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Project	<b>Agenda decision</b>
Topic	<b>IAS 18 Revenue – Receipt of a dividend of equity instruments</b>

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## Introduction

1. In November 2009, the IFRIC published a tentative agenda decision not to add to its agenda a request for guidance on the recognition as revenue of a dividend in the financial statements of an investor when the dividend is in the form of an investee's own equity instruments.
2. The IFRIC concluded that the agenda criteria were not met, as paragraph 29(a) of IAS 18, requires that a dividend is not recognised as revenue if it is not probable that there is an economic benefit associated with the transaction that will flow to the investor.
3. Two comment letters<sup>1</sup> were received.
4. The first letter stated agreement with the tentative agenda decision made by the IFRIC but considers that the IFRIC should consider the request more widely and provide guidance on a situation when all ordinary shareholders are offered a dividend of treasury shares on a pro-rata basis **or** a cash dividend alternative.
5. The discussion at the November 2009 IFRIC meeting included consideration of a cash dividend alternative. However, the IFRIC concluded that because the requestor did not request guidance on this specific situation, it should not be part of the IFRIC's tentative agenda decision.

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<sup>1</sup> Deloitte Touche Tohmatsu, OIC (the Italian Standard Setter)

This paper has been prepared by the technical staff of the IASCF for discussion at a public meeting of the IFRIC. The views expressed in this paper are those of the staff preparing the paper. They do not purport to represent the views of any individual members of the IFRIC or the IASB. Comments made in relation to the application of an IFRS do not purport to be acceptable or unacceptable application of that IFRS—only the IFRIC or the IASB can make such a determination.

Decisions made by the IFRIC are reported in *IFRIC Update*.

Interpretations are published only after the IFRIC and the Board have each completed their full due process, including appropriate public consultation and formal voting procedures. The approval of an Interpretation by the Board is reported in *IASB Update*.

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6. As a result, the staff do not propose any amendments to the tentative agenda decision to reflect the comments in this first comment letter.
7. The second comment letter argues that the sentence ‘when all ordinary shareholders are issued a dividend of an investee's own equity instruments on a pro-rata basis there is no change in the financial position or economic interest of any of the investors’ in the tentative agenda decision may not always hold true.
8. Specifically, the respondent believes that analysis of whether revenue should be recognised for the dividend transaction should include consideration of:
  - (a) the investee acquiring with cash its own equity instruments in the market; and then
  - (b) the distribution of these treasury shares to the investor as a dividend.
9. The respondent believes that the combination of these two steps of the transaction result in a situation that is similar to a one step transaction involving the payment by the investee of an ordinary cash dividend to the investor.
10. Consequently, the responder believes that there may be a change in the financial position, or economic interest, of the investors as a result of the dividend of an investee's own equity instruments on a pro-rata basis, when both steps of the transaction are considered.
11. The staff agree that the acquisition of its own equity instruments by the investee should be considered in the analysis of this request. The staff notes that in its November 2009 meeting, the IFRIC did discuss:
  - (a) how the acquisition of its own equity instruments by the investee may change the carrying value of the investment held by the investor, depending on the model used by the investor to account for this investment.
  - (b) that accounting symmetry may not always exist between the carrying value of the investment held by an investor and the recognition of dividends distributed by the investee as revenue.

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- (c) the consequences of an investor, subsequent to receipt of a dividend of an investee's own shares, selling these shares in exchange for cash. The staff consider that this situation is similar to the two step transaction identified by the respondent.
  - (d) the importance of the substance of the transaction in determining whether revenue should be recognised for any distribution received by the investor.
12. As a result, the staff believe that the concerns raised by the respondent were appropriately considered by the IFRIC in its November 2009 meeting, and do not propose any amendments to the tentative agenda decision.

### **Staff recommendation and proposed wording of the final agenda decision**

Question 1 - the staff recommends that the IFRIC finalise its tentative agenda decision not to add the issue to its agenda. Does the IFRIC agree with the recommendation?

Question 2 – Appendix A includes the staff's proposed wording for the final agenda decision which is unchanged from the published tentative agenda decision. Does the IFRIC agree with proposed wording?

## Appendix A – Proposed wording for agenda decision

### **IAS 18 Revenue – Receipt of a dividend of equity instruments**

The IFRIC received a request for guidance on the recognition as revenue of a dividend in the financial statements of an investor when the dividend is in the form of an investee's own equity instruments.

The IFRIC noted that current IFRSs provide guidance on when revenue arising from dividends shall be recognised. The IFRIC noted that when all ordinary shareholders are issued a dividend of an investee's own equity instruments on a pro-rata basis there is no change in the financial position or economic interest of any of the investors. In this situation, in accordance with paragraph 29(a) of IAS 18, the dividend is not recognised as revenue because it is not probable that there is an economic benefit associated with the transaction that will flow to the investor.

The IFRIC concluded that any guidance it could provide would be in the form of application guidance. Therefore, the IFRIC {decided} not to add this issue to its agenda.