

Nestec S.A.

AVENUE NESTLÉ 55  
CH-1800 VEVEY (SUISSE)

TÉL. (021) 924 11 11  
TÉLEX 451 333 NTA CH  
TÉLÉFAX (021) 921 18 85



**INTERNATIONAL ACCOUNTING  
STANDARDS BOARD**  
30 Cannon Street  
**GB-LONDON EC4M 6XH**

Attn: IFRIC Comment letters

SÉLECTION DIRECTE

VOTRE RÉF.

NOTRE RÉF.  
FC-GAR/FRG/PFG

VEVEY,  
24 April 2008

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**IFRIC DRAFT INTERPRETATION**  
**D23 – Distribution of Non-cash Assets to Owners**

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Ladies and Gentlemen,

We welcome the possibility to comment on this draft IFRIC interpretation as follows.

**QUESTIONS 1 AND 2 – MEASUREMENT OF DIVIDEND PAYABLE AND SPECIFYING HOW ANY DIFFERENCE UPON SETTLEMENT SHOULD BE ACCOUNTED FOR**

We agree that the transfer of an asset to the owners of an entity should normally give rise to a gain except in the exceptional case of question 3. We also agree that such gain should be determined by the difference between the carrying amount of the asset and the fair value of the asset and that it should be recognised in the income statement because such an operation should have the same economic effect as a transfer of an asset to any other unrelated entity. Consequently the fair value should be the market price at which the entity could sell the asset to an unrelated third party.

If the asset is transferred immediately after the distribution is approved, there is no problem but, if the asset should be distributed at a later date, then we consider that the fair value should be the one at the distribution date rather than that at the date of the approval of the contribution. Therefore, in the latter case, the asset should stay at its carrying amount until the distribution date, unless the asset should be measured at fair value in accordance with an applicable standard. Consequently we disagree with the application of IAS 37 to distribution of non-cash assets to the owners because the gain recognised upon the decision to distribute would just be a revaluation of an asset and would not be representative of the result on the de-recognition of an asset. We consider that this does not comply with the substance over form principle as stated in § 35 of the Framework.

Moreover, we believe that the adjustment of e.g. a liability for e.g. a warranty or a court case due to new facts cannot be compared with the sale of an asset. We therefore disagree with the conclusions of BC26 and consider that they would not achieve a fair presentation in accordance with § 46 of the Framework because they would create an accounting

mismatch between the cost of the asset and the value of the liability. This difference would have no economic significance. Therefore we recommend that IAS 37 be modified to specify that a liability to transfer to the owners of an entity of a non-current asset should stay at the cost of the asset and be measured at fair value only upon the distribution date unless the asset is measured at fair value in accordance with an applicable standard.

### **QUESTION 3 - APPLICATION OF IFRS 5**

We agree that IFRSs should apply to the distribution of non-current assets to the owners of an entity because, as we have said in our answer to questions 1 and 2, we consider that such distributions should be treated as any other sale of assets to a third party. Since IFRS 5 § 7 stipulates that an asset should be classified as held for sale when the sale is "highly probable" we consider that, in case of a distribution to the owners, the "highly probable" criterion is met when the distribution is approved by the appropriate authority of the entity (i.e., management or board of directors). At this time, the entity should test the asset for impairment and recognise an impairment loss should the fair value less cost to sell be lower than the carrying amount because, as stated in BC 46, the asset is no longer recoverable through use.

### **ADDITIONAL POINT ON SCOPE**

We recommend that the scope of the interpretation should be completed to state that it deals only with the non-current assets that are directly transferred to the owners and that it does not deal with the non-current assets that are placed into a new group entity in view of its spin-off to the owners. While § 5 of the interpretation stipulates that a distribution of non-current assets within the same group is scoped out, it should just be added that paragraph 5 also applies to the transfers in view of a spin-off. We recommend this addition because we consider that the issues of accounting for spin-off (i.e. "fresh start" or any other measurement method) should go through the IASB due process in view of issuing an IFRS on entities under common control. Such issues are beyond the scope of an IFRIC interpretation.

Thank you very much for your attention to the above.

Yours very truly,

NESTEC LTD



Philippe Gaberell

Assistant Vice President

Head of Financial Reporting Guidelines

cc. Mr. H. Wirz, Senior Vice President, Nestlé S.A.