fair value is the most relevant measurement attribute to any individual standard.

~~How should an entity apply IAS 37 to measure a dividend payable? (paragraph 10)~~

~~BC17 Paragraph 37 of IAS 37 states that the best estimate of the expenditure required to settle a liability is either:~~

~~(a) the amount that an entity would rationally pay to settle the obligation at the end of the reporting period; or~~

~~(b) the amount that an entity would pay to transfer the obligation to a third party at the end of the reporting period.~~

~~BC18 The proposed Interpretation does not discuss whether there are any differences between the estimates determined in accordance with paragraph BC17(a) and (b). The IFRIC decided that, to apply IAS 37 to measure a liability for an obligation to distribute non-cash assets to owners, an entity should consider the fair value of the assets to be distributed. The fair value of the assets to be distributed is clearly relevant no matter which approach is taken to determine the best estimate of the expenditure required to settle the liability.~~

~~BC19 The IFRIC concluded that it was not appropriate to measure the dividend payable at the carrying amount of the assets to be distributed. The carrying amount of an asset might not represent the best estimate of the expenditure required to settle the liability. As a result, the carrying amount of the asset would not reflect faithfully the value of what the entity is distributing to its owners. An example is an entity that distributes two pieces of freehold land to its two owners, who each have the same ownership interest in the entity. The two pieces of land have the same fair value but different carrying amounts at the time of distribution because they were acquired at different times and were carried at cost less impairment, if any, in accordance with IAS 16 *Property, Plant and Equipment*. If the carrying amounts of the assets were used to measure the dividends payable, the amount of distributions reflected in the financial statements would not reflect the value of the assets distributed and could imply that the two owners were not treated equally. Information about the value of the assets distributed is particularly important when an entity has more than one class of equity instruments. In addition, creditors of an entity are interested in the same information because they are concerned with the entity's ability to repay its debts.~~

Should any exception be made to the principle of measuring a dividend payable ~~by reference to~~at the fair value of the assets to be distributed?

BC24~~0~~ ~~As mentioned above, the application of IAS 37 to determine the best estimate of a dividend payable requires an entity to consider the fair value of the asset to be distributed. However, s~~Some are concerned that the fair value of the assets to be distributed might not be reliably measurable in all cases. They believe that exceptions should be made in the following circumstances:

(a) An entity distributes an ownership interest of another entity that is not traded in an active market and the fair value of the ownership interest cannot be measured reliably. They noted that IAS 39 does not permit investments in equity instruments that do not have a quoted market price in an active market and whose fair value cannot be measured reliably to be measured at fair value.

(b) An entity distributes an intangible asset that is not traded in an active market and therefore would not be permitted to be carried at a revalued amount in accordance with IAS 38 *Intangible Assets*.

BC25~~1~~ The IFRIC noted that, when the management of an entity recommends a distribution of a non-cash asset to its owners, it would be expected to know the fair value of the asset. This is because the management has to ensure that all owners of the entity within the same class are treated equally. For this reason, it would be difficult to argue that the fair value of the assets to be distributed cannot be determined reliably.

BC26~~2~~ In addition, the IFRIC recognised that in some cases the fair value of an asset must be estimated. As mentioned in paragraph 86 of the *Framework for the Preparation and Presentation of Financial*

Statements, the use of reasonable estimates is an essential part of the preparation of financial statements and does not undermine their reliability.

BC27~~3~~ The IFRIC noted that a reason why IAS 38 and IAS 39 require certain assets to be measured using a historical cost basis is due to cost-benefit considerations. The cost of determining the fair value of an asset not traded in an active market at the end of each reporting period could outweigh the benefits. However, because an entity would be required to determine the fair value of the assets only once at the time of distribution, the IFRIC concluded that the benefit (ie informing users of the financial statements of the value of the assets distributed) outweighs the cost associated with the determination of the fair value of the assets.

BC28~~4~~ Furthermore, the IFRIC noted that dividend income, regardless of whether it is in the form of cash or non-cash assets, is within the scope of IAS 18 *Revenue* and is required to be measured at the fair value of the consideration received. Although the ~~proposed~~ Interpretation does not address the accounting by the recipient of the non-cash distribution, the IFRIC concluded that the ~~proposed~~ Interpretation did not impose a more onerous requirement on the entity that makes the distribution than IFRSs ~~that~~ have already imposed on the recipient of the distribution.

