



THE INSTITUTE OF
Chartered Accountants
IN IRELAND

CA House, 83 Pembroke Road,
Ballsbridge, Dublin 4

Tel: +353 1 637 7200

Fax: +353 1 668 0842

Email: ca@icai.ie

Web: www.icai.ie

International Financial Reporting Interpretations Committee,
International Accounting Standards Board,
1st Floor,
30 Cannon Street,
London EC4M 6XH,
United Kingdom.

25 April 2008

Response of the Accounting Committee of the Institute of Chartered Accountants in Ireland

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

Dear Sir/Madam,

The Accounting Committee (AC) of the Institute of Chartered Accountants in Ireland has considered the proposals contained in the above document and is pleased to respond to the draft Interpretation.

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?

The AC supports the view of the IFRIC that all dividends payable regardless of the types of assets to be distributed should be addressed by a single standard. This would be the ideal solution and would lead to greater consistency.

However, the AC is concerned that the reason for the conclusion in BC15 that IAS 39 does not apply to certain dividends is not well developed. Given that shareholders' rights are normally specified in the Articles of Association (or similar constitutional documentation) of an entity, it is difficult to see how, after a dividend has been authorised, there is not a contractual obligation to the shareholders. Consequently, provided there is cash to be distributed or a cash alternative, it is also difficult to see why IAS 39 does not apply to the distribution. Despite the desire to have a single standard apply to all distributions, it may be necessary to have a specific derogation from IAS 39 in order to achieve this.

Nonetheless, the AC concurs with the IFRIC that IAS 37 is the appropriate standard on which to draw and that it is desirable that all dividends payable should be addressed by a single standard. However, the AC considers that this may need an amendment to the scope of the existing IAS 32/39.

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?

The AC supports the view expressed in the draft Interpretation that the difference between the carrying amount of assets distributed and the carrying amount of the dividend payable should be recognised in profit or loss.

The AC found the arguments persuasive that the gain has derived from events or transactions prior to the decision to distribute rather than from the distribution to the shareholders itself.

Because the increase in asset value was generated by the entity as part of its operations prior to the distribution decision, it seems more appropriate that the gain should be dealt with as part of profit for the period. It would be helpful if the IFRIC were to consider further the classification of this gain in the income statement. Should the gain form part of operating activities or should it form part of the financing activities as it was crystallised on distribution to the shareholders?

Question 3 - 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 5 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 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?**

Generally, the position in our jurisdiction is that directors of an entity have the legal right and ability to commit an entity to an interim dividend and to actually make the interim dividend payment without authority from any other party. As regards a final dividend, the ability of the directors is to propose a dividend to the shareholders but final authorisation of the dividend is subject to the approval of the shareholders. Consequently, a final dividend is not authorised until it is approved by shareholders in general meeting.

Consequently, we believe that there is a difference between the date on which an entity is committed to make a distribution and the date when the obligation to distribute the asset arises. The requirements in IFRS 5 are that the asset must be “available for immediate sale in its present condition subject only to terms that are usual and customary and its sale must be highly probable”. It goes on to state that for the sale to be highly probable, the appropriate level of management must be committed to a plan to sell the asset and an active programme to locate a buyer and complete the plan must be initiated.

The AC considers the directors of the company as having the ability to commit to a distribution, i.e. to initiate the plan to distribute the asset even though they do not necessarily have the authority to complete the plan. Consequently, the AC would consider that when the directors commit and propose a dividend for authorisation by the shareholders they should assess whether they consider that authorisation to be highly probable and if they do, then it would meet the definition set out in IFRS 5.

The AC considers that it is more meaningful for the financial statements to reclassify assets that are intended to be distributed into the held for sale (or held for distribution) category. The AC considers that this gives additional information to the shareholders and allows them to assess the implications of the proposed dividend on the financial position of the entity.

Consideration should also be given to whether the cash required for cash distribution obligations should be segregated, in the same way as non-cash assets held for a non-cash distribution. This should also address whether cash held for purposes of distribution should form part of cash and cash equivalents in the cash flow statement.

Other matters

Exclusion of transactions between entities under common control

Paragraph 5 of the draft Interpretation excludes distributions of an asset within the same group. On the basis that the IASB has added a project on common control transactions to its work programme, the AC concurs with this exception at the present time.

However, the AC considers that there is little rationale for a different treatment in the financial statements of the distributing entity, even in a common control situation whereas the accounting by the recipient of the distribution may need to be considered separately. From the point of view of the entity making the distribution, it does not appear logical that a different accounting treatment should apply merely because the shareholder was another company rather than an individual. However, in the hands of the company receiving the distribution in a common control transaction, it would be necessary to consider whether it was appropriate to remeasure the asset purely as a result of now controlling it directly rather than indirectly through a subsidiary.

Scope of the draft Interpretation

The AC concurs that the standard should address all distributions where members of the same class are treated equally. This should not be restricted to spin-offs or other similar activities but should encompass all distributions in specie.

The AC considers that distributions in specie are regular transactions and that there is significant variation in accounting for such transactions. The AC believes that financial reporting would be significantly improved were consistency to be achieved in this area for all distributions, whether they are in the form of cash or of other assets.

The AC also believes that there is no reason to make any exception to the principle of measuring the distribution by reference to the fair value of the assets to be distributed.

Should you wish to contact me about the above comments please feel free to do so.

Yours faithfully,

Mark Kenny

Secretary, Accounting Committee