INTERPRETATION OF STATUTORY BOARD FINANCIAL REPORTING STANDARD

INT SB-FRS 117

Distributions of Non-cash Assets to Owners

CONTENTS

Interpretation of Statutory Board Financial Reporting Standard (INT SB-FRS) 117 *Distributions of Non-cash Assets to Owners* is set out in paragraphs 1–18 and the Appendix. INT SB-FRS 117 is accompanied by Illustrative Examples and a Basis for Conclusions. The scope and authority of Interpretations are set out in the *Preface* to the Interpretations of Statutory Board Financial Reporting Standards.

Interpretation of Statutory Board Financial Reporting Standard INT SB-FRS 117
Distributions of Non-cash Assets to Owners

References

- SB-FRS 103 *Business Combinations*
- SB-FRS 105 *Non-current Assets Held for Sale and Discontinued Operations*
- SB-FRS 107 *Financial Instruments: Disclosures*
- SB-FRS 1 *Presentation of Financial Statements* (as revised in 2008)
- SB-FRS 10 *Events after the Reporting Period*
- SB-FRS 27 *Consolidated and Separate Financial Statements* (as amended in 2008)

Background

1 Sometimes an entity distributes assets other than cash (non-cash assets) as dividends to its owners[*] acting in their capacity as owners. In those situations, an entity may also give its owners a choice of receiving either non-cash assets or a cash alternative. Requests for guidance were received on how an entity should account for such distributions.

2 Statutory Board Financial Reporting Standards (SB-FRSs) do not provide guidance on how an entity should measure distributions to its owners (commonly referred to as dividends). SB-FRS 1 requires an entity to present details of dividends recognised as distributions to owners either in the statement of changes in equity or in the notes to the financial statements.

Scope

3 This Interpretation applies to the following types of non-reciprocal distributions of assets by an entity to its owners acting in their capacity as owners:

(a) distributions of non-cash assets (eg items of property, plant and equipment, businesses as defined in SB-FRS 103, ownership interests in another entity or disposal groups as defined in SB-FRS 105); and

(b) distributions that give owners a choice of receiving either non-cash assets or a cash alternative.

4 This Interpretation applies only to distributions in which all owners of the same class of equity instruments are treated equally.

5 This Interpretation does not apply to a distribution of a non-cash asset that is ultimately controlled by the same party or parties before and after the distribution. This exclusion applies to the separate, individual and consolidated financial statements of an entity that makes the distribution.

6 In accordance with paragraph 5, this Interpretation does not apply when the non-cash asset is ultimately controlled by the same parties both before and after the distribution. Paragraph 11 of SB-FRS 103 states that 'A group of individuals shall be regarded as controlling an entity when, as a result of contractual arrangements, they collectively have the power to govern its

[*] Paragraph 7 of SB-FRS 1 defines owners as holders of instruments classified as equity.

financial and operating policies so as to obtain benefits from its activities.' Therefore, for a distribution to be outside the scope of this Interpretation on the basis that the same parties control the asset both before and after the distribution, a group of individual shareholders receiving the distribution must have, as a result of contractual arrangements, such ultimate collective power over the entity making the distribution.

7 In accordance with paragraph 5, this Interpretation does not apply when an entity distributes some of its ownership interests in a subsidiary but retains control of the subsidiary. The entity making a distribution that results in the entity recognising a non-controlling interest in its subsidiary accounts for the distribution in accordance with SB-FRS 27 (as amended in 2008).

8 This Interpretation addresses only the accounting by an entity that makes a non-cash asset distribution. It does not address the accounting by shareholders who receive such a distribution.

Issues

9 When an entity declares a distribution and has an obligation to distribute the assets concerned to its owners, it must recognise a liability for the dividend payable. Consequently, this Interpretation addresses the following issues:

(a) When should the entity recognise the dividend payable?

(b) How should an entity measure the dividend payable?

(c) When an entity settles the dividend payable, how should it account for any difference between the carrying amount of the assets distributed and the carrying amount of the dividend payable?

Consensus

When to recognise a dividend payable

10 The liability to pay a dividend shall be recognised when the dividend is appropriately authorised and is no longer at the discretion of the entity, which is the date:

(a) when declaration of the dividend, eg by management or the board of directors, is approved by the relevant authority, eg the shareholders, if the jurisdiction requires such approval, or

(b) when the dividend is declared, eg by management or the board of directors, if the jurisdiction does not require further approval.

Measurement of a dividend payable

11 An entity shall measure a liability to distribute non-cash assets as a dividend to its owners at the fair value of the assets to be distributed.

12 If an entity gives its owners a choice of receiving either a non-cash asset or a cash alternative, 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.

13 At the end of each reporting period and at the date of settlement, the entity shall review and adjust the carrying amount of the dividend payable, with any changes in the carrying amount of the dividend payable recognised in equity as adjustments to the amount of the distribution.

Accounting for any difference between the carrying amount of the assets distributed and the carrying amount of the dividend payable when an entity settles the dividend payable

14 When an entity settles the dividend payable, it shall recognise the difference, if any, between the carrying amount of the assets distributed and the carrying amount of the dividend payable in profit or loss.

Presentation and disclosures

15 An entity shall present the difference described in paragraph 14 as a separate line item in profit or loss.

16 An entity shall disclose the following information, if applicable:

(a) the carrying amount of the dividend payable at the beginning and end of the period; and

(b) the increase or decrease in the carrying amount recognised in the period in accordance with paragraph 13 as result of a change in the fair value of the assets to be distributed.