BC29~~5~~ For the reasons described in paragraphs BC24~~20~~–BC28~~24~~, the IFRIC concluded that no exceptions should be made to the requirement that the fair value of the asset to be distributed be used~~considered~~ in measuring a dividend payable.

Whether an entity should remeasure ~~the best estimate of~~ the dividend payable ~~in accordance with IAS 37~~ (paragraph 12~~11~~)

BC30~~26~~ The IFRIC noted that paragraph 59 of IAS 37 requires an entity to review the carrying amount of a liability at the end of each reporting period and to adjust the carrying amount to reflect the current best estimate of the liability. Other standards such as IAS 19 *Employee Benefits* similarly require liabilities that are based on estimates to be adjusted each reporting period. The IFRIC therefore decided that~~, to apply the requirements of IAS 37,~~ the entity should review and adjust the carrying amount of the dividend payable to reflect its current best estimate of the fair value of the assets to be distributed at the end of each reporting period and at the date of settlement.

BC31~~27~~ The IFRIC concluded that, because any adjustments to the best estimate of the dividend payable reflect estimates of the value of the distribution, they should be recognised as adjustments to the amount of the distribution. In accordance with IAS 1, distributions to owners are required to be recognised directly in the statement of changes in equity. Similarly, adjustments to the amount of the distribution are also recognised directly in the statement of changes in equity.

When the entity settles the dividend payable, how should it account for any difference between the carrying amount of the assets distributed and the carrying amount of the dividend payable? (paragraph 13~~12~~)

BC32~~28~~ When an entity distributes the assets to its owners, it derecognises both the assets distributed and the dividend payable.

BC33~~29~~ The IFRIC noted that, at the time of settlement, the carrying amount of the assets distributed would not normally be greater than the carrying amount of the dividend payable because of the recognition of impairment losses required by other applicable standards. For example, paragraph 59 of IAS 36 *Impairment of Assets* requires an entity to recognise an impairment loss in profit or loss when the recoverable amount of an asset is less than its carrying amount. The recoverable amount of an asset is the higher of its fair value less costs to sell and its value in use in accordance with paragraph 6 of IAS 36. Because an entity has an obligation to distribute the asset to its owners in the near future, it would not be appropriate to measure an impairment loss using the asset's value in use. Further, IFRS 5 *Non-current Assets Held for Sale and Discontinued Operations* requires an entity to measure an asset held for sale at the lower of its carrying amount and its fair value less costs to sell. Consequently, the

IFRIC concluded that when an entity derecognises the dividend payable and the asset distributed, any difference will always be a credit balance (referred to below as the credit balance).

BC34~~0~~ In determining how the credit balance should be accounted for, the IFRIC first considered whether it should be recognised as an owner change in equity.

BC35~~1~~ The IFRIC acknowledged that an asset distribution was a transaction between an entity and its owners. The IFRIC also observed that distributions to owners are recognised as owner changes in equity in accordance with IAS 1 *Presentation of Financial Statements* (as revised in 2007). However, the IFRIC noted that the credit balance did not arise from the distribution transaction. Rather, it represented the cumulative unrecognised gain associated with the asset. It reflects the performance of the entity during the period the asset was held until ~~it was~~ it was distributed.

BC36~~2~~ Some might argue that, since an asset distribution does not result in the *owners* of an entity losing the future economic benefits of the asset, the credit balance should be recognised directly in equity. This view would be based upon the proprietary perspective in which the reporting entity does not have substance of its own separate from that of its owners. However, the IFRIC noted that the *Framework* requires an entity to consider the effect of a transaction from the perspective of the entity for ~~whom~~ which the financial statements are prepared. Under the entity perspective, the reporting entity has substance of its own, separate from that of its owners. Paragraph 12 of the *Framework* states: 'The objective of financial statements is to provide information about the financial position, performance and changes in financial position of *an entity* that is useful to a wide range of users in making economic decisions' (emphasis added). In addition, when there is more than one class of equity instruments, the argument that all owners of an entity have effectively the same interest in the asset would not be valid.

BC37~~3~~ For the reasons described in paragraphs BC35~~31~~ and BC36~~32~~, the IFRIC concluded that the credit balance should not be recognised as an owner change in equity.

