

25 April 2008

D23 Comment Letters  
International Accounting Standards Board  
30 Cannon Street  
LONDON EC4M 6XH  
**United Kingdom**

Email: [ifric@iasb.org](mailto:ifric@iasb.org)

Dear Sir/Madam

**JSE SUBMISSION ON IFRIC DRAFT INTERPRETATION D23 –  
*DISTRIBUTIONS OF NON-CASH ASSETS TO OWNERS***

I would like to thank you for the opportunity to provide comments on this document.

The JSE Limited (JSE) has seen an increasing number of distributions of non-cash assets to owners over the past few years. We took the opportunity to forward D23 to those listed companies that had been involved in such distributions recently. We received responses from two companies. Appendix A sets out the exact responses from these companies; we have not tried to combine them or dilute the views in any way. Please note too that these are not necessarily the views of the JSE, either as a listed company itself or as a regulator. I am a member of SAICAs Accounting Practices Committee and my own views have been incorporated into the SAICA comment letter.

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Yours faithfully

Tania Wimberley  
**Senior Corporate Finance Accounting Specialist-Issuer Services Division**

## **APPENDIX A**

### **COMMENTS**

For response 1 the company has set out their views in line with the questions asked in DP23

For response 2 the company provided feedback in terms of the accounting treatment they applied and the reaction from investors in this regard.

Response 3 is from an advisor to respondent no 2 .

#### **Response 1**

Q1: How a liability for a dividend payable should be measured

We disagree with the proposal.

Compliance with IAS 37 would require the dividend liability to be raised at the amount required to settle it and subsequently re-measured at reporting periods. The recognition of this liability at, effectively, market value, without the simultaneous recognition of the asset to be distributed, at market value, gives rise to distortions and complexities which would not serve the purpose of fair presentation.

We agree that all dividends payable should be addressed by a single standard, specifically dedicated to the subject.

Q2: Treatment of difference between carrying amount of assets & liability on settlement

We believe that all transactions with the owners should be recognized in the statement of changes in equity. Any changes in the carrying amount of the dividend liability should not impact on the net profit of the entity for the period concerned.

Q3: Should IFRS 5 apply to non- current assets held for distribution to owners

We agree that IFRS 5 should apply subject to appropriate changes being made to that standard.

We believe that there is a difference between the date when an entity is committed to make a distribution and the date when it has an obligation. For example an entity may conclude that, in the case where a distribution requires shareholders approval, that it meets the requirements to classify the assets as held for sale, but has not yet received shareholders approval. It is thus committed to make the distribution but is not obliged to do so. Equally a situation could arise where shareholders approval has been received but the dividend has not yet been declared by the directors.

An important consequence of the decision to recognize assets as held for sale is the requirement to treat the relevant income statement results as “discontinued operations” where the assets being distributed represent a “major line of business or geographical area of operation”.

We believe that the assets should be recognized as held for sale when there is a commitment to make a distribution. This would facilitate the recognition of the income statement results as discontinued operations and improve reporting of the results of continuing operations.

### General comments

Our most material objection to the draft lies in the requirement to recognize the dividend liability at fair value. A situation can arise where the fair value of an asset being distributed to shareholders exceeds the reserves/equity of the company/group [e.g. in the case where the shares in a non wholly owned subsidiary is to be distributed and it's share price trades significantly in excess of it's net asset value]. In terms of the draft, the only way that this can be overcome is to declare and settle the dividend on the same date, a wholly impractical solution. An alternative is to recognize the fair value of the assets at the same time as the dividend is declared. This is contrary to the treatment of assets held for sale where any gain is only accounted for when the assets are de-recognised. To make an exception in the case of assets to be distributed to owners would not be appropriate.

Our conclusion is thus that the only practical solution is to account for the dividend liability at the carrying value of the assets being distributed. We are ambivalent on the subject of whether the dividend is recognised on the date of settlement at fair value or carrying value, provided, if the former, the resulting credit is recognised in the statement of changes in equity.

### Response 2

This party's view was that the policy they adopted (first revaluing the asset) was the correct one and if he had to do it again, he would do the same. They believe this should be the only permitted way to account for such transactions - i.e. you should first restate the asset to its market value and then distribute it.

In their case they recognised the gain through the income statement (not directly to equity as the note suggests might be an alternative), but this was of course excluded from headline earnings. The newly created reserves obviously disappeared immediately after creation when the asset was distributed.

We asked whether this unusually large gain did not create confusion amongst investors and was it not something that had to be explained to everyone?

Their response was that a few uninformed commentators did misinterpret this. In fact a newspaper headline said that the companies profits were up a couple of 100%!, but it was largely well understood and easy to explain.

In their instance there were so many other complicated things to explain in the transaction (BEE, etc) that they said that this was the least of his challenges.

### Response 3

There is another angle that perhaps needs to be appreciated: Section 46 of the Income Tax Act allows you to unbundle shares to shareholders without triggering STC or CGT. However, s46(6) provides that you will be deemed to first have used your share premium in such a distribution and, only when share premium is exhausted, would you use reserves. The implication is that you are forced to first use what is effectively paid up capital which would ordinarily be available for distribution to shareholders free of STC in any event. Companies often have a low book value for the "about to be unbundled" investment and hence they do not mind offsetting this small amount against share premium. If the asset is however first revalued, you would be using a much higher amount of share premium. This could make certain commentators averse to the proposed treatment.