17 If, after the end of a reporting period but before the financial statements are authorised for issue, an entity declares a dividend to distribute a non-cash asset, it shall disclose:

(a) the nature of the asset to be distributed;

(b) the carrying amount of the asset to be distributed as of the end of the reporting period; and

(c) the estimated fair value of the asset to be distributed as of the end of the reporting period, if it is different from its carrying amount, and the information about the method used to determine that fair value required by SB-FRS 107 paragraph 27(a) and (b).

Effective date

18 An entity shall apply this Interpretation prospectively for annual periods beginning on or after 1 July 2009. Retrospective application is not permitted. Earlier application is permitted. If an entity applies this Interpretation for a period beginning before 1 July 2009, it shall disclose that fact and also apply SB-FRS 103, SB-FRS 27 (as amended in 2008) and SB-FRS 105 (as amended by this Interpretation).

Appendix

Amendments to SB-FRS 105 *Non-current Assets Held for Sale and Discontinued Operations*

Paragraph 5A is added.

Scope

5A The classification, presentation and measurement requirements in this SB-FRS applicable to a non-current asset (or disposal group) that is classified as held for sale apply also to a non-current asset (or disposal group) that is classified as held for distribution to owners acting in their capacity as owners (held for distribution to owners).

After paragraph 5A the heading and paragraph 8 are amended (new text is underlined), and paragraph 12A is added.

Classification of non-current assets (or disposal groups) as held for sale <u>or as held for distribution to owners</u>

8 For the sale to be highly probable, the appropriate level of management must be committed to a plan to sell the asset (or disposal group), and an active programme to locate a buyer and complete the plan must have been initiated. Further, the asset (or disposal group) must be actively marketed for sale at a price that is reasonable in relation to its current fair value. In addition, the sale should be expected to qualify for recognition as a completed sale within one year from the date of classification, except as permitted by paragraph 9, and actions required to complete the plan should indicate that it is unlikely that significant changes to the plan will be made or that the plan will be withdrawn. <u>The probability of shareholders' approval (if required in the jurisdiction) should be considered as part of the assessment of whether the sale is highly probable.</u>

12A A non-current asset (or disposal group) is classified as held for distribution to owners when the entity is committed to distribute the asset (or disposal group) to the owners. For this to be the case, the assets must be available for immediate distribution in their present condition and the distribution must be highly probable. For the distribution to be highly probable, actions to complete the distribution must have been initiated and should be expected to be completed within one year from the date of classification. Actions required to complete the distribution should indicate that it is unlikely that significant changes to the distribution will be made or that the distribution will be withdrawn. The probability of shareholders' approval (if required in the jurisdiction) should be considered as part of the assessment of whether the distribution is highly probable.

Paragraph 15A and a footnote are added.

Measurement of non-current assets (or disposal groups) classified as held for sale

15A An entity shall measure a non-current asset (or disposal group) classified as held for distribution to owners at the lower of its carrying amount and fair value less costs to distribute[*].

[*] Costs to distribute are the incremental costs directly attributable to the distribution, excluding finance costs and income tax expense.

Paragraph 44D is added.

Effective date

44D Paragraphs 5A, 12A and 15A were added and paragraph 8 was amended by INT SB-FRS 117 *Distributions of Non-cash Assets to Owners* in January 2009. Those amendments shall be applied prospectively to non-current assets (or disposal groups) that are classified as held for distribution to owners in annual periods beginning on or after 1 July 2009. Retrospective application is not permitted. Earlier application is permitted. If an entity applies the amendments for a period beginning before 1 July 2009 it shall disclose that fact and also apply SB-FRS 103 *Business Combinations*, SB-FRS 27 (as amended in 2008) and INT SB-FRS 117.

Amendment to SB-FRS 10 *Events after the Reporting Period*

Paragraph 13 is amended (deleted text is struck through).

Dividends

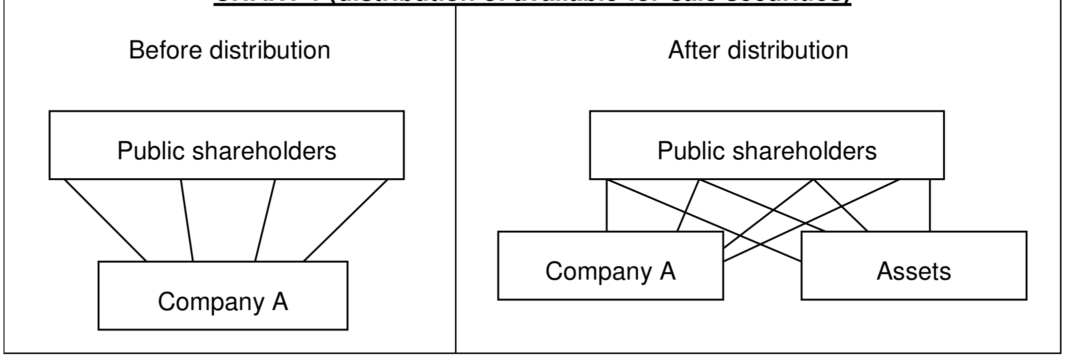
13 If dividends are declared (~~ie the dividends are appropriately authorised and no longer at the discretion of the entity~~) after the reporting period but before the financial statements are authorised for issue, the dividends are not recognised as a liability at the end of the reporting period because no obligation exists at that time. Such dividends are disclosed in the notes in accordance with SB-FRS 1 *Presentation of Financial Statements*.