BC38~~4~~ The IFRIC noted that, as explained in the Basis for Conclusions on IAS 1, the Board explicitly prohibited any income or expenses (ie non-owner changes in equity) from being recognised directly in the statement of changes in equity. Any such income or expenses must be recognised as items of comprehensive income first.

BC39~~5~~ The statement of comprehensive income in accordance with~~under~~ IAS 1 includes two components: items of profit or loss, and items of other comprehensive income. The IFRIC therefore discussed whether the credit balance should be recognised in profit or loss or in other comprehensive income.

BC40~~36~~ IAS 1 does not provide criteria for when an item should be recognised in profit or loss. However, paragraph 88 of IAS 1 states: 'An entity shall recognise all items of income and expense in a period in profit or loss unless an IFRS requires or permits otherwise.' This requirement in IAS 1 clearly indicates that an item of income or expense must be recognised in profit or loss unless it qualifies to be recognised outside profit or loss in accordance with other IFRSs.

BC41~~37~~ The IFRIC considered the circumstances in which existing IFRSs require items of income and expense to be recognised as items of other comprehensive income, mainly as follows:

(a) some actuarial gains or losses arising from remeasuring defined benefit liabilities provided that specific criteria set out in IAS 19 ~~*Employee Benefits*~~ are met.

(b) a revaluation surplus arising from revaluation of an item of property, plant and equipment in accordance with IAS 16 or revaluation of an intangible asset in accordance with IAS 38.

(c) an exchange difference arising from the translation of the results and financial positions of an entity from its functional currency into a presentation currency in accordance with IAS 21 *The Effects of Changes in Foreign Exchange Rates*.

(d) an exchange difference arising from the translation of the results and financial position of a foreign operation into a presentation currency of a reporting entity for consolidation purposes in accordance with IAS 21.

(e) a change in the fair value of an available-for-sale investment in accordance with IAS 39.

(f) a change in the fair value of a hedging instrument qualifying for cash flow hedge accounting in accordance with IAS 39.

BC42~~38~~ The IFRIC concluded that the requirement in IAS 1 prevents any of these items from being applied by analogy to the credit balance. In addition, the IFRIC noted that, with the exception of the items described in paragraph BC41~~37~~(a)–(c), the applicable IFRSs require the items of income and expenses listed in paragraph BC41~~37~~ to be reclassified to profit or loss when the related assets or liabilities are derecognised. Those items of income and expenses are recognised as items of other comprehensive income when incurred, deferred in equity until the related assets are disposed of (or the related liabilities are settled), and reclassified to profit or loss at that time.

BC43~~39~~ The IFRIC noted that, when the dividend payable is settled, the asset distributed is also derecognised. Therefore, even if the credit balance were recognised as an item of other comprehensive income, it would have to be reclassified to profit or loss immediately. Given the existing requirements in IFRSs, the IFRIC concluded that it would be extremely difficult to argue that the credit balance did not have to be reclassified to profit or loss~~recycled~~.

BC44~~0~~ Even if the credit balance were recognised as an item of other comprehensive income, it inevitably has~~d~~ to be reclassified to profit or loss immediately. To do so, the credit balance would appear three times in the statement of comprehensive income—once recognised as an item of other comprehensive income, once reclassified out of other comprehensive income to profit or loss and once recognised as an item of profit or loss as a result of the reclassification. The IFRIC concluded that such a presentation does not faithfully reflect what has occurred. In addition, users of financial statements were likely to be confused by such a presentation.

BC45~~1~~ Moreover, when an entity distributes its assets to its owners, it loses the future economic benefit associated with the assets distributed and derecognises those assets. Such a consequence is, in general, similar to that of a disposal of an asset. IFRSs (eg IAS 16, IAS 38, IAS 39 and IFRS 5) require an entity to recognise in profit or loss any gain or loss arising from the derecognition of an asset. IFRSs also require such a gain or loss to be recognised when the asset is derecognised. As mentioned in paragraph BC36~~32~~, the *Framework* requires an entity to consider the effect of a transaction from the perspective of an entity for ~~whom~~which the financial statements are prepared. For these reasons, the IFRIC concluded that the credit balance and gains or losses on derecognition of an asset should be accounted for in the same way.

