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## Memo

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FirstRand Banking Group

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Group Finance : Technical Accounting

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To: The International Financial Reporting Interpretations Committee (IFRIC)  
From: FirstRand Banking Group  
Date: April 2008

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### COMMENT LETTER: D23 DISTRIBUTIONS OF NON-CASH ASSETS TO OWNERS

#### 1 Introduction

We have reviewed the draft interpretation – D23 Distributions on non-cash assets to owners (“D23”) issued in January 2008 and have responded to the questions included in the invitation to comment section of that document.

#### 2 Answers to specific questions

##### **Question 1 – Specifying how an entity should measure a liability for a dividend payable (dividends 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 dividends payable should be addressed by a single standard regardless of the type of assets to be distributed. We further agree that IAS 37 is the appropriate standard to apply to the measurement of all dividends payable.

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**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 BC 28 – BC 43 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 BC 44 of the Basis for Conclusions).*

*Which view do you support and why?*

We support the view that the difference between the carrying amount of the asset and the carrying amount of the liability should be recognised in profit or loss.

We support this view because we believe that this transaction is equivalent to one in which two transactions have taken place, the sale of an asset and the declaration of a dividend. The gain, represents the cumulative unrecognised gain associated with the asset during the period that it was held rather than a change in equity as a result of the distribution. In effect, the company has incurred an obligation to distribute a dividend of a determined value. To the extent that it satisfies that obligation through the delivery of an asset, any difference between the book value of the asset distributed, and the obligation of the company represents a profit or loss arising from past stewardship of the asset by the company

A liability has been fully discharged with an asset which has a lower carrying amount, this results in a decrease in liabilities, this decrease in liabilities is not as a result of a contribution from owners. Therefore, the credit which arises meets the current definition of income as an “enhancement of assets or decrease of liabilities that result in increases in equity other than contributions from owners”. We strongly disagree with the comment in paragraph BC 44(c) as when an asset is sold to a third party no additional economic benefits flow to the entity but any difference between the carrying amount and the fair value of the consideration received is recognised as income.

We note that paragraph 13 of the draft Interpretation indicates that a profit or loss recognised in terms of paragraph 12 is to be disclosed as a “separate line item in profit or loss.” We understand this to mean that such a profit or loss should be shown as a separate line item in the income statement or statement of comprehensive income. If this is the intention of the IFRIC we disagree with this requirement. Gains or losses realised in the settlement of a liability or as a result of the sale of an asset are not recognised as a separate line item on the face of the income statement or on the statement of comprehensive income in terms of any other standard of IFRS but rather disclosed in the notes where such a gain or loss is material. We believe that any gains or losses recognised as a result of the application of this draft

Interpretation should be disclosed in the same manner as similar gains would be disclosed in terms of other standards of IFRS, i.e. in the notes to the financial statements.

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

*Both the International Accounting Standards Board (the Board) and the IFRIC concluded that the requirements in IFRS 5 should be applied to non-current assets held for distribution to owners as well as to non-current assets held for sale (see paragraphs BC 45 – BC 48 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. 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 these dates?*
- (c) If there is a difference between the date and you think the entity should apply IFRS 5 at the commitment date, what is the difference? What indicators should be included in IFRS 5 to help constituents determine that date?*

- (a) We believe an entity should apply IFRS 5 when it is committed to making a distribution. In terms of IFRS 5 the classification of a non-current asset held for sale is made when the carrying amount will be recovered principally through a sale transaction and not through use. IFRS 5.7 states that this is when the sale is highly probable and the asset must be available for immediate sale in its present condition. IFRS 5.8 states that for a sale to be highly probable the entity must be committed to a plan to sell. By applying IFRS 5 from the date when the entity is committed to distribute the non-current asset there will be consistent treatment of sales of non-current assets and distributions of non-current assets.
- (b) We do believe that there is a difference between these two dates.
- (c) We understand that the date on which the entity is committed to the distribution is comparable with a “highly probable” sale in terms of IFRS 5. Guidance provided in IFRS 5 to determine when a sale is highly probable includes consideration of factors such as the appropriate level of management being committed to a plan to sell the asset; the non-current asset is being actively marketed at a reasonable price and the sale should be expected to be complete within one year from the classification as held for sale.

An entity will only have an obligation to distribute the asset when an obligating event has occurred. IAS 37 defines an obligating event as an event that creates a legal or constructive obligation that results in an entity having no realistic alternative but to settle the obligation.

In respect of dividends management is committed to make the distribution once they have proposed the dividend. However, the obligation to make the distribution only arises once the shareholders have approved the proposed dividend. This is consistent with the treatment of the dividend obligation in terms of IAS 37 and IAS 10 *Events after the balance sheet date*.

We believe that the commitment date would result in classification as held for sale earlier than the date of the obligating event. It often happens in practice that management will propose a dividend before the end of the financial year (being the commitment date) but which is only ratified by the shareholders after balance sheet date (being the obligating event). Therefore, for presentation purposes earlier classification as held-for-sale is expected to provide more relevant and reliable information.

The best evidence of management's commitment to distribute the asset to shareholders could be of the record of the directors' decision to pay the dividend. Such guidance could be included in an example accompanying the Interpretation.

### **3 Other comments**

In addition to the comments above we have the following additional specific comments.

Paragraph 3 of the draft Interpretation refers to "unconditional non-reciprocal distributions of assets by an entity to its owners acting in their capacity as owners". We recommend that a definition of "Non-reciprocal" is included in the draft Interpretation to ensure consistency of the definition used when applying the draft Interpretation.

We note that the interpretation does not provide guidance on the treatment of transaction costs incurred in such a transaction and whether those costs are attributable to the sale of an asset and expensed or whether those costs are attributable to a dividend payment and are included in the total dividend.