Illustrative examples

These examples accompany, but are not part of, INT SB-FRS 117.

Scope of the Interpretation (paragraphs 3–8)

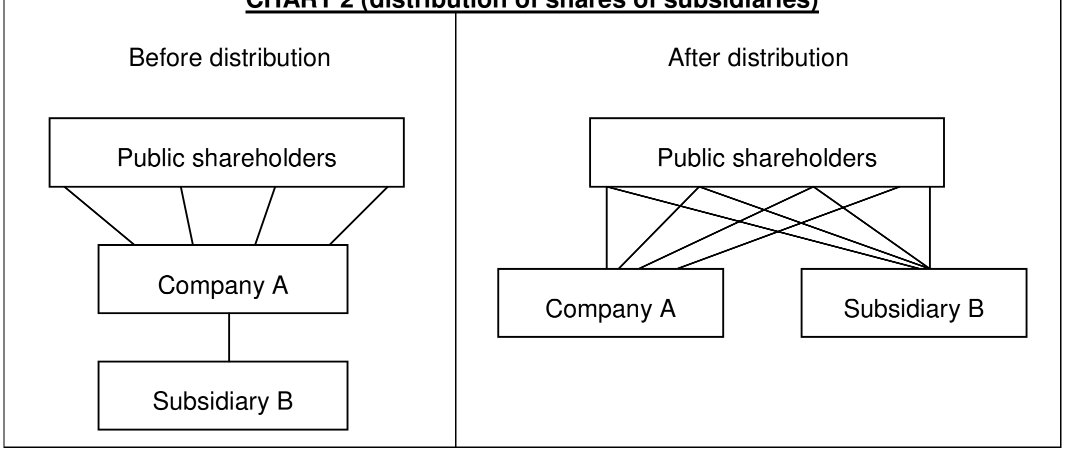
CHART 1 (distribution of available-for-sale securities)



IE1 Assume Company A is owned by public shareholders. No single shareholder controls Company A and no group of shareholders is bound by a contractual agreement to act together to control Company A jointly. Company A distributes certain assets (eg available-for-sale securities) pro rata to the shareholders. This transaction is within the scope of the Interpretation.

IE2 However, if one of the shareholders (or a group bound by a contractual agreement to act together) controls Company A both before and after the transaction, the entire transaction (including the distributions to the non-controlling shareholders) is not within the scope of the Interpretation. This is because in a pro rata distribution to all owners of the same class of equity instruments, the controlling shareholder (or group of shareholders) will continue to control the non-cash assets after the distribution.

CHART 2 (distribution of shares of subsidiaries)



IE3 Assume Company A is owned by public shareholders. No single shareholder controls Company A and no group of shareholders is bound by a contractual agreement to act together to control Company A jointly. Company A owns all of the shares of Subsidiary B. Company A distributes all of the shares of Subsidiary B pro rata to its shareholders, thereby losing control of Subsidiary B. This transaction is within the scope of the Interpretation.

IE4 However, if Company A distributes to its shareholders shares of Subsidiary B representing only a non-controlling interest in Subsidiary B and retains control of Subsidiary B, the transaction is not within the scope of the Interpretation. Company A accounts for the distribution in accordance with SB-FRS 27 *Consolidated and Separate Financial Statements* (as amended in 2008). Company A controls Company B both before and after the transaction.

Basis for Conclusions On
Interpretation of Financial Reporting Standard 117

This Basis for Conclusions accompanies, but is not part of, INT SB-FRS 117.

Introduction

BC1 This Basis for Conclusions summarises the considerations in reaching the consensus. It gave greater weight to some factors than to others.

BC2 At present, Statutory Board Financial Reporting Standards (SB-FRSs) do not address how an entity should measure distributions to owners acting in their capacity as owners (commonly referred to as dividends). As such, there could be significant diversity in practice in how entities measured distributions of non-cash assets.

BC3 Draft Interpretation D23 *Distributions of Non-cash Assets to Owners* was published for public comment in January 2008 and 56 comment letters were received in response to the proposals.

Scope (paragraphs 3–8)

Should the Interpretation address all transactions between an entity and its owners?

BC4 It was noted that an asset distribution by an entity to its owners is an example of a transaction between an entity and its owners. Transactions between an entity and its owners can generally be categorised into the following three types:

(a) exchange transactions between an entity and its owners.

(b) non-reciprocal transfers of assets by owners of an entity to the entity. Such transfers are commonly referred to as contributions from owners.

(c) non-reciprocal transfers of assets by an entity to its owners. Such transfers are commonly referred to as distributions to owners.

BC5 It was concluded that the Interpretation should not address exchange transactions between an entity and its owners because that would probably result in addressing all related party transactions. In its view, such a scope was too broad for an Interpretation. Instead, it was concluded that the Interpretation should focus on distributions of assets by an entity to its owners acting in their capacity as owners.

BC6 In addition, it was decided that the Interpretation should not address distributions in which owners of the same class of equity instrument are not all treated equally. This is because, in its view, such distributions might imply that at least some of the owners receiving the distributions indeed gave up something to the entity and/or other owners. In other words, such distributions might be more in the nature of exchange transactions.

Should the Interpretation address all types of asset distributions?