BC46~~2~~ Furthermore, paragraph 92 of the *Framework* states: 'Income is recognised in the income statement when an increase in future economic benefits related to an increase in an asset or *a decrease of a liability* has arisen that can be measured reliably' (emphasis added). At the time of the settlement of a dividend payable, there is clearly a decrease in a liability. Therefore, the credit balance should be recognised in profit or loss in accordance with paragraph 92 of the *Framework*. Some might argue that the entity does not receive any additional economic benefits when it distributes the assets to its owners. As mentioned in paragraph BC35~~31~~, the credit balance does not represent any additional economic benefits to the entity. Instead, it represents the unrecognized economic benefits that the entity obtained while it held the assets.

BC47 The IFRIC also noted that paragraph 55 of the *Framework* states: "The future economic benefits embodied in an asset may flow to the entity in a number of ways. For example, an asset may be: (a) used singly or in combination with other assets in the production of goods or services to be sold by the entity; (b) exchanged for other assets; (c) used to settle a liability; or *(d) distributed to the owners of the entity* (emphasis added)."

BC48~~3~~ In the light of these~~ above~~ requirements, the IFRIC concluded that the credit balance should be recognised in profit or loss. This~~e proposed~~ treatment would give rise to the same accounting results regardless of whether an entity distributes non-cash assets to its owners, or sells the non-cash assets first and distributes the cash received to its owners. Most commentators on D23 supported the IFRIC's conclusion and its basis.

BC49~~4~~ However, some IFRIC members believed that it might be more appropriate to recognise the credit balance directly in equity. To be recognised directly in equity, the credit balance must be considered an owner change in equity in accordance with IAS 1. The arguments for taking this view include the following:

(a) An asset distribution is a transaction between an entity and its owners acting in their capacity as owners. The cycle of a distribution transaction starts when an entity has an obligation to distribute the asset and ends when the entity distributes the asset. Just because, at some points, an entity recognises an obligation to make the distribution and derecognises the liability when it settles the obligation does not affect the conclusion that there is only one non-reciprocal transaction between an entity and its owners. In addition, an asset distribution does not result in the owners losing economic benefits of the assets when there is only one class of equity instruments. Under IAS 1, distributions to owners acting in their capacity as owners are recognised directly in the statement of changes in equity. Therefore, the credit balance that arises at the time of the settlement of the dividend payable should also be recognised directly in equity (ie where the distributions are originally debited).

(b) Because an asset distribution is a non-reciprocal transfer of an asset by an entity to its owners acting in their capacity as owners, IFRS requirements that are applicable to exchange transactions (eg when and where gains and losses on derecognition should be recognised) are not necessarily appropriate for the accounting for an asset distribution.

(c) When an entity distributes the assets to its owners, no additional economic benefits flow to the entity. As a result, the credit balance does not meet the definition of income set out in paragraph 70 of the *Framework*.

(d) Such a presentation would still require dividends payable to be measured in accordance with IAS 37 and the credit balance to be separately disclosed in the financial statements of the entity. If the purpose of recognising the credit balance in profit or loss is to inform users of financial statements of the value of the assets distributed, this presentation also serves that purpose.

BC50 The IFRIC recognised respondents' concerns about the potential 'accounting mismatch' in equity resulting from measuring the assets to be distributed at carrying amount and measuring the dividend payable at fair value. Consequently, the IFRIC considered whether it should recommend that the Board amend IFRS 5 to require the assets to be distributed to be measured at fair value.

BC51 In general, IFRSs permit remeasurement of assets only as the result of a transaction or an impairment. The exceptions are situations in which the standards prescribe current measures on an on-going basis as in IASs 39 and 41 *Agriculture*, or permit them as accounting policy choices as in IASs 16, 38 and 40 *Investment Property*. As a result of its redeliberations, the IFRIC concluded that there was no support in IFRSs for requiring a remeasurement of the assets because of a decision to distribute them. The IFRIC noted that the mismatch concerned arises only with respect to assets that are not carried at fair value already. The IFRIC also noted that the accounting mismatch is the inevitable consequence of IFRSs using different measurement attributes at different times with different triggers for the remeasurement of different assets and liabilities. In particular, there is asymmetry in the current IFRSs for measurement of assets and liabilities.

