



Our Ref.: C/FRSC

Sent electronically through the IASB Website (www.iasb.org)

21 May 2008

International Accounting Standards Board
30 Cannon Street
London EC4M 6XH
United Kingdom

Dear Sirs,

[IFRIC Draft Interpretation D23 – Distributions of non-cash assets to owners](#)

The Hong Kong Institute of CPAs is the only body authorised by law to promulgate financial reporting, auditing and ethical standards for professional accountants in Hong Kong. We welcome the opportunity to provide you with our comments on the captioned Draft Interpretation. Our responses to the questions raised in the Draft Interpretation are set out in the Appendix for your consideration.

We have a number of concerns relating to the proposals. First, we are concerned about the limited scope of the proposed Interpretation. The proposed scope of the Draft Interpretation is very narrow and transactions written in the proposed scope are uncommon as, in this part of the world, distributions in specie are more commonly found under the control of the same ultimate parent entity. As a result, a resultant Interpretation may be used inappropriately as precedent in accounting for other transactions with owners. We are aware that the IASB currently has a project on common control transactions on its active agenda. We would prefer consideration being given to including this issue in that project.

Second, we are concerned that the current proposals produce an accounting mismatch caused by differences in measurements between cost and fair value for same assets and liabilities.

We are further concerned that there was a divergent view among the IFRIC members on whether it is appropriate to recognise any difference between the carrying amount of the assets distributed and the carrying amount of the dividend payable in profit or loss when the dividend is settled or whether that difference should be recognised directly in equity as reflected in paragraph BC44. Given the importance of this proposal, we believe that more in-depth and comprehensive conceptual discussion of the issue is required.

As a result of these concerns, we recommend that the IFRIC withdraw this proposed Interpretation. A more comprehensive process should be carried out by the IASB to address all transactions with shareholders.

If you have any questions on our comments, please do not hesitate to contact me at ong@hki CPA.org.hk

Yours sincerely,

Steve Ong, FCA, FCPA
Deputy Director, Standard Setting Department

SO/WC/ac



APPENDIX

Hong Kong Institute of CPAs

Comments on the IFRIC Draft Interpretation D23 – Distributions of non-cash assets to owners

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?

In our view, existing IFRSs contain little guidance in the area of non-reciprocal transactions from which to build an interpretation. We are concerned that the application of IAS 37 in such circumstances will lead to an accounting mismatch caused by measurement differences. According to IFRIC D23.10, an entity measures a liability to distribute non-cash assets as dividend to its owners at the fair value of the assets to be distributed. However, the assets themselves are to be measured at the carrying value under previous policies until the time of distribution as proposed in paragraph 12.

We are also concerned that the fair value accounting may prevent companies from paying non-cash dividends. In some jurisdictions, e.g. in China, the amount of the dividends declared cannot exceed retained earnings at the time the dividend is declared. The accounting mismatch discussed above may preclude companies from paying non-cash dividends where the fair value of the assets to be distributed is greater than the retained earnings as of the date of declaration, even if this is not the intent of the applicable legislation.

Furthermore, we are not convinced that all dividends payable should be measured in accordance with IAS 37. We consider that it is more appropriate to account for dividend payable in accordance with IAS 39 if an entity declares a distribution in the form of financial assets.

We suggest that the IASB address a more fundamental issue of the accounting for non-reciprocal transactions in its common control transactions project. In our view, it is inappropriate to deal with the question of how to measure such non-financial liabilities by way of Interpretation.



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?

We do not support the proposal of recognising any difference between the carrying amount of the assets distributed and the carrying amount of the dividend payable in profit or loss. In accordance with the IAS 1.97-98, transactions between the entity and its owners acting in their capacity as owners should be recorded within equity. We are not convinced that the “credit balance” is arising from the sale of the assets rather than from the transaction with shareholders as stated in BC31 since we consider that selling the asset to a third party is very different in nature from giving an asset to shareholders. We share the alternative view expressed at BC44 that the “credit balance” does not meet the definition of income set out in paragraph 70 of the *Framework*.

In addition, we are concerned that if an entity distributes some of its ownership interests in a subsidiary but retains control, the proposed accounting creates tension with the requirements of IAS 27 (Revised) *Consolidated and Separate Financial Statements*. That Standard requires that changes in a parent’s ownership interest in a subsidiary that do not result in the loss of control must be accounted for as equity transactions. Therefore, the proposed recording of the settlement difference through profit or loss account will create inconsistencies within application of IFRSs.



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?

We support the arguments in BC45 - BC48 and agree that an entity should apply IFRS 5 to non-current assets that are held for distribution to owners.

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?

We note that in accordance with IFRS 5, a non-current asset is classified as held for sale when a sale is highly probable and the entity is committed to a plan to sell. It would seem consistent to use the commitment date rather than obligation date in the case for assets held for distribution.

(b) Do you think there is a difference between those dates?

We are of the view that there is a distinction between the commitment date and the obligation date. According to IAS 37.78, obligation arises when there is a binding agreement. Therefore, the commitment by management to a plan to distribute assets does not meet the criteria for a present obligation within IAS 37.

(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?

We consider the point at which a distribution becomes a “commitment” or a “present obligation” can vary depending on the company’s constitution or applicable regulations. We consider the indicators set out in IFRS 5.8 are also applicable to the asset held for distributions (excluding active programme to locate a buyer).