BC7 Comments were received that there was significant diversity in the measurement of the following types of non-reciprocal distributions of assets by an entity to its owners acting in their capacity as owners:

(a) distributions of non-cash assets (eg items of property, plant and equipment, businesses as defined in SB-FRS 103, ownership interests in another entity or disposal groups as defined in SB-FRS 105 *Non-current Assets Held for Sale and*

Discontinued Operations) to its owners; and

(b) distributions that give owners a choice of receiving either non-cash assets or a cash alternative.

BC8 It was noted that all distributions have the same purpose, ie to distribute assets to an entity's owners. It therefore concluded that the Interpretation should address the measurement of all types of asset distributions with one exception set out in paragraph 5 of the Interpretation.

A scope exclusion: a distribution of an asset that is ultimately controlled by the same party or parties before and after the distribution

BC9 In the Interpretation, it was considered whether the issue should be addressd on how an entity should measure a distribution of an asset (eg an ownership interest in a subsidiary) that is ultimately controlled by the same party or parties before and after the distribution. In many instances, such a distribution is for the purpose of group restructuring (eg separating two different businesses into two different subgroups). After the distribution, the asset is still controlled by the same party or parties.

BC10 In addition, it was noted that dealing with the accounting for a distribution of an asset within a group would require consideration of how a transfer of any asset within a group should be accounted for in the separate or individual financial statements of group entities.

BC11 For the reasons described in paragraphs BC9 and BC10, it was concluded that the Interpretation should not deal with a distribution of an asset that is ultimately controlled by the same party or parties before and after the distribution.

BC12 In response to comments received on the draft Interpretation, there was re-deliberation whether the scope of the Interpretation should be expanded to include a distribution of an asset that is ultimately controlled by the same party or parties before and after the distribution. It was decided not to expand the scope of the Interpretation in the light of the decision to add a project to the agenda to address common control transactions.

BC13 It was noted that many commentators believed that most distributions of assets to an entity's owners would be excluded from the scope of the Interpretation by paragraph 5. This conclusion was not agreed with. It was noted that in paragraph 11 of SB-FRS 103 *Business Combinations*, it was concluded that a group of individuals would be regarded as controlling an entity only when, as a result of contractual arrangements, they collectively have the power to govern its financial and operating policies so as to obtain benefits from its activities. In addition, in *Cost of an Investment in a Subsidiary, Jointly Controlled Entity or Associate* issued in 2008, it was clarified in the amendments to SB-FRS 27 *Consolidated and Separate Financial Statements* that the distribution of equity interests in a new parent to shareholders in exchange for their interests in the existing parent was not a common control transaction.

BC14 Consequently, it was decided that the Interpretation should clarify that unless there is a contractual arrangement among shareholders to control the entity making the distribution, transactions in which the shares or the businesses of group entities are distributed to shareholders outside the group (commonly referred to as a spin-off, split-off or demerger) are not transactions between entities or businesses under common control. Therefore they are within the scope of the Interpretation.

BC15 Some commentators on D23 were concerned about situations in which an entity distributes some but not all of its ownership interests in a subsidiary and retains control. They believed that the proposed accounting for the distribution of ownership interests representing a non-controlling interest in accordance with D23 was inconsistent with the requirements of SB-FRS 27 (as amended in 2008). That SB-FRS requires changes in a parent's ownership interest in a subsidiary that do not result in a loss of control to be accounted for as equity transactions. It had not been intended for the Interpretation to apply to such transactions, so it was not believed that it conflicted with the requirements of SB-FRS 27. As a result of the concerns expressed, the Interpretation was amended to make this clear.

BC16 Some commentators on D23 were also concerned about situations in which a subsidiary with a non-controlling interest distributes assets to both the parent and the non-controlling interests. They questioned why only the distribution to the controlling entity is excluded from the scope of the Interpretation. It was noted that when the parent controls the subsidiary before and after the transaction, the entire transaction (including the distribution to the non-controlling interest) is not within the scope of the Interpretation and is accounted for in accordance with SB-FRS 27.

BC17 Distributions to owners may involve significant portions of an entity's operations. In such circumstances, sometimes referred to as split-off, some commentators on D23 were concerned that it would be difficult to determine which of the surviving entities had made the distribution. They thought that it might be possible for each surviving entity to recognise the distribution of the other. It was agreed with the commentators that identifying the distributing entity might require judgement in some circumstances. However, it was concluded that the distribution could be recognised in only one entity's financial statements.

When to recognise a dividend payable (paragraph 10) and amendment to SB-FRS 10

BC18 D23 did not address when an entity should recognise a liability for a dividend payable and some respondents asked for clarification on this issue. It was noted that in SB-FRS 10 *Events after the Reporting Period* paragraph 13 states that 'If dividends are declared (ie the dividends are appropriately authorised and no longer at the discretion of the entity) after the reporting period but before the financial statements are authorised for issue, the dividends are not recognised as a liability at the end of the reporting period because no obligation exists at that time'.

BC19 Some commentators stated that in many jurisdictions a commonly held view is that the entity has discretion until the shareholders approve the dividend. Therefore, constituents holding this view believe a conflict exists between 'declared' and the explanatory phrase in the brackets in SB-FRS 10 paragraph 13. This is especially true when the sentence is interpreted as 'declared by *management but before the shareholders' approval*'. It was concluded that the point at which a dividend is appropriately authorised and no longer at the discretion of the entity will vary by jurisdiction.

