Accounting Standards Board

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Dear Stig

Draft Comment Letter D 23 'Distributions of non-cash assets to owners'

The Urgent Issues Task Force (UITF) is responding on behalf of the UK Accounting Standards Board (ASB) to the draft comment letter issued by EFRAG in connection with D23 'Distributions of non-cash assets to owners'.

The UITF has responded directly to the International Financial Reporting Interpretations Committee (IFRIC) and a copy of the letter submitted to IFRIC is attached to this letter.

The UITF agrees with EFRAG in supporting IFRIC to develop interpretative guidance in this area, but does not have the same significant concerns as EFRAG. In relation to EFRAG's concerns the UITF has the following comments:

(a) in its draft comment letter EFRAG argues that D23 should start by asking the question as to whether a liability has arisen. EFRAG explains this is because it considers that the issues that arise and the way they need to be addressed will differ depending whether there is a liability to be recognised or assets to be derecognised. The UITF considers that should EFRAG wish to raise this matter it should identify how it considers the issues differ. In the UITF's view D23 aims to capture the value of the dividend by reference to the fair value of the assets being distributed.

(b) EFRAG also notes in its draft comment letter that it does not accept that IAS 37's best estimate measurement attribute is necessarily the same as fair value in other circumstances. The UITF does not consider that this is being purported in D23. This is because D23 clearly states that "to measure a liability for an obligation to distribute non-cash assets to owners an entity should consider the fair value of the assets to be distributed". The UITF could find no suggestion within D23 that IAS 37 best estimate attribute is necessarily the same as fair value.

(c) In relation to the accounting mismatch that might arise where a liability is recognised in advance of non-cash assets being distributed the UITF agrees with this issue but considers that this is a function of a mixed measurement model.

(d) The UITF spent sometime considering the alternative treatments for presentation of the gain arising on distribution of non-cash assets and reaching a majority view. Ultimately the UITF considers that if it is to assist IFRIC in its work, it should provide a view as to the alternative treatments. The UITF, therefore whilst recognising the alternative views that exist in relation to the presentation, considers that EFRAG should state (even on a majority basis) its preferred view.

Our comments regarding the appendix to the draft comment letter are set out in appendix to this letter.

Should you have any questions regarding the contents of this letter please to do not hesitate to contact either Michelle Crisp or myself.

Yours sincerely

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Appendix to EFRAG's detailed comments on IFRIC D23

Question 1 – Specifying how an entity should measure a liability for a dividend payable

IS THERE A LIABILITY THAT OUGHT TO BE RECOGNISED?

1. In its draft comment letter EFRAG notes that D23 should start by asking the question does the entity have a liability. EFRAG goes on to say that, in its view, the way a distribution of a non-cash asset ought to be accounted for will largely depend on whether the entity has a liability that it needs to recognise. It also notes that the issues that arise if there is no liability to recognise are different to those where there is a liability to recognise. EFRAG does not, however, provide any evidence as to what those issues are or might be. The UITF considers that EFRAG should, at least, identify what it considers the issues might be.

2. In paragraph 3 of its draft comment letter EFRAG suggests that additional guidance is required on derecognition of non-cash assets held for distribution to owners. The UITF notes, however, that EFRAG does not provide any evidence that there is diversity in practice or there is doubt about the appropriate accounting treatment. The UITF considers that if EFRAG is to suggest additional guidance is required in this area then it should provide greater evidence of the need for guidance.

MEASURING THE LIABILTIY

3. In its response letter to D23 the UITF agrees the measurement of all dividends should be addressed by a single standard. The UITF notes that EFRAG only broadly agrees with this. EFRAG provides no clarification as to why it only broadly agrees with IFRIC's proposals.

