

***International Accounting Standards Board
30 Cannon Street
London
EC4M 6XH***

Our Ref: TECH-CDR-760

24 April 2008

Dear Sir

Distribution of Non-cash assets to owners

The Association of Chartered Certified Accountants (ACCA) is pleased to have this opportunity to comment on the draft interpretation D23, which relates to the above subject. The draft interpretation was considered at a recent meeting of ACCA's Financial Reporting Committee and I am writing to give you their views.

General comments

We acknowledge that current IFRS lacks specific guidance on the accounting for distributions of non-cash assets to owners and that this may be leading to inconsistent application in practice. We therefore consider the guidance in D23 to be useful in addressing specific key areas such as demergers where the financial assets are being distributed to owners, whilst remaining consistent with existing IFRS.

We do however believe that other areas which have been scoped out of this proposed interpretation, such as common control transactions, are also of significance. Although this matter is being considered in a separate IASB project, we would question whether all relevant matters would not better have been addressed together. By so doing, it would be possible to assess whether the principles governing non-cash distributions to owners would be applicable to other features of distributions which are scoped out of D23 and not tackled by existing IFRS.

ACCA responses to specific questions raised by IASB

Q1 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 IAS37 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?

Clearly the purpose of all distributions to owners have the same purpose, and we therefore agree with the conclusions of the IFRIC as set out in paragraph BC7 with regards the proposal to address all types of asset distributions through a single standard. We would agree that IAS37 is currently the most relevant standard, given that the proposed interpretation only addresses non-reciprocal distributions of assets by an entity to its owners.

However, as mentioned in our general comments, we believe that it would have been more appropriate to consider the wide ranging issues of distributions to shareholders. To this end, the applicability of IAS37 to measuring the dividend under common control transactions may be questionable. Were it not appropriate, we would still strongly support a single standard to cover dividend payables. As these are commonly applied transactions, there would be merit in producing a single standard which addresses all such transactions.

Q2 *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. Paragraph BC28-BC43 of the Basis of Conclusions explain the reasons for this proposal. The Basis of 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 believe that the fair value of the assets distributed is the best measure of the dividend payable and the return to shareholders. We agree with the IFRIC's conclusion in BC29 that the amount of the dividend payable would normally be greater than the carrying amount of the assets distributed, mainly through the application of IAS36. In terms of the recognition of this credit balance, we also agree with the IFRIC that it should be recognised in the P&L

as it reflects the performance of the entity during the period the entity was held and it arises as it were a sale of the assets rather than from the transaction with shareholders. Furthermore, recognition through P&L reflects the fact that the cumulative unrecognised gain associated with the assets is realised when they are derecognised.

Q3 *Whether an entity should apply the requirement in IFRS5 to non-current assets held for distribution to owners.*

Both the Board and the IFRIC concluded that the requirements in IFRS5 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 paragraph BC45-BC48 of the Basis of Conclusions).

Do you agree that an entity should apply IFRS5 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 required 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 IFRS5 at the commitment date, what is the difference? What indicators should be included in IFRS5 to help an entity to determine that date?*

We would support the view that IFRS5 should be applied to non-current assets that are held for distribution to owners as this standard provides useful information regardless of the form of the transaction.

We note that IFRS5 requires an entity to classify a non-current asset as held-for-sale when there is a commitment (by management) to a plan to sell and a high probability of the sale occurring. In such situations there is likely to be an agreement in principle, and although in most cases this may also be the date of obligations, it could be earlier than there being an actual obligation.

In particular we note that IAS10 refers to IAS37 criteria for a present obligation when providing for a dividend to be recognised at the balance sheet date. The commitment by management to a plan to distribute an asset does

not meet the criteria for a present obligation as prescribed by IAS37, and therefore there is a difference between the commitment date and the date of obligation. This is likely to be the case where management have committed to a dividend distribution, but a legal obligation on the company only arises when ratified by shareholders.

We believe it would be appropriate to consider the obligation date for the recognition of a dividend distribution, as is consistent with IAS10. This will be the date when there is a firm intention to distribute a dividend. This could be indicated as being the date of shareholder approval and / or public announcement.

If there are matters arising from any of the above please do contact me.

Yours sincerely



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