BC20 Therefore, as a consequence of this Interpretation, it was decided to recommend amending SB-FRS 10 to remove the perceived conflict in paragraph 13. It was also noted that the principle on when to recognise a dividend was in the wrong place within the authoritative documents. The conclusions were agreed with and SB-FRS 10 was amended as part of the approval of the Interpretation. It was confirmed that this Interpretation had not changed the principle on when to recognise a dividend payable; however, the principle was moved from SB-FRS 10 into the Interpretation and clarified but without changing the principle.

How should an entity measure a dividend payable? (paragraphs 11–13)

BC21 SB-FRSs do not provide guidance on how an entity should measure distributions to owners. However, it was noted that a number of SB-FRSs address how a liability should be measured. Although SB-FRSs do not specifically address how an entity should measure a dividend payable, it was decided that potentially relevant SB-FRSs could be identified, and their principles applied to determine the appropriate measurement basis.

Which SB-FRSs are relevant to the measurement of a dividend payable?

BC22 All SB-FRSs that prescribe the accounting for a liability were considered. Of those, it was concluded that SB-FRS 37 *Provisions, Contingent Assets and Contingent Liabilities* and SB-

FRS 39 *Financial Instruments: Recognition and Measurement* were the most likely to be relevant. It was concluded that other SB-FRSs were not applicable because most of them addressed only liabilities arising from exchange transactions and some of them were clearly not relevant (eg SB-FRS 12 *Income Taxes*). As mentioned above, the Interpretation addresses only non-reciprocal distributions of assets by an entity to its owners.

BC23 Given that all types of distributions have the purpose of distributing assets to owners, it was decided that all dividends payable should be measured the same way, regardless of the types of assets to be distributed. This also ensures that all dividends payable are measured consistently.

BC24 Some believed that SB-FRS 39 was the appropriate SB-FRS to be used to measure dividends payable. They believed that, once an entity declared a distribution to its owners, it had a contractual obligation to distribute the assets to its owners. However, SB-FRS 39 would not cover dividends payable if they were considered to be non-contractual obligations. In addition, SB-FRS 39 covers some but not all obligations that require an entity to deliver non-cash assets to another entity. It does not cover a liability to distribute non-financial assets to owners. It was therefore concluded that it was not appropriate to conclude that all dividends payable should be within the scope of SB-FRS 39.

BC25 SB-FRS 37 was then considered, which is generally applied in practice to determine the accounting for liabilities other than those arising from executory contracts and those addressed by other SB-FRSs. SB-FRS 37 requires an entity to measure a liability on the basis of the best estimate of the expenditure required to settle the present obligation at the end of the reporting period. Consequently, in D23 it was decided that it was appropriate to apply the principles in SB-FRS 37 to all dividends payable (regardless of the types of assets to be distributed). It was decided that to apply SB-FRS 37 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 fair value of the assets to be distributed is clearly relevant no matter which approach in SB-FRS 37 is taken to determine the best estimate of the expenditure required to settle the liability.

BC26 However, in response to comments received on D23, it was reconsidered whether the Interpretation should specify that all dividends payable should be measured in accordance with SB-FRS 37. It was noted that many respondents were concerned that D23 might imply that the measurement attribute in SB-FRS 37 should always be interpreted to be fair value. This was not the intention of D23 as that question is part of the project to amend SB-FRS 37. In addition, many respondents were not certain whether measuring the dividend payable 'by reference to' the fair value of the assets to be distributed required measurement at their fair value or at some other amount.

BC27 Therefore, it was decided to modify the proposal in D23 to require the dividend payable to be measured at the fair value of the assets to be distributed, without linking to any individual standard its conclusion that fair value is the most relevant measurement attribute. It was also noted that if the assets being distributed constituted a business, its fair value could be different from the simple sum of the fair value of the component assets and liabilities (ie it includes the value of goodwill or the identified intangible assets).

Should any exception be made to the principle of measuring a dividend payable at the fair value of the assets to be distributed?

BC28 Some are concerned that the fair value of the assets to be distributed might not be reliably measurable in all cases. They believe that exceptions should be made in the following circumstances:

(a) An entity distributes an ownership interest of another entity that is not traded in an active market and the fair value of the ownership interest cannot be measured reliably. It was noted that SB-FRS 39 does not permit investments in equity instruments that do not have a quoted market price in an active market and whose fair value cannot be measured reliably to be measured at fair value.

(b) An entity distributes an intangible asset that is not traded in an active market and therefore would not be permitted to be carried at a revalued amount in accordance with SB-FRS 38 *Intangible Assets*.

BC29 It was noted that in accordance with SB-FRS 39 paragraphs AG80 and AG81, the fair value of equity instruments that do not have a quoted price in an active market is reliably measurable if:

(a) the variability in the range of reasonable fair value estimates is not significant for that instrument, or

(b) the probabilities of the various estimates within the range can be reasonably assessed and used in estimating fair value.

BC30 It was noted that, when the management of an entity recommends a distribution of a non-cash asset to its owners, one or both of the conditions for determining a reliable measure of the fair value of equity instruments that do not have a quoted price in an active market is likely to be satisfied. Management would be expected to know the fair value of the asset because management has to ensure that all owners of the entity are informed of the value of the distribution. For this reason, it would be difficult to argue that the fair value of the assets to be distributed cannot be determined reliably.

BC31 In addition, it was recognised that in some cases the fair value of an asset must be estimated. As mentioned in paragraph 86 of the *Framework for the Preparation and Presentation of Financial Statements*, the use of reasonable estimates is an essential part of the preparation of financial statements and does not undermine their reliability.

BC32 It was noted that a reason why SB-FRS 38 and SB-FRS 39 require some assets to be measured using a historical cost basis is cost-benefit considerations. The cost of determining the fair value of an asset not traded in an active market at the end of each reporting period could outweigh the benefits. However, because an entity would be required to determine the fair value of the assets to be distributed only once at the time of distribution, it was concluded that the benefit (ie informing users of the financial statements of the value of the assets distributed) outweighs the cost of determining the fair value of the assets.

BC33 Furthermore, it was noted that dividend income, regardless of whether it is in the form of cash or non-cash assets, is within the scope of SB-FRS 18 *Revenue* and is required to be measured at the fair value of the consideration received. Although the Interpretation does not address the accounting by the recipient of the non-cash distribution, it was concluded that the Interpretation did not impose a more onerous requirement on the entity that makes the distribution than SB-FRSs have already imposed on the recipient of the distribution.

BC34 For the reasons described in paragraphs BC28–BC33, it was concluded that no exceptions should be made to the requirement that the fair value of the asset to be distributed should be used in measuring a dividend payable.

Whether an entity should remeasure the dividend payable (paragraph 13)

BC35 It was noted that paragraph 59 of SB-FRS 37 requires an entity to review the carrying amount of a liability at the end of each reporting period and to adjust the carrying amount to reflect the current best estimate of the liability. Other SB-FRSs such as SB-FRS 19 *Employee Benefits* similarly require liabilities that are based on estimates to be adjusted each reporting period. It was therefore decided that the entity should review and adjust the carrying amount of the dividend payable to reflect its current best estimate of the fair value of the assets to be distributed at the end of each reporting period and at the date of settlement.

BC36 It was concluded that, because any adjustments to the best estimate of the dividend payable reflect changes in the estimated value of the distribution, they should be recognised as adjustments to the amount of the distribution. In accordance with SB-FRS 1 *Presentation of Financial Statements* (as revised in 2008), distributions to owners are required to be recognised directly in the statement of changes in equity. Similarly, adjustments to the amount of the distribution are also recognised directly in the statement of changes in equity.

BC37 Some commentators argued that the changes in the estimated value of the distribution should be recognised in profit or loss because changes in liabilities meet the definition of income or expenses in the *Framework*. However, it was decided that the gain or loss on the assets to be distributed should be recognised in profit or loss when the dividend payable is settled. This is consistent with other SB-FRSs (SB-FRS 16, SB-FRS 38, SB-FRS 39) that require an entity to recognise in profit or loss any gain or loss arising from derecognition of an asset. It was concluded that the changes in the dividend payable before settlement related to changes in the estimate of the distribution and should be accounted for in equity (ie adjustments to the amount of the distribution) until settlement of the dividend payable.

When the entity settles the dividend payable, how should it account for any difference between the carrying amount of the assets distributed and the carrying amount of the dividend payable? (paragraph 14)

BC38 When an entity distributes the assets to its owners, it derecognises both the assets distributed and the dividend payable.

BC39 It was noted that, at the time of settlement, the carrying amount of the assets distributed would not normally be greater than the carrying amount of the dividend payable because of the recognition of impairment losses required by other applicable standards. For example, paragraph 59 of SB-FRS 36 *Impairment of Assets* requires an entity to recognise an impairment loss in profit or loss when the recoverable amount of an asset is less than its carrying amount. The recoverable amount of an asset is the higher of its fair value less costs to sell and its value in use in accordance with paragraph 6 of SB-FRS 36. When an entity has an obligation to distribute the asset to its owners in the near future, it would not seem appropriate to measure an impairment loss using the asset's value in use. Furthermore, SB-FRS 5 requires an entity to measure an asset held for sale at the lower of its carrying amount and its fair value less costs to sell. Consequently, it was concluded that when an entity derecognises the dividend payable and the asset distributed, any difference will always be a credit balance (referred to below as the credit balance).

BC40 In determining how the credit balance should be accounted for, it was first considered whether it should be recognised as an owner change in equity.

BC41 It was acknowledged that an asset distribution was a transaction between an entity and its owners. It was also observed that distributions to owners are recognised as owner changes in equity in accordance with SB-FRS 1 (as revised in 2008). However, it was noted that the credit balance did not arise from the distribution transaction. Rather, it represented the cumulative unrecognised gain associated with the asset. It reflects the performance of the entity during the period the asset was held until it was distributed.

BC42 Some might argue that, since an asset distribution does not result in the owners of an entity losing the future economic benefits of the asset, the credit balance should be recognised directly in equity. This view would be based upon the proprietary perspective in which the reporting entity does not have substance of its own separate from that of its owners. However, it was noted that the *Framework* requires an entity to consider the effect of a transaction from the perspective of the entity for which the financial statements are prepared. Under the entity perspective, the reporting entity has substance of its own, separate from that of its owners. In addition, when there is more than one class of equity instruments, the argument that all owners of an entity have effectively the same interest in the asset would not be valid.

BC43 For the reasons described in paragraphs BC41 and BC42, it was concluded that the credit balance should not be recognised as an owner change in equity.

BC44 It was noted that, as explained in the Basis for Conclusions on SB-FRS 1, it was explicitly prohibited for any income or expenses (ie non-owner changes in equity) from being recognised directly in the statement of changes in equity. Any such income or expenses must be recognised as items of comprehensive income first.

