

International Accounting Standards Board
30 Cannon Street
London
EC4M 6XH

4 April 2008

Grant Thornton International
Regent's Place
7th Floor
338 Euston Road
London NW1 3BG

Submitted electronically through the IASB Internet site (www.iasb.org)

IFRIC Draft Interpretation D23 Distributions of Non-cash Assets to Owners

Grant Thornton International welcomes the opportunity to comment on the International Financial Reporting Interpretations Committee's Draft Interpretation D23 Distributions of Non-cash Assets to Owners ("D23"). We have considered D23 as well as the accompanying draft Basis for Conclusions.

We agree that accounting for distributions of non-cash assets to owners is an area of diversity in practice and therefore support the IFRIC's decision to develop guidance. In our experience such distributions are accounted for in at least three different ways in accordance with existing IFRSs:

- at the carrying amounts of the assets distributed;
- at the fair value of the assets, with any difference between fair value and carrying value recognised in equity;
- at the fair value of the assets, with any difference between fair value and carrying value recognised in profit or loss.

The proposals in D23 would (in effect) mandate the third approach. We consider that information on the fair value of non-cash distributions is useful, not least from a stewardship perspective. Accordingly, we believe that D23's proposals will reduce diversity and improve financial reporting. We also consider that D23 is a valid interpretation of existing IFRSs (but not the only legitimate view).

Despite this support we have certain concerns. D23 relies on an analysis of non-cash distribution arrangements into two discrete stages which are accounted for separately (the first stage is the creation of a present obligation and the second the settlement of that obligation). In practice, we believe that the majority of non-cash distribution transactions do indeed give rise to a present obligation at some point. However, the obligation is normally a transitory stage in the process. The substance of a distribution arrangement could equally be viewed as a single transaction effected through a series of administrative procedures. Basing the accounting on the present obligation therefore seems somewhat artificial.

Moreover, distributions are by their nature discretionary. It is not evident to us that every distribution transaction involves a present obligation in advance of settlement. The existence of a present obligation in the absence of a contractual obligation is a matter of judgement based on specific facts and circumstances and drawing on the general principles of IAS 37 Provisions, Contingent Liabilities and Contingent Assets (IAS 37). If a non-cash distribution is effected without creating a present obligation D23 would not apply (on the basis of the issue as expressed in paragraph 8).

We also note that the donation for zero consideration of an item of property, plant and equipment would usually be accounted for as an expense using the asset's carrying value (paragraphs 69 to 71 of IAS 16 Property, Plant and Equipment). Such a transaction might also give rise to a transitory present obligation. However, it would not normally be accounted for by creating a provision in accordance with IAS 37 and then de-recognising that provision.

In making the comments in the preceding paragraphs we appreciate that near-term alternatives to relying on IAS 37 would most likely require rule-based amendments to applicable IFRSs. This is unappealing. In the absence of overarching principles for the measurement of owner transactions or non-reciprocal transactions generally, the IAS 37 approach is probably the best available to the IFRIC.

The IFRIC's two stage analysis also underpins its proposal that any difference between the distribution liability and the carrying amount of the asset(s) (referred to as the 'credit balance') is recorded in the income statement on settlement. Our slight preference is to view the distribution transactions as a single, owner-transaction and therefore to record the credit balance in equity (consistent with the alternative view in BC44). This preference is based mainly on a concern that the inclusion of income or (less commonly) expense in profit or loss is not useful information. This concern is exacerbated by issues over the reliability of the amounts involved, given that the value of the assets distributed will not be confirmed in an arm's length sale.

Our responses to the questions in D23's Invitation to Comment are set out below.

Question 1 - Specifying how an entity should measure a liability for a dividend payable

Paragraph 9 of the draft Interpretation proposes that an entity should measure a liability to distribute non-cash assets to its owners in accordance with IAS 37 Provisions, Contingent Liabilities and Contingent Assets. The IFRIC concluded that all dividends payable, regardless of the types of assets to be distributed, should be addressed by a single standard.

Do you agree with the proposal? If not, do you agree that all dividends payable should be addressed by a single standard? Why? What alternative would you propose?

Do you agree with the proposals? If not, why?

As noted above, we have a concern that IAS 37 becomes relevant only if the distribution transaction is divided into a present obligation stage and a settlement stage. If this view is accepted, we agree that measurement in accordance with IAS 37 is appropriate in situations in which a present obligation arises. We are not however entirely convinced that a present obligation arises in every case. The entity might for example retain a substantive ability to amend or cancel the distribution at every stage until the distribution is effected.

A present obligation to make a distribution will (if it exists) be a constructive obligation. We note that the International Accounting Standards Board's (IASB) ongoing Liabilities project may result in changes to the definition of a constructive obligation. These changes may in turn limit the concept of a constructive obligation to an obligation that is enforceable. This possible development might lead to further questions on if and when proposed distributions give rise to present obligations. We suggest that, in taking D23 forward, the IFRIC considers the implications of the IASB's Liabilities project.

