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НАЦИОНАЛЬНАЯ ОРГАНИЗАЦИЯ ПО СТАНДАРТАМ  
ФИНАНСОВОГО УЧЕТА И ОТЧЕТНОСТИ

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## COMMENT LETTER

By electronic submission to IASB website- [iasb.org](http://iasb.org)

April 17, 2008

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

Dear Sirs,

National Accounting Standards Board of Russia (NASB) appreciates the opportunity to submit comments on the ***IFRIC Draft Interpretation D23 Distributions of Non-cash Assets to Owners*** (hereinafter “the Draft”). NASB supports IFRIC’s activity to clarify accounting for distributions of non-cash assets to owners.

We agree that IAS 37 *Provisions, Contingent Liabilities and Contingent Assets* should be applied for accounting for liability for dividends payable both in cash and non-cash assets. However, NASB members believe that changes in the fair value of that liability should be recognized in profit or loss rather than as adjustments to initially recognized distributions of equity as proposed by IFRIC.

NASB supports the proposal in the Draft that the difference between the carrying amount of the assets to be distributed and the carrying amount of the dividend payable should be recognised in profit or loss. However NASB members believe that such difference should be recognized when the dividend payable is declared rather than when it is settled.

NASB does not agree with IFRIC’s proposal that existing 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 because NASB members believe that such accounting treatment gives rise to ‘accounting mismatch’ that reduce the quality of information presented in financial statements. In-

stead of that NASB would recommend to introduce in IFRS 5 the new category – ‘*non-current assets held for distribution*’ together with specific requirements to measure assets in this category at their fair value through profit or loss.

Please find our detailed answers to questions stated in Invitation to comment below.

***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?*

NASB agrees with IFRIC’s conclusion that all dividends payable, regardless of the types of assets to be distributed, should be addressed by a single standard. NASB members also believe that it is appropriate to apply IAS 37 *Provisions, Contingent Liabilities and Contingent Assets* for accounting for liability for dividends payable both in cash and in non-cash assets. Therefore NASB supports IFRIC’s proposal to measure a liability for a dividends payable at the fair value of assets to be distributed both at the date of its initial recognition and at the end of each reporting periods or the date of settlement of the liability. However, NASB doubts that proposed requirement to recognise changes in the carrying amount of dividend payable after its initial recognition as adjustments to the amount of distribution is appropriate. NASB members note that distribution of dividends is a specific act that is performed by the authorized body within the entity at a certain point of time. From this point of time the liability for a dividend payable is the same as all other liabilities recognized in the balance sheet and therefore all changes in its fair value should be recognized in profit or loss. Indeed, in the case of accounting treatment proposed by IFRIC the direct relationship between authorized decision on distribution of assets and the amount of the profit to be distributed will be lost. In the view of NASB members that approach contradicts to the substance of the profit’s distribution transaction because amount of the distributed profit became independent from the decision of authorized persons, i.e. the measurement of transaction is broke away from the transaction itself. They noted if proposed approach is appropriate then the changes in the fair value of accounts payable that arise from the changes in debtor’s creditability also should be recognised as adjustments to the

revenue recognized at the time of sales transaction rather than as decrease or increase in the bad debt expenses. Therefore NASB suggests recognizing changes in fair value of dividends payable in the profit or loss rather than as adjustments to distributions of equity that has been recognized initially.

***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?*

NASB supports the proposal that the difference between the carrying amount of the assets to be distributed and the carrying amount of the dividend payable (being the fair value of the assets to be distributed) should be recognised in profit or loss. However NASB members believe that such difference should be recognized when the dividend payable is declared rather than when it is settled. NASB agrees that this difference represents accumulated unrealised gains resulted from holding of those assets by the entity before its disposal. At the same time NASB members are of the view that these gains become realized when the entity decides to distribute these assets as dividends to owners rather than when it actually transfers assets to owners. In other words they believe that gain or loss should be recognized when liability for dividends payable arises rather than when it is settled. Indeed, the fact that liability for dividends payable is recognized at amount of fair value of assets to be distributed evidences that accumulated gain may be considered as realized. From then onward non-cash assets to be distributed changes their economic substance and becomes no more than mean of payment, i.e. start to play the role identical to cash assets. Therefore, in opinion of NASB members from the perspective of accrual basis of accounting it would be appropriate to recognise gain from disposal of asset to be distributed when it changes its economical substance, i.e. when dividends are declared but not paid. At that moment the assets designated for distribution should be reclassified into assets held for distribution that will be further measured at their fair value and the difference between the carrying amount of those assets and the carrying amount of the dividend