BC45 The statement of comprehensive income in accordance with SB-FRS 1 includes two components: items of profit or loss, and items of other comprehensive income. It was therefore discussed whether the credit balance should be recognised in profit or loss or in other comprehensive income.

BC46 SB-FRS 1 does not provide criteria for when an item should be recognised in profit or loss. However, paragraph 88 of SB-FRS 1 states: 'An entity shall recognise all items of income and expense in a period in profit or loss unless an SB-FRS requires or permits otherwise.'

BC47 The circumstances in which SB-FRSs require items of income and expense to be recognised as items of other comprehensive income were considered, mainly as follows:

(a) some actuarial gains or losses arising from remeasuring defined benefit liabilities provided that specific criteria set out in SB-FRS 19 are met.

(b) a revaluation surplus arising from revaluation of an item of property, plant and equipment in accordance with SB-FRS 16 or revaluation of an intangible asset in accordance with SB-FRS 38.

(c) an exchange difference arising from the translation of the results and financial positions of an entity from its functional currency into a presentation currency in accordance with SB-FRS 21 *The Effects of Changes in Foreign Exchange Rates*.

(d) an exchange difference arising from the translation of the results and financial position of a foreign operation into a presentation currency of a reporting entity for consolidation purposes in accordance with SB-FRS 21.

(e) a change in the fair value of an available-for-sale investment in accordance with SB-FRS 39.

(f) a change in the fair value of a hedging instrument qualifying for cash flow hedge accounting in accordance with SB-FRS 39.

BC48 It was concluded that the requirement in SB-FRS 1 prevents any of these items from being applied by analogy to the credit balance. In addition, it was noted that, with the exception of the items described in paragraph BC47(a)–(c), the applicable SB-FRSs require the items of income and expenses listed in paragraph BC47 to be reclassified to profit or loss when the related assets or liabilities are derecognised. Those items of income and expenses are recognised as items of other comprehensive income when incurred, deferred in equity until the related assets are disposed of (or the related liabilities are settled), and reclassified to profit or loss at that time.

BC49 It was noted that, when the dividend payable is settled, the asset distributed is also derecognised. Therefore, given the existing requirements in SB-FRSs, even if the credit balance were recognised as an item of other comprehensive income, it would have to be reclassified to profit or loss immediately. As a result, the credit balance would appear three times in the statement of comprehensive income—once recognised as an item of other comprehensive income, once reclassified out of other comprehensive income to profit or loss and once recognised as an item of profit or loss as a result of the reclassification. It was concluded that such a presentation does not faithfully reflect what has occurred. In addition, users of financial statements were likely to be confused by such a presentation.

BC50 Moreover, when an entity distributes its assets to its owners, it loses the future economic benefit associated with the assets distributed and derecognises those assets. Such a consequence is, in general, similar to that of a disposal of an asset. SB-FRSs (eg SB-FRS 16, SB-FRS 38, SB-FRS 39 and SB-FRS 105) require an entity to recognise in profit or loss any gain or loss arising from the derecognition of an asset. SB-FRSs also require such a gain or loss to be recognised when the asset is derecognised. As mentioned in paragraph BC42, the *Framework* requires an entity to consider the effect of a transaction from the perspective of an entity for which the financial statements are prepared. For these reasons, it was concluded that the credit balance and gains or losses on derecognition of an asset should be accounted for in the same way.

BC51 Furthermore, paragraph 92 of the *Framework* states: 'Income is recognised in the income statement when an increase in future economic benefits related to an increase in an asset or *a decrease of a liability* has arisen that can be measured reliably' (emphasis added). At the time of the settlement of a dividend payable, there is clearly a decrease in a liability. Therefore, the credit balance should be recognised in profit or loss in accordance with paragraph 92 of the *Framework*. Some might argue that the entity does not receive any additional economic benefits when it distributes the assets to its owners. As mentioned in paragraph BC41, the credit balance does not represent any additional economic benefits to the entity. Instead, it represents the unrecognised economic benefits that the entity obtained while it held the assets.

BC52 It was also noted that paragraph 55 of the *Framework* states: 'The future economic benefits embodied in an asset may flow to the entity in a number of ways. For example, an asset may be: (a) used singly or in combination with other assets in the production of goods or services to be sold by the entity; (b) exchanged for other assets; (c) used to settle a liability; or (d) *distributed to the owners of the entity* [emphasis added].'

BC53 In the light of these requirements, in D23 it was concluded that the credit balance should be recognised in profit or loss. This treatment would give 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 distributes the cash received to its owners. Most commentators on D23 supported the conclusion and its basis.

BC54 It was believed that it would be more appropriate to treat the distribution as a single transaction with owners and therefore recognise the credit balance directly in equity. This alternative view was included in D23 and comments were specifically invited. However, this view was not supported by commentators. To be recognised directly in equity, the credit balance must be considered an owner change in equity in accordance with SB-FRS 1. It was decided that the credit balance does not arise from the distribution transaction. Rather, it represents the increase in value of the assets. The increase in the value of the asset does not meet the definition of an owner change in equity in accordance with SB-FRS 1. Rather, it meets the definition of income and should be recognised in profit and loss.

BC55 Respondents' concerns about the potential 'accounting mismatch' in equity resulting from measuring the assets to be distributed at carrying amount and measuring the dividend payable at fair value were recognised. Consequently, it was considered whether there should be a recommendation to amend SB-FRS 105 to require the assets to be distributed to be measured at fair value.