4. It would also appear that EFRAG is concerned that the guidance in D23 might be applied by analogy to other circumstances. The UITF, as noted in its covering letter, does not agree with EFRAG's concerns in this area. It considers that D23 clearly indentifies that it is proposing reference to the fair value of non-cash assets only in the circumstances described. However, the UITF considers that if EFRAG does have such strong concerns then it should recommend that IFRIC insert text into the final Interpretation that the measurement of the best estimate by reference to the fair value of the assets to be distributed should not be applied by analogy to other circumstances. The UITF considers that this is a more suitable than the wording suggested by EFRAG in paragraph 7 of its draft comment letter, which uses the term "something other than fair value will sometimes be appropriate".

5. The UITF suggests that the wording of paragraph 8 could be improved. The UITF suggests that "probably will sometimes" should be replaced with "may have".

6. The UITF agrees that an accounting mismatch may occur where a liability is recognised and measured by reference to the fair value of the assets to be distributed but the assets to be distributed are retained at their carrying values. The UITF notes that this issue could also arise if an entity chooses to settle a liability by transferring an asset rather than by making a cash settlement. The UITF therefore considers that this is a consequence of the mixed measurement model and not something that IFRIC should be trying to resolve.

7. The UITF agrees that this mismatch could be addressed by amending the IFRS 5 'Non-current assets Held for sale and Discontinued Operations' to permit assets held for distribution to owners to be remeasure to an amount that is equal to the amount of the liability so that the asset concerned is 'matched' with the liability. In this instance the UITF is assuming that EFRAG is suggesting that the assets should be measured at fair value. The UITF is somewhat surprised that EFRAG is advocating the increased use of fair value and suggests that EFRAG should clarify that it is referring to fair value in this instance.

8. The UITF does not generally favour the remeasurement of non-cash assets held for distribution to fair value as it creates an inconsistency between assets for sale and assets held for distribution.

REMEASURING THE LIABILITY

9. The UITF is in agreement that the dividend should be remeasured at each balance sheet date and the difference presented in equity. The UITF has no further comments on this section of the draft comment letter.

Question 2 – Specifiying 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.

10. As noted in the covering letter the UITF spent sometime discussing where the gain arising on the distribution of the assets should be presented. Ultimately (and on balance) the majority of UITF members decided the analysis set out in the basis for conclusions to D23 provides a reasonable interpretation of existing IFRS. The UITF considers that presentation of the gain in profit and loss gives rise to the same accounting results regardless of whether an entity distributes non-cash assets to its owners, or sells the non-cash assets first and then makes a cash distribution.

11. In relation to the draft response to question 2 the UITF notes (as set out in its covering letter) that the EFRAG should specify which alternative accounting view it supports. It also notes that paragraphs 22 to 25 restated information also contained in the draft Interpretation. The UITF is of the view that the final response might be more useful to IFRIC if the question were answered in a more concise manner.

Question 3 – Whether an entity should apply the requirements in IFRS 5 to non-current assets held for distribution to owners

12. In its response to D23 the UITF notes that IFRS 5 should be applied to non-current assets that are held for distribution to owners. In its response EFRAG notes that IFRS 5 could be applied by analogy. The UITF considers that EFRAG should amend paragraph 26 of its draft comment letter to specify whether it agrees that an entity should apply IFRS 5 and if not the alternative that it would propose.

13. The UITF also notes that paragraphs 27 and 28 of the draft comment letter repeat some of EFRAG's earlier concerns regarding the mismatch of assets held for distribution to owners – rather than specifically addressing the questions asked by IFRIC.

14. In contrast to the view expressed in paragraph 29 the UITF is of the view that there is a distinction between the dates when an entity is committed to dispose of assets via a distribution and when an entity has an obligation to distribute those assets. The UITF considers that an obligation to distribute assets is achieved when a present obligation in accordance with IAS 37 is achieved. An entity should apply IFRS 5 when the entity is committed to a plan to distribute the assets. It considers an entity becomes committed when:

- the appropriate level of management are committed to distribute the non-cash assets; and
- shareholders' approval is highly probable.

Other comments

15. The UITF does not consider that guidance on the meaning of 'unconditional' is required. The UITF considers the term unconditional is an absolute and not open to interpretation.