payable (i.e. the fair value of the same assets) should be recognized in the profit or loss. Subsequently both the assets and the liability should be measured in the balance sheet at amounts of assets' fair value with all changes in this fair value recognized in profit or loss. Therefore in future periods till the settlement of the liability the aggregated impact of changes in fair values of liability and related assets on profit or loss will be nil. In the view of NASB members such approach is more consistent with economical reality to be represented in the financial statements in the case of dividends payable in non-cash assets. In order to realize alternative approach NASB would like to suggest to introduce some changes in *IFRS 5 Non-current Assets Held for Sale and Discontinued Operations* (see our proposals in answer to Question 3 below).

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

***Part I. 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?***

NASB does not agree that the existing 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 because such accounting treatment gives rise to 'accounting mismatch' that occurs as result of gains and losses on two items subject to the same fair value risk are not recognized consistently. In the case of non-cash distributions to owners we have an assets-backed liability that is measured at the fair value of these assets but assets themselves still being measured on another measurement base, although both an asset and liability are subject to the same fair value risk. Indeed IFRS 5 requires to measure non-current assets held for sale at their carrying amount or fair value less costs to sell (if latter lesser than carrying amount) but not at their fair value. NASB members believe that the most appropriate measurement basis for those assets would be their fair value as it will eliminate accounting mismatch occurred. Therefore they propose to introduce in IFRS 5 the new category – 'non-current assets held for distribution' together with specific requirements to measure assets in this category at their fair value through profit or loss. As consequence it may also require to rename *IFRS 5 Non-current Assets Held for Sale and Discontinued Operations* to *IFRS 5 Discontinued Operations and Non-current Assets Held for Sale or Distribution*.

NASB members also would like to note that in many cases non-cash dividends are paid not in easily identifiable items of property, plant and equipment but in items of inventories that made-up from homogeneous group of similar assets. In such circumstances some difficulties with identification of assets to be distributed may arise.

**Part II.** *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?*

As we have mentioned above NASB does not support proposal to apply current requirements in IFRS 5 to assets held for distribution to owners. Notwithstanding to that NASB members would like to present their answers to additional three questions stated in this part of the Invitation to comment that may be useful if Board decides to apply IFRS 5 as it is to the assets held for distribution:

- (a) If assets held for distribution to owners are considered in a manner similar to assets held for sale it is appropriate to apply IFRS 5 when entity is committed to make a distribution rather than when it assume an obligation to distribute the assets.
- (b) We believe that there is a technical difference between the commitment date and date of assuming an obligation to distribute the assets to owners. The date of assuming an obligation is the date when liability is recognized in accordance with IAS 10 *Events After the Balance Sheet Date*, i.e. the date when dividends have been appropriately authorized and no longer at the discretion of the entity. The date of commitment may be more early date. For example at some date board of directors of the entity may decide to pay dividends in non-cash assets, however, this decision may be subject for further approval by the general meeting of share-

holders at a later date. In such case an entity committed to distribute assets from the former date but it has an obligation to do that only from the latter date.

- (c) As we stated in (b) we believe that there is a difference between the commitment date and the date of assuming of obligation. In our view the commitment date is more appropriate from the perspective of existing requirements in IFRS 5 stated for assets held for sale. Hence, if Board decides to apply the same requirements also to assets held for distribution the assets should be reclassified in this category at the commitment date. We believe that an entity is committed to distribute assets to owners at the specific date if at that date:
- (i) the entity has documented decision to pay dividends in non-cash assets made by the relevant governing body of the entity that, however, is not sufficient for recognition of liability for dividend payments at that date;
  - (ii) the assets to be distributed is available for immediate distribution to owners in their present condition; and
  - (iii) the entity has commenced activities for preparation to transfer assets to owners.

Thank you for the opportunity to present our views.

Yours sincerely,

Mikhail Kiselev

Chairman

National Accounting Standards Board