Question 2: Specifying how any difference between the carrying amount of the assets distributed and the carrying amount of the dividend payable should be accounted for when an entity settles the dividend payable

Paragraph 12 of the draft Interpretation proposes that, when the dividend payable is settled, any difference between the carrying amount of the assets distributed and the carrying amount of the dividend payable should be recognised in profit or loss. Paragraphs BC28–BC43 of the Basis for Conclusions explain the reasons for this proposal. The Basis for Conclusions also includes an alternative view that the difference should be recognised directly in equity (see paragraph BC44).

Which view do you support and why?

From a purely technical standpoint we consider the arguments for recognition in profit or loss (at BC28-BC43) or in equity (at BC44) finely balanced. However, we are not convinced that recording income or (less commonly) an expense on distributions to owners results in useful information in practice. The fact that the recognised income or expense is not derived from an arm's length sale raises another concern over the reliability of the amounts. Finally, we are sympathetic to the alternative view expressed at BC44 that the 'credit balance' does not meet the definition of income in the Framework.

On balance our slight preference is therefore to record this difference in equity.

We also emphasise that we believe that information on the value of non-cash distributions is useful, not least from a stewardship perspective. We therefore support a solution that records the amount of the distribution at a current value.

Question 3: Whether an entity should apply the requirements in IFRS 5 to non-current assets held for distribution to owners

Both the Board and the IFRIC concluded that the requirements in IFRS 5 Non-current Assets Held for Sale and Discontinued Operations should be applied to non-current assets held for distribution to owners as well as to non-current assets held for sale (see paragraphs BC45–BC48 of the Basis for Conclusions).

Do you agree that an entity should apply IFRS 5 to non-current assets that are held for distribution to owners? If not, why and what alternative would you propose?

We find the arguments in BC45-BC48 persuasive and agree that an entity should apply IFRS 5 to non-current assets that are held for distribution to owners.

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). For assets held for distribution to owners, this raises the following three 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?**
- (b) Do you think there is a difference between those dates?**
- (c) If there is a difference between the dates and you think 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?**

We note that held-for-sale classification in accordance with IFRS 5 Non-current Assets Held for Sale and Discontinued Operations (IFRS 5) is determined by an appropriate level of management commitment, accompanied by a 'highly probable' test (paragraphs 7 and 8 of IFRS 5). It would seem consistent to use the commitment date as the classification trigger for assets held for distribution.

In many cases we believe the commitment date will also be the date an obligation arises. However, this will depend on facts and circumstances. We note that in the context of the sale of an operation, IAS 37 includes a rule that no obligation arises until there is a binding sales agreement (paragraph 78). This is clearly not the same as IFRS 5's held for sale trigger. Moreover, as noted above, we believe that in some cases a distribution might be made without first giving rise to a present obligation.

In many cases, a management proposal to distribute an asset requires shareholder approval. It seems unlikely that a proposed distribution requiring a substantive shareholder approval gives rise to a present obligation in IAS 37 terms. Such a requirement might also be regarded as an obstacle to held for sale classification in accordance with IFRS 5 (on the grounds that management does not have the necessary authority to commit the entity prior to obtaining approval). However, our preferred reading of IFRS 5 is that a shareholder approval requirement is similar to a regulatory approval requirement and is therefore taken into consideration in the 'highly probable' assessment. Accordingly, a requirement for shareholder approval might give rise to a timing difference between the commitment and obligation dates.

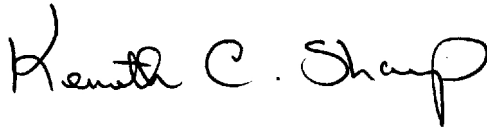
Other comments

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). We assume that in this scenario the IFRIC's intention is that a liability for the distribution would have regard to the fair value of 100% of the business, irrespective of any existing non-controlling interest in the subsidiary. 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.

An entity might also distribute some but not all of its ownership interests in a subsidiary and retain control. The proposed accounting for such a transaction in accordance with D23 creates some tension with the requirements of IAS 27 Consolidated and Separate Financial Statements. That Standard requires that changes in a parent's ownership interest in a subsidiary that do not result in a loss of control are accounted for as equity transactions. We observe that recording the settlement difference within equity (our preferred approach) would avoid this problem.

If you have any questions on our response, or wish us to amplify our comments, please contact our Director of International Financial Reporting, Andrew Watchman (andrew.watchman@gtuk.com or telephone + 44 207 391 9510).

Yours sincerely,

A handwritten signature in black ink that reads "Kenneth C. Sharp". The signature is written in a cursive, flowing style.

Kenneth C Sharp
Global Leader - Assurance Services
Grant Thornton International