Date

20 June 2008

Le Président

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des Experts
Comptables
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Mr. Robert Garnett
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Dear Mr. Garnett,

Re: IFRIC D23 *Distributions of Non-cash Assets to Owners*

1. FEE (Fédération des Experts Comptables Européens - Federation of European Accountants) is pleased to submit its views on the IFRIC draft interpretation D23 *Distributions of Non-cash Assets to Owners*.

2. As a founding organisation of EFRAG, FEE has also contributed to the EFRAG consultation process by submitting its views on EFRAG's draft comment letter in a letter to EFRAG dated 30 April 2008. We have also considered EFRAG's final submission to the IASB of 6 June 2008.

3. We welcome this draft interpretation addressing the issues on the accounting for distributions of non-cash assets to owners in principle. However, in our view, it would also be appropriate to wait until the outcome of other projects is known, such as the revised IAS 37, to ensure consistency in financial reporting.

4. In summary:

    - We agree with EFRAG that an accounting mismatch will arise if the dividend payable is measured at the fair value of the assets to be distributed but these assets themselves are measured at their carrying amount. We note that the issue of the creation of an accounting mismatch is also comparable to the issue arising in the IFRIC's project on Emission Rights. We believe that it may be appropriate to wait until this issue is resolved;

    - In addition, we have two additional remarks if the liability is measured at fair value. First, we note that in some specific legal environments this would not be possible. We suggest that the constraints of specific legal environments are also considered and acknowledged in the interpretation. Secondly, we note that a similar problem to the issue arising on the IFRIC's project on Emission Rights will arise when measuring a liability that is settled by remittance of an asset.

5. Our responses to the Invitation to comment of the draft interpretation are presented in the Appendix to this letter.

We would be pleased to discuss any aspect of this letter you may wish to raise with us.

Yours sincerely,

Jacques Potdevin
President

Ref: ACC/SS/LF

APPENDIX – Responses to the Invitation to comment of 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 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 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 this proposal? If not, do you agree that dividends payable should be addressed by a single standard? Why? What alternative do you propose?

1. We agree with EFRAG that the questions of recognition and measurement when an entity distributes non-cash assets to its owners should be kept and addressed separately.

2. We think that the decision to distribute non-cash assets should result in the recognition of a liability and that this liability should be recognised at the commitment date. While we understand, as explained in the draft interpretation, that a liability should not be recognised until there is a commitment for the non-cash distribution, we believe that this suggests implicitly that a liability should be recognised at the date of the decision when the commitment is made.

3. We do not think that dividends payable has necessarily to be addressed by a single standard, regardless of the types of assets to be distributed, i.e. IAS 37. However, we strongly believe that the same approach should be required in the various standards covering the accounting for dividends payable to ensure consistency in financial reporting.

Measuring the liability

4. Liabilities resulting from the declaration of a distribution to shareholders do not appear to fit squarely in any specific standard. In particular, given that IAS 37 is meant to address liabilities of uncertain timing or amount (neither of which apply to dividends declared), it is questionable whether such liabilities are indeed subject to IAS 37. However, both IAS 37 and IAS 39 are based on the principle that liabilities should initially be measured at fair value and subsequently remeasured when the amount of the consideration required, under the terms of the obligation, varies. Accordingly, we support the use of fair value to measure dividends payable, whether they will be settled in cash or through distribution of other assets. The interpretation can support this measurement basis by analogy to, rather than by scoping distributions in, the aforementioned standards (and to the Framework) and through reference to the hierarchy set out in IAS 8.

5. Paragraph 10 of D23 specifies that when measuring a dividend payable an entity shall consider the fair value of the assets to be distributed. We broadly agree, in principle, that when an entity has a liability arising from a distribution of non-cash assets, the entity should measure the liability at the fair value of the assets to be distributed at the commitment date.

6. However, we have two main concerns if the liability is measured at fair value. First, we note that in some specific legal environments this would not be possible; for instance in Austria there are legal constraints to measure the liability by reference to the agreed value at the time the decision is made. We suggest that the constraints of specific legal environments are also considered and acknowledged in the interpretation.

7. Secondly, we are concerned by the mismatch that results from the measurement at fair value of the liability: while the liability will initially be measured at fair value against equity and will subsequently be remeasured also against equity, to reflect changes in the fair value of the asset(s) to be distributed (until settlement), the carrying amount of the asset(s) is not, itself, adjusted until settlement takes place at which time the resulting gain is recognised in profits or

loss. This results in a mismatch both in terms of the timing of the remeasurement and of the location in the financial statements where the remeasurement is recognised. This mismatch does not reflect an economic reality.

8. We note that the issue of the creation of an accounting mismatch is also comparable to the issue arising in the IFRIC's project on Emission Rights. We believe that it may be appropriate to wait until this issue is resolved.

9. In addition, we note that the measurement requirements for non-financial liabilities under existing IFRS vary significantly in the current standards.

10. Furthermore, the outcome of the current project that the IASB is undergoing to revise IAS 37 is also unknown. We feel that it may be more appropriate to wait until the outcome of the revised IAS 37 is known before addressing the measurement of non-financial liabilities in general and in particular the distribution of non-cash assets as dividends to its owners.

Remeasuring the liability

11. As noted earlier, we do not feel that the liability should be remeasured.

12. In addition, remeasuring the liability might broaden our concern on the accounting mismatch noted earlier. We would suggest that the IASB and IFRIC further explore alternatives to resolve this accounting mismatch.

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 settled 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 and loss. Paragraphs B28-B43 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 (BC44).

Which view do you support and why?

13. We support the EFRAG view and thereby paragraph 12 of the draft interpretation. i.e. when an entity settles the dividend payable, it should recognise the difference, if any, between the carrying amount of the asset and the carrying amount of the liability (for the dividend payable) in profit and loss, on the same grounds as EFRAG as detailed in its final comment letter to the IASB on paragraph 13.

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?

14. We have split views regarding whether an entity should apply IFRS 5 to non-current assets that are held for distribution to owners. IFRS 5 currently addresses disposition through sale. Because a distribution in kind does not, strictly speaking, represent a “sale”, amendments to IFRS 5 are required if it is to apply to such transactions.

15. However, if the substance of the transaction when there is a distribution of non-cash assets to owners can be seen as comparable to the transaction of a sale, then one could justify the application of IFRS 5 to non-current assets that are held for distribution to owners.

16. We do not think 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 to distribute the assets.

Other comments

PARAGRAPH 3 – SCOPE

17. We support EFRAG’s suggestion in paragraph 19 of EFRAG’s Comment letter for IFRIC to provide some indicators on how the term “unconditional” might be interpreted in D23, as referred to in paragraph 3 of D23.

18. In addition, it would be helpful having guidance addressing also the financial reporting of a distribution of non-cash assets to owners when foreign currency transactions are involved.