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International Financial Reporting Interpretations Committee
30 Cannon Street
London EC4M 6XH

Re: IFRIC DRAFT INTERPREATION D23 – Distributions of non-cash assets to owners.
Submitted via the “Open to Comment” page at www.iasb.org

Dear Sirs:

Goldman Sachs welcomes the opportunity to comment on the IFRIC’s Draft Interpretation D23 *Distributions of non-cash assets to owners*.

We believe that diversity exists in practice in accounting for distributions of non-cash assets to owners and support the intention to resolve this issue. However, we believe that this would have been most suitably addressed by a full IASB standard that would establish appropriate principles and be capable of addressing circumstances that have been consciously omitted from the scope of the Draft Interpretation, such as common control transactions.

However, given diversity in practice, we acknowledge the requirement for a more expedient solution than would be possible with a fully deliberated standard. For this reason, we support the proposals in the Draft Interpretation and believe that they will eliminate diversity in practice and largely converge with US GAAP in this area. Nevertheless, there is a scope difference between the Draft Interpretation and US GAAP (APB 29) which requires the use of recorded amounts for all spin-offs or other reorganisations while the Draft Interpretation scopes out transactions that do not result in a change in control of the distributed asset. However we expected such differences to be infrequent and support the scope of the Draft Interpretation.

We agree that the distribution should be measured at the fair value of the asset to be distributed; measurement based on the carrying value of the asset would not properly reflect the value of what the entity is distributing nor the obligation that arises. Subject to the comments below, we agree with the proposal that an entity should recognise in the income statement the difference between the carrying value of the distributed asset and the distribution liability. Such a difference represents the unrealised gain to the entity from holding the asset and generates an accounting result that is equivalent to that which would arise if an entity had sold the asset and distributed the cash.

We agree with the Draft Interpretation conclusion that IAS 37 is the most appropriate recognition and measurement standard. However, we are aware that the IASB has an active project that may significantly change elements of this standard and are unclear to what extent these proposed changes have been considered by IFRIC adopting the position in the Draft Interpretation.

We have one substantive concern regarding the treatment of a change in the value of the liability for the distribution between recognition and settlement. The Draft Interpretation Proposes that:

- changes in the obligation during this period are recognised directly in equity;
- changes in the value of the distributed asset are recognised in the income statement (either through fair value accounting for the asset or on derecognition of the asset and liability)

We do not think this is appropriate for changes in the obligation to be recognised in equity as they represent the remeasurement a recognised liability and not a change related to an equity instrument. It should therefore be treated as a Profit or Loss item.

In addition, we disagree with the asymmetry caused by this treatment as we believe this does not properly reflect the economics of the transaction as the exposure to the changes in value of the underlying asset has been transferred to the shareholders at the commitment date.

For these reasons, we believe that it would be more appropriate when remeasuring the obligation between commitment and settlement date in accordance with IAS 37 to recognise such changes in the income statement. The gain or loss on remeasurement of the provision would be recognised in the same way as any gain or loss on derecognition of the distributed asset and the provision.

We believe our proposed approach arrives at the appropriate income statement result when assets to be distributed are held at fair value through profit or loss. We recognise that our proposal could result in a timing mismatch, between recognition of the distribution liability and settlement, where the distributed assets are not held at fair value through profit or loss. However we believe this timing mismatch is preferable to the asymmetry caused by the approach in the Draft Interpretation.

The Draft Interpretation applies to distributions of non-cash assets to owners. However, the Draft Interpretation refers throughout to the accounting treatment and measurement of dividends payable. Given that a dividend has a specific meaning within law and that this may vary across jurisdictions, we believe that this terminology is imprecise. A distribution of a non-cash asset to redeem shares, for example, would not generally fall within the common understanding of a dividend, but is within the scope of the Draft Interpretation. We thus believe that references to a 'dividend' and 'dividend payable' should be removed and replaced with references to 'distributions' and 'distributions payable'.

We have provided our responses to the specific matters raised in the Draft Interpretation as an Appendix to this letter. We hope that these comments are helpful. If there are any areas that you would like to discuss, then please contact me at 212-357-8437 or Charlotte Pissaridou, Executive Director, on 020-7552-2104.

Yours sincerely



Matthew L. Schroeder

Appendix

Question 1: Specifying how an entity should measure a liability for a dividend payable (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?

We agree with the proposal that all liabilities for distributions should be addressed by a single standard. This ensures consistency of measurement for transactions that have the same economic purpose. We agree that the existing IAS 37 provides a more appropriate measurement standard than IAS 39.

However, when concluding that IAS 37 is the most relevant standard, we are unclear what consideration has been given by IFRIC to the impact there may be on the treatment of distributions as a result of the IASB's current project to amend IAS 37, particularly given redeliberations over the definition of a present obligation and the measurement basis of such liabilities. We believe that these require full consideration before any final interpretation is issued.

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?

We agree that the difference between the carrying value of the asset and the carrying value of the liability on settlement should be recognised in the income statement. This treatment causes the entity to recognise unrealised gains/losses on an asset which is to be distributed and as such appropriately reflects the "cost" to an entity of a distribution. It also renders an entity indifferent in income statement terms between selling the asset, realising and then distributing the cash or distributing the asset. We believe that this is appropriate.

We do not support the alternative view set out in BC44. It would seem conceptually flawed for the result of the transaction to be impacted by how the underlying asset is measured (for example, an asset held at fair value through profit or loss would have all gains and losses to the date of distribution recognised in the income statement but an asset measured at cost would not), which would be the result of applying the guidance in BC44.

The only concern we have relates to the period between declaration and settlement. D23 currently proposes that the liability for the distribution is remeasured to fair value between the date of recognition and settlement with changes in fair value recognised in equity. As a result, under the Draft Interpretation, changes in value of the assets between commitment to distribute and

settlement will affect the income statement. The corresponding changes in the liability would not. We disagree with the asymmetry caused by this treatment for the reasons set out below.

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. This issue could be addressed by remeasuring the provision for the distribution through income rather than through equity (as proposed by paragraph 11). We believe that this treatment is also the most appropriate for the further reasons below.

We do not find the argument in BC27, that 'any adjustment to the best estimate of the dividend payable reflect estimates of the value of the distribution' and therefore that it should be recognised directly in the statement of changes in equity, to be convincing. We do not believe that a change in the value of the obligation, caused by a change in the value of the distributed asset between commitment and settlement date, represents a change in an estimate (unless caused by incorrect initial valuation). This change instead results from the movement in the value of the asset caused by factors subsequent to the commitment date.

In addition, such a change does not represent a transaction with the shareholder, or result in any change in the 'distribution' that was made by the entity. The value that the entity elected to distribute is the value at the date of commitment. Any subsequent changes that cause the value of the distributed asset to change do not, in our view, change the value of the distribution that was made, but represent the change in value of a recognised liability rather than equity instrument and should, as a result, be taken to the income statement. While the underlying instrument for which a distribution is made is an equity instrument, the dividend obligation is not and we believe changes in the value of this obligation should thus be treated in a manner consistent with other liabilities.

If the liability is remeasured through the income statement, there would be no income statement volatility caused by changes in value subsequent to initial recognition and the income statement impact will solely be in respect of fair value changes in the underlying asset not already recognised prior to the commitment to distribute. We believe such treatment is the most appropriate interpretation of IAS 37 and provides an accounting result that reflects the economics of the transaction.

We wish to raise one further comment where we believe that the requirements of the Draft Interpretation are unclear.

If an entity were to distribute a non-controlling interest its own subsidiary (such that the entity retains control of the subsidiary following the distribution), would such a transaction be within the scope of the Draft Interpretation (assuming the owners of the entity are diverse and thus the entity has no parent)? We believe in reading paragraph 5 that it would, as we would presume the asset distributed should be considered to be the shares in the subsidiary which are no longer controlled by the group. However, since there is no loss of control of the subsidiary, the underlying assets recognised in the group financial statements (on consolidation) remain controlled by the entity before and after the transaction and there is no derecognition event in the consolidated accounts. We believe it is therefore unclear whether the scope exemption applies in these circumstances.

If such a transaction is considered within the scope of the draft interpretation, we believe that paragraph 12 will require either amendment or clarification. Paragraph 30 of IAS 27 (as revised in 2008) 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. This would not be consistent with paragraph 12 of the Draft Interpretation that requires an entity to recognise 'the difference...between the carrying amount of the assets distributed and the carrying amount of the dividend payable in profit

or loss'. In the event of a partial disposal that does not lead to loss of control, no assets are derecognised from the group accounts and so we believe that no such difference would require recognition. We thus believe it more appropriate for paragraph 12 to refer to the carrying amount of assets derecognised in order to make this point clear.

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?

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 agree that IFRS 5 should be applied to non-current assets that are held for distribution to owners. The principal of IFRS 5 is that it applies to assets that will be recovered through sales rather than through continuing use. We believe that since an asset held for distribution will no longer be recovered through continuing use the measurement and disclosure principles of IFRS 5 are relevant.

IFRS 5 brings non-current assets into its scope when the sale is highly probable and there is a commitment to the plan to sell. As a result, we believe that IFRS 5 is relevant when there is a commitment to make a distribution rather than when the obligation arises. This would be most consistent with the approach to assets held for sale. It is possible that there will be a difference between these dates which will be dependent upon jurisdiction and the terms of the equity instrument for which the distribution is made. For example, a commitment to distribute could be made through a Board approved declaration of a dividend. However, such a dividend could require communication to shareholders and their approval and an obligation may not arise until this date.