

28 April 2008

Mr R Garnett
Chairman IFRIC
International Accounting Standards Board
30 Cannon Street
London EC4M 6XH
UNITED KINGDOM

ifric@iasb.org

Dear Mr Garnett

D23 Distributions of Non-Cash Assets to Owners

The Group of 100 (G100) is an organization of chief financial officers from Australia's largest business enterprises with a purpose of advancing Australia's financial competitiveness. The G100 is pleased to provide comments on the Draft Interpretation.

The G100 notes that the title of the draft refers to distributions whereas the text refers to dividends. We consider it important to clarify what is specifically being addressed. For example, is the draft dealing with dividends as that term is usually used by companies and their shareholders and as indicated in IAS 18 'Revenue' or is it dealing with all distributions to shareholders/owners including returns of capital and share buybacks. In Australia, the term 'dividends' has a specific meaning in Corporations Law and case law precedent and, as such, care is exercised in the use of the term.

It is also important that other features of Corporations Law are considered in addressing the topic including equality of treatment of all shareholders and oppression of minority interests.

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 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?

The G100 agrees that the principles in IAS 37 'Provisions, Contingent Liabilities and Contingent Assets, provide the most appropriate basis for accounting for these distributions where they arise from the recognition of a liability. It is not clear whether a liability arises in all cases where non-cash distributions are made.

The G100 would also support the development of a separate pronouncement dealing with all distributions to shareholders/owners.

- 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 recognized 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 recognized directly in equity (see para BC44).

Which view do you support and why?

The G100 considers that the difference between the carrying amount of the assets distributed and the amount of the dividend payable should be recognized as a component of other comprehensive income because the gain/loss has arisen on a transaction with owners.

- Q3.** *Whether an entity should apply the requirements in IFRS 5 to non-current assets held for distribution to owners.*

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 to non-current assets that are held for distribution to owners? If not, why and what alternative would you propose?

The Board noted that the IFRS5 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?*

The G100 agrees that once the assets are designated/committed for distribution to owners/shareholders the requirements of IFRS 5 should apply.

Because of the operation of Corporations Law in Australia and the constitution of companies there is a significant difference between designation/commitment in respect of the declaration of a dividend by directors and when it becomes a legal obligation through ratification and recognition as a dividend liability under IAS 37.

As it is unlikely that this position is unique to Australia the potential conflict between the requirements of IFRS 5 and IAS 37 need to be resolved. This could be achieved through targeted disclosure or an amendment to IAS 37 to remove any uncertainty in respect of the treatment of these transactions.

Yours sincerely

A handwritten signature in black ink, appearing to read 'A. Reeves'.

Tony Reeves
National President

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D24 Customer Contributions

The Group of 100 (G100) is an organization of chief financial officers from Australia's largest business enterprises with a purpose of advancing Australia's financial competitiveness. The G100 is pleased to provide comments on the Draft Interpretation.

The G100 is concerned that the scope of D24 is too broad in seeking to deal with all classes of customer contributions. It is not clear whether IFRIC has considered arrangements such as tooling in the automotive industry. The G100 believes that if the project is continued the focus should initially be on those customer contributions which are made to obtain connection to a network. Under these arrangements the contribution may be in the form of cash or property, plant and equipment. In these cases a distinction should be drawn between:

- i. the physical connection to the network which is normally the purpose of making the contribution; and
- ii. the subsequent access to and supply of goods or services which would normally be dealt with on an ongoing basis,

as a means of establishing a principle.

The G100 considers that having accepted the customer contribution the provider is obliged to undertake work to connect the customer to the network (for example, gas, electricity, telecommunications, water) in accordance with the terms of the agreement. As such, it is important to identify the particular facts and circumstances in each case. For example, in some cases the obligation may be to provide goods at a reduced price as occurs in some recoverable tooling arrangements in the automotive industry while in others the fee is for connection to a network where all other services are paid for separately as provided in IAS 18, example 17.

The extension of the network and the connection of the contributor have as an objective the provision of goods and services to the customer over a presumably extended period. While D24 proposes that the contribution should be recognized as revenue it does not provide guidance as to a reasonable time period for any amortization, other than to indicate that it should be the period over which it has an obligation to provide access.

In the absence of guidance there is likely to be considerable diversity in determining an appropriate time period. For example, an entity may argue that it has fulfilled its obligation to the customer and completed all the work that is necessary once the customer is connected to its network and thus recognize the customer contribution as revenue at this point. On the other hand, a provider may consider that its obligation is to provide access to a supply over an extended period whether it is 20 years, 40 years or longer and, accordingly, recognize revenue over that period. For example, properly maintained infrastructure may have an extended useful life of 80 – 100 years or longer. In addition, arrangements in the telecommunications industry may feature renewal provisions exercisable at the option of the customer. In this regard clarity of the requirements in paragraphs 16 and 20 is desirable.

In respect of a cash contribution it is feasible that the amount of the contribution is greater than the cost of constructing the asset with the result that the entity has made a gain on the contribution transaction. It is not clear whether gains of this type are recognized upon completion of the constructed asset or whether it is also amortized over the useful life of the constructed asset.

Yours sincerely

A handwritten signature in black ink, appearing to read 'A Reeves', with a stylized, cursive script.

Tony Reeves
National President