BC52 If a business is to be distributed, the fair value means the fair value of the business to be distributed. Therefore, it includes goodwill and intangible assets. However, internally generated goodwill is not permitted to be recognised as an asset (paragraph 48 of IAS38). Internally generated brands, mastheads, publishing titles, customer lists and items similar in substance are not permitted to be recognised as intangible assets (paragraph 63 of IAS38). In accordance with IAS 38, the carrying amounts of internally generated intangible assets are generally restricted to the sum of expenditure incurred by an entity. Consequently, a requirement to remeasure an asset that is a business apparently contradicts the relevant requirements in IAS 38.

BC53 Further, in addition to the lack of consistency with other standards, changing IFRS 5 this way (ie. to require an asset held for distribution to owners to be remeasured at fair value) would create internal inconsistency within IFRS 5. There would be no reasonable rationale to explain why IFRS 5 could require assets that are to be sold to be carried at the lower of fair value less costs to sell and carrying value but assets to be distributed to owners to be carried at fair value. Therefore, the IFRIC decided not to recommend that the Board amend IFRS 5 to require assets to be distributed to be measured at fair value.

~~Whether an entity should apply the requirements in IFRS 5 to non-current assets that are held for distribution to owners~~Amendment to IFRS 5

BC54~~45~~ IFRS 5 requires an entity to classify a non-current asset (or disposal group) as held for sale if its carrying amount will be recovered principally through a sale transaction rather than through continuing use. IFRS 5 also sets out presentation and disclosure requirements for a discontinued operation.

BC55~~46~~ When an entity has an obligation to distribute assets to its owners, the carrying amount of the assets will no longer be recovered principally through continuing use. The IFRIC decided that the information required by IFRS 5 is important to users of financial statements regardless of the form of a transaction. Therefore, the IFRIC concluded that the requirements in IFRS 5 applicable to non-current assets (or disposal groups) classified as held for sale and to discontinued operations should also be applied to assets (or disposal groups) held for distribution to owners.

BC56~~47~~ However, the IFRIC concluded that requiring an entity to apply IFRS 5 to non-current assets (disposal groups) held for distribution to owners would require amendments to IFRS 5. This is because, in the IFRIC's view, IFRS 5 at present applies only to non-current assets (disposal groups) held for sale.

BC57~~48~~ The Board discussed the IFRIC's proposal at its meeting in December 2007. The Board agreed with the IFRIC's conclusion that IFRS 5 should be amended to apply to non-current assets held for distribution to owners as well as to assets held for sale. However, the Board noted that IFRS 5 requires an entity to classify a non-current asset as held for sale when the sale is highly probable and the entity is *committed* to a plan to sell (emphasis added). Consequently, the Board directed the IFRIC to invite comments on the following questions:

(a) Should an entity apply IFRS 5 when it is committed to make a distribution or when it has an obligation to distribute the assets concerned?

(b) Is there a difference between those dates?

(c) If respondents believe that there is a difference between the dates and that an entity should apply IFRS 5 at the commitment date, what is the difference? What indicators should be included in IFRS 5 to help an entity to determine that date?

BC58 Based on the comments received, the IFRIC noted that, in many jurisdictions, shareholder approval is required to make a distribution. Therefore, in such jurisdictions there could be a difference between the commitment date (ie the date when the dividend is committed to by management) and the obligation date (ie the date when the dividend is approved by the shareholders). The IFRIC also noted that some commentators think that, even in such jurisdictions, any discussions between the entity and the owners about a proposed distribution are about whether to distribute the assets and until that is decided the entity cannot be committed to distribute them.

BC59 Therefore, the IFRIC concluded that 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 should meet the same conditions required for assets held for sale. Further, the IFRIC concluded that 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.

BC60 The Board agreed with the IFRIC's conclusions and amended IFRS 5 as part of its approval of the Interpretation.

Summary of main changes from the draft Interpretation

BC61 The main changes from the IFRIC's proposals in D23 are as follows:

(a) Paragraphs 3 to 7 were modified to clarify the scope of the Interpretation.

(b) Paragraph 9 clarifies when to recognise a dividend payable.

(c) Paragraphs 10 to 12 were modified to require the dividend payable to be measured at the fair value of the assets to be distributed without linking the IFRIC's conclusion that fair value is the most relevant measurement attribute to any individual standard.

(d) Illustrative examples were expanded to set out clearly the scope of the Interpretation.

(e) The Interpretation includes the amendments to IFRS 5

(f) The Basis for Conclusions was changed to set out more clearly the reasons for the IFRIC's conclusions.