



EUROPEAN COMMISSION

Internal Market and Services DG

FREE MOVEMENT OF CAPITAL, COMPANY LAW AND CORPORATE GOVERNANCE

Accounting

Brussels, 17 June 2009

MARKT F3 D(2009)

Endorsement of IFRIC 17 *Distributions of Non-cash Assets to Owners*

Introduction, background and conclusions

Attachment 1: Effect study prepared by the European Financial Reporting Advisory Group (EFRAG)

Attachment 2: Endorsement advice prepared by EFRAG

1. INTRODUCTION

The European Commission has agreed with the European Parliament that Effect Studies should be prepared for new accounting standards and interpretations up for endorsement in the European Union. The Commission Services together with European Financial Reporting Advisory Group (EFRAG) prepare these studies containing description of the accounting issues involved, results from stakeholder consultations as well as an analysis of effects of using the new accounting rules in the EU.

EFRAG has prepared an Effect Study for the interpretation IFRIC 17 *Distributions of Non-cash Assets to Owners* (attached). As the EFRAG Effect Study refers to the Endorsement Advice, we also included it in attachments.

This cover note contains introduction, comments and a conclusion by the Commission Services.

2. BACKGROUND ON IFRIC 17

Explanation of the issue

Sometimes entities distribute assets other than cash as dividends (non-cash assets) to its owners. Existing International Financial Reporting Standards (IFRSs) do not address how an entity should measure such distributions. At present the dividend payable is sometimes recognised at the carrying amount of the assets to be distributed and sometimes at their fair value. As a result significant diversity in practice has developed and IFRIC was asked to provide guidance.

The objective of the guidance in IFRIC 17 is to provide clarification and guidance on the accounting treatment of distributions of non-cash assets to owners of an entity.

The Interpretation does not apply to transactions that involve an exchange transaction between an entity and its owners. The Interpretation also does not apply to common control transactions.

Why the issue needed clarification?

IFRIC noted that a number of IFRSs (mainly IAS 37 and IAS 39) address how a liability should be measured. However, in IFRIC's view liabilities arising on non-cash distributions to owners do not fit comfortably within the scope of any of these existing IFRS.

IFRIC noted that the guidance set out in IAS 37 and IAS 39 can be relevant to measuring liabilities for dividends payable and that the most relevant standard will depend on the type of asset being distributed. However, the two standards require different measurement attributes to be applied to the liabilities that fall within their scope.

Given that all types of distributions have the purpose of distributing assets to owners, the IFRIC 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.

How does IFRIC 17 suggest dealing with the issue?

The IFRIC, having considered the available measurement alternatives in the standards, decided to require the dividend payable to be measured at the fair value of the assets to be distributed.

IFRIC 17 provides guidance on three issues: (1) when should a liability for a dividend payable within the scope of the Interpretation be recognised, (2) how should that liability be measured and re-measured, and (3) how to account for settlement of that liability.

The Interpretation clarifies that a liability for a distribution to owners is only recognised on the date when it is appropriately authorised and is no longer at the discretion of the entity making the distribution.

When a liability for a distribution of non-cash assets is recognised initially, it shall be measured at the fair value of the assets to be distributed. At the end of each reporting period before the liability is settled and at the date it is settled, the liability shall be remeasured to the fair value at that reporting date of the asset to be distributed.

Any change in the amount of the liability is recognised in equity (which is where the initial liability for the dividends payable was charged). At the settlement date, the difference between the amount of the liability and the carrying amount of the assets, if any, shall be recognised in profit and loss.

In order to avoid inconsistency with other IAS/IFRS, IFRIC 17 contains minor amendments to existing standards (*IFRS 5 Non-current Assets Held for Sale and Discontinued Operations* and *IAS 10 Events after the Reporting Date*).

IASB and EFRAG consultations

The IASB carried out a consultation according to its due process. IFRIC published a draft interpretation D23 *Distributions of Non-cash Assets to Owners* on January 2008 and received 56 comment letters. IFRIC redeliberated on different issues of the Interpretation at two meetings. The final interpretation was published in November 2008.

EFRAG consulted publicly on its endorsement advice. Commentators to the EFRAG consultation were supportive to the proposal to recommend endorsement of IFRIC 17. EFRAG has also carried out an assessment of the likely costs and benefits of implementing the IFRIC 17.

