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Re: EXPOSURE DRAFT IFRIC D23 - *Distribution of Non-cash assets to Owners*

Dear Sirs,

We are pleased to provide you with our observations on your draft comment letter to D23 of IFRIC. Our answers and comments to the questions raised by Efrag are as follows:

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?

We agree that when en entity declares distribution of a dividend, it has an obligation. We also agree that every obligation which satisfies the criteria to qualify as a liability should be measured in accordance with IAS 37. OIC believes that IAS 37 should be the only standard to be used to measure liabilities except for those liabilities arising form specific transactions covered by other standards (e.g. financial liabilities, share based payments, etc.). A dividend payable, regardless of whether it will be paid in cash or in kind is not a special transactions and therefore IAS 37 should apply.

We are of the opinion that the fair value of the asset to be distributed is the best and only measurement of the liability. We suggest that IFRIC should reword paragraph 10 to state clearly that to apply IAS 37 to measure a dividend payable, an entity should measure the liability at the fair value of the asset to be distributed. The current wording "…an entity shall consider the fair value…" raises the doubt that there might be other measurement attributes to be considered, thus raising an ambiguity.

We do not fully share Efrag's concern that this Interpretation might lead to the conclusion that the "best estimate" measurement in IAS 37 will always be fair value. On the contrary, we are of the opinion that when a liability is settled in kind, the fair value of the asset to be used as settlement is necessarily the best estimate of the liability. We believe that the Board should clarify this through an additional paragraph in IAS 37, perhaps in the course of the next Annual Improvement if not now in this Interpretation. By doing so, the Board should explicitly scope out liabilities arising on emission rights because such liabilities are part of a more complex transaction for which the Board has a specific project.

We agree with Efrag that measuring the asset under existing standard (for instance, at amortized cost) and the liability at the fair value of the asset creates an accounting mismatch in the rare circumstances when settlement of the liability occurs in an accounting period subsequent to that in which the dividend was declared. The situation is well described by Efrag's example: asset's depreciation affects net income while remeasurement of the liability affects equity. We do believe however that this situation is not an accounting mismatch but rather it captures two different realities. Depreciation measures the consumption of the asset while it is still being used by the entity and contributes to the production costs. The increase of the liability measures the appreciation of the value of the asset.

We do not see better alternatives. Efrag proposes to consider amending IFRS 5 to allow an entity to remeasure non-cash held for distribution to owners at the carrying amount of the liability. This means a revaluation of the asset at its fair value before it is actually disposed of with a corresponding gain in profit and loss.[1] We are sceptical about this solution because it creates an exception to a general rule which, as it happens for many exceptions, might then be applied by analogy to other transactions. We are against creating an exception to resolve an accounting mismatch which will rarely occur in practice.

We have an additional comment on paragraph 10 where IFRIC proposes that if an entity gives owners a choice of receiving either a non-cash asset or a cash, the entity shall estimate the dividend payable by considering both the fair value of each alternative and the associated probability of owners selecting each alternative. In our view distribution of non-cash assets to owners is a rare situation and because of its infrequency, there is no means to reasonably assess "the associated probability". We believe that the entity should measure the liability at the higher of the value of the non-cash asset and the cash. This is known as the theory of the rationale behaviour of the investor (creditor).

[1] It cannot be a loss because otherwise the impairment test under IAS 36 would be wrong.

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?

We support IFRIC's view that the difference between the carrying amount of the asset and the amount of the liability should be recognized as income in profit and loss. Distribution of the asset is a realization gain and should be treated as such as it would have been had the entity sold the asset to a third party. It is true that all transaction with owners in their capacity as owners should be recognized in equity, but this is done by recording the liability with a corresponding decrease of retained earnings showing the dividend payable at its fair value.

Question 3: Whether an entity should apply the requirements in IFRS 5 to noncurrent 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?

In line with Efrag, we believe that there might be a difference between the date in which there is a commitment to distribute the asset and the date in which there is an obligation. We think that it is a matter that cannot be resolved by IFRIC because it depends on the laws and practices in different jurisdictions. We recommend IFRIC to state that the obligation arises when dividends are legally due in order to avoid inconsistency with IAS 18 which requires a legal right to account for dividends receivable.

Yours sincerely,

Angelo Casò