BC56 In general, SB-FRSs permit remeasurement of assets only as the result of a transaction or an impairment. The exceptions are situations in which the SB-FRSs prescribe current measures on an ongoing basis as in SB-FRSs 39 and 41 *Agriculture*, or permit them as accounting policy choices as in SB-FRSs 16, 38 and 40 *Investment Property*. As a result of its redeliberations, it was concluded that there was no support in SB-FRSs for requiring a remeasurement of the assets because of a decision to distribute them. It was noted that the mismatch concerned arises only with respect to assets that are not carried at fair value already. It was also noted that the accounting mismatch is the inevitable consequence of SB-FRSs using different measurement attributes at different times with different triggers for the remeasurement of different assets and liabilities.

BC57 If a business is to be distributed, the fair value means the fair value of the business to be distributed. Therefore, it includes goodwill and intangible assets. However, internally generated goodwill is not permitted to be recognised as an asset (paragraph 48 of SB-FRS 38). Internally generated brands, mastheads, publishing titles, customer lists and items similar in substance are not permitted to be recognised as intangible assets (paragraph 63 of SB-FRS 38). In accordance with SB-FRS 38, the carrying amounts of internally generated intangible assets are generally restricted to the sum of expenditure incurred by an entity. Consequently, a requirement to remeasure an asset that is a business would contradict the relevant requirements in SB-FRS 38.

BC58 Furthermore, in addition to the lack of consistency with other SB-FRSs, changing SB-FRS 105 this way (ie to require an asset held for distribution to owners to be remeasured at fair value) would create internal inconsistency within SB-FRS 105. There would be no reasonable rationale to explain why SB-FRS 105 could require assets that are to be sold to be carried at the lower of fair value less costs to sell and carrying value but assets to be distributed to owners to be carried at fair value. It was also noted that this ‘mismatch’ would arise only in the normally short period between when the dividend payable is recognised and when it is settled. The length of this period would often be within the control of management. Therefore, it was decided not to recommend amending SB-FRS 105 to require assets that are to be distributed to be measured at fair value.

Amendment to SB-FRS 105

BC59 SB-FRS 105 requires an entity to classify a non-current asset (or disposal group) as held for sale if its carrying amount will be recovered principally through a sale transaction rather than through continuing use. SB-FRS 105 also sets out presentation and disclosure requirements for a discontinued operation.

BC60 When an entity has an obligation to distribute assets to its owners, the carrying amount of the assets will no longer be recovered principally through continuing use. It was decided that the information required by SB-FRS 105 is important to users of financial statements regardless of the form of a transaction. Therefore, it was concluded that the requirements in SB-FRS 105 applicable to non-current assets (or disposal groups) classified as held for sale and to discontinued operations should also be applied to assets (or disposal groups) held for distribution to owners.

BC61 However, it was concluded that requiring an entity to apply SB-FRS 105 to non-current assets (disposal groups) held for distribution to owners would require amendments to SB-FRS 105. This is because, in its view, SB-FRS 105 at present applies only to non-current assets (disposal groups) held for sale.

BC62 The proposal was discussed at the meeting in December 2007. It was agreed that SB-FRS 105 should be amended to apply to non-current assets held for distribution to owners as well as to assets held for sale. However, it was noted that SB-FRS 105 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). Consequently, comments were invited on the following questions:

(a) Should an entity apply SB-FRS 105 when it is committed to make a distribution or when it has an obligation to distribute the assets concerned?

(b) Is there a difference between those dates?

(c) If respondents believe that there is a difference between the dates and that an entity should apply SB-FRS 105 at the commitment date, what is the difference? What indicators should be included in SB-FRS 105 to help an entity to determine that date?

BC63 On the basis of the comments received, it was noted that, in many jurisdictions, shareholders' approval is required to make a distribution. Therefore, in such jurisdictions there could be a difference between the commitment date (ie the date when management is committed to the dividend) and the obligation date (ie the date when the dividend is approved by the shareholders). On the other hand, some commentators think that, when a distribution requires shareholders' approval, the entity cannot be committed until that approval is obtained: in that case, there would be no difference between two dates.

BC64 It was concluded that SB-FRS 105 should be applied at the commitment date at which time the assets must be available for immediate distribution in their present condition and the distribution must be *highly probable*. For the distribution to be highly probable, it should meet essentially the same conditions required for assets held for sale. Further, it was concluded that the probability of shareholders' approval (if required in the jurisdiction) should be considered as part of the assessment of whether the distribution is highly probable. It was noted that shareholder approval is also required for the sale of assets in some jurisdictions and concluded that similar consideration of the probability of such approval should be required for assets held for sale.

BC65 The conclusions were agreed to, and SB-FRS 105 was amended as part of the approval of the Interpretation.

Summary of main changes from the draft Interpretation

BC66 The main changes from the proposals in D23 are as follows:

(a) Paragraphs 3–8 were modified to clarify the scope of the Interpretation.

(b) Paragraph 10 clarifies when to recognise a dividend payable.

(c) Paragraphs 11–13 were modified to require the dividend payable to be measured at the fair value of the assets to be distributed without linking to the conclusion that fair value is the most relevant measurement attribute to any individual standard.

(d) Illustrative examples were expanded to set out clearly the scope of the Interpretation.

(e) The Interpretation includes the amendments to SB-FRS 105 and SB-FRS 10.

(f) The Basis for Conclusions was changed to set out more clearly the reasons for the conclusions.