3. EFFECT ANALYSIS

Main points identified in the EFRAG Effect Analysis

Improvement in consistency and in comparability

EFRAG's analysis concluded that the clarifications set out in IFRIC 17 will eliminate the current diversity in practice in the accounting of certain distributions of non cash-assets to owners. This will enhance consistency and comparability of the information provided

Two EFRAG members believe that IFRIC 17 should not be endorsed for use in the European Union and therefore dissent from EFRAG's decision to recommend its endorsement.

The Commission Services agree with the EFRAG analysis and conclude that IFRIC 17 will

improve the overall quality and comparability of the financial information and therefore benefit users.

Costs for preparers and users

EFRAG's analysis gives an overview of the expected incremental costs for preparers and users. With regard to prepares, EFRAG concludes that IFRIC 17 will result in some incremental cost on year-one and on going cost. EFRAG also noted that some entities are already applying the approach required by the Interpretation; when considered in aggregate incremental costs will not be significant. No additional costs are expected for users.

EFRAG notes that the Interpretation will result in some incremental cost only for prepares but they will be insignificant. The Interpretations will not involve any incremental year-one or ongoing cost for users.

4. OVERALL COST-BENEFIT CONSIDERATIONS AND COMMISSION SERVICES CONCLUSIONS

On the basis of EFRAG's Effect Study, the Commission Services have considered the main costs and benefits of endorsing IFRIC 17. The Services conclude that the benefits of the Interpretation outweigh the costs introduced by the Interpretation.

The Commission services believe that IFRIC 17 will have positive cost-benefits effects and that it should therefore be endorsed in the EU without delay.

With regard to the amendments to IFRS 5 *Non-current Assets Held for Sale and Discontinued Operations* and IAS 10 *Events after the Reporting Date*, the Commission share the EFRAG's view that amendments to standards should be made through the IASB's processes rather than through the IFRIC's processes, primarily because it believes that the IASB's due process is more extensive. However, it believes it is acceptable for more minor changes to standards—such as the amendments being made in this case—to be made by the IFRIC.

Attachment 1



The costs and benefits of implementing IFRIC 17 *Distributions of Non-cash assets to Owners*

Introduction

- 1 Following discussions between the various parties involved in the EU endorsement process, the European Commission decided in 2007 that more extensive information than hitherto needs to be gathered on the costs and benefits of all new or revised Standards and Interpretations as part of the endorsement process. It has further been agreed that EFRAG will gather that information in the case of the IFRIC 17 *Distributions of Non-cash Assets to Owners*.
- 2 EFRAG first considered how extensive the work would need to be. For some Standards or Interpretations, it might be necessary to carry out some fairly extensive work in order to understand fully the cost and benefit implications of the Standard or Interpretation being assessed. However, in the case of IFRIC 17, EFRAG's view is that the cost and benefit implications can be assessed by carrying out a more modest amount of work. (The results of the consultations EFRAG has carried out seem to confirm this.) Therefore, as explained more fully in the main sections of the report, the approach EFRAG has adopted has been to carry out detailed initial assessments of the likely costs and benefits of implementing the IFRIC 17 in the EU, to consult on the results of those initial assessments, and to finalise those assessments in the light of the comments received.

EFRAG's endorsement advice

- 3 EFRAG also carries out a technical assessment of all new and revised Standards and Interpretations issued by the IASB and IFRIC against the so-called endorsement criteria and provides the results of those technical assessments to the European Commission in the form of recommendations as to whether or not the Standard or Interpretation assessed should be endorsed for use in the EU. As part of those technical assessments, EFRAG gives consideration to the costs and benefits that would arise from implementing the new or revised Standard or Interpretation in the EU. EFRAG has therefore taken the conclusion at the end of this report into account in finalising its endorsement advice.

A SUMMARY OF IFRIC 17

Background

- 4 When an entity declares a distribution (i.e. a dividend payable) to its owners, it can do so by distributing either cash or non-cash assets or by giving owners a choice as to whether cash or non-cash assets is/are distributed.
- 5 IFRS does not provide specific guidance on the accounting treatment of distributions to owners. Although there are no significant issues concerning the accounting treatment

of cash dividends—which are probably the most common type of distributions made to the owners of an entity—there are a number of issues that arise concerning distributions of non-cash assets to owners and IFRIC 17 seeks to address some of those issues.

Scope

- 6 IFRIC 17 provides guