

24 April 2008

Comment Letters  
International Financial Reporting Interpretations Committee  
30 Cannon Street  
London EC4M 6XH  
UNITED KINGDOM

Dear Sir

**Comments on Exposure Draft on IFRIC Draft Interpretation D23 "Distributions of Non Cash Assets to Owners" – December 2007**

Thank you for the opportunity to comment on IFRIC Draft Interpretation D23 Distributions of Non Cash Assets to Owners. Our comments on the specific questions raised by IFRIC are addressed in the Appendix.

Distributions to shareholders are an area that many entities are required to deal with regularly. Aspects of distributions have been addressed by the IASB in the recent Exposure Draft on the Cost of an Investment in a Subsidiary, Jointly Controlled Entity or Associate, and by this Exposure Draft. However, existing accounting standards deal only indirectly with the issues raised in this interpretation, a situation we do not consider satisfactory, particularly when IFRS standards are principles based.

We generally disagree with the proposed amendments. We do not agree with the proposed Interpretation's requirement to recognise any difference between the carrying value of the assets to be distributed and the carrying amount of the dividend payable in profit or loss. We believe that the alternative view raised in the Basis of Conclusions is more appropriate and consider that any difference should be taken to equity.

We support IFRIC's decision to exclude from the scope of the draft Interpretation distributions of an asset that are ultimately controlled by the same parent entity before and after the distribution.

Please contact Anthony Braden on +61 3 8641 3965 or [anthony.j.braden@nab.com.au](mailto:anthony.j.braden@nab.com.au) if you need any further clarification.

Yours sincerely



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## Detailed Answers to IFRIC Questions

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

We agree that all dividends payable, regardless of the type of asset to be distributed, should be addressed by a single accounting standard. We further agree that the obligation to distribute assets of any type should be measured at fair value. We consider fair value provides the users of financial statements with more useful and relevant information than measurement at the carrying amount of the assets to be distributed.

Whilst we agree that IAS 37 *Provisions, Contingent Liabilities and Contingent Assets* (IAS 37) may appear to be the most appropriate available standard to be applied to these transactions, we do not believe that a dividend payable meets the definition of a provision in that standard. IAS 37 defines a provision as a liability of uncertain timing or amount; we consider that in most instances both the amount and the date of any distribution to owners will be known at the time the Directors agree on a distribution. Further, we do not believe the explanation given in the Basis for Conclusions provides sufficient clarity as to why IFRIC considers application of IAS 37 is appropriate.

We note that the International Accounting Standards Board has an ongoing Liabilities project that will likely impact D23 and this will need to be considered as part of this project. We therefore recommend that the Interpretation be amended so as to require an entity to measure an obligation to distribute non-cash assets at fair value, without specifying the Standard to be applied.

**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**

The Interpretation is based on the presumption that non-cash distributions have two components that are accounted for separately (stage one is the creation of the present obligation, measured at fair value and stage two is the settlement of that obligation).

This two stage approach is crucial to determining the treatment for the 'credit balance', which is the difference between the distribution liability and the carrying amount of the assets. We think that focusing on the difference between the liability that is created and the assets which satisfy that liability clouds the issue. We consider this transaction to be a single non-reciprocal transfer of assets between an entity and its owners. This single transaction with owners view would result in the credit balance being recorded in equity. Our views are, therefore, entirely consistent with the views expressed in BC44.

We do not consider this credit balance to be income as defined in the Framework. We disagree with the application of paragraph 92 of the Framework whereby income should be recognised where an increase in economic benefits results in a decrease in liabilities. We think that again, this view focuses on the obligation to distribute rather than the substance of the distribution transaction.



We do not see any additional economic benefits flowing to the entity from such a distribution to owners. We see this as a transaction between an entity and its owners acting in their capacity as owners and believe this credit balance should be recognised directly in the statement of changes in equity.

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

We agree that it is appropriate to apply IFRS 5 to assets once they are committed to the dividend transaction, however, the timing of this application will become a matter for practical interpretation based on the relevant corporate legislation in each country.

We recommend including additional guidance to the effect that an entity should apply IFRS 5 when the entity is committed to a plan to distribute the assets (however, this is not a present obligation approach). An entity becomes committed when:

- the appropriate level of management are committed to distribute the non-cash assets; and
- shareholders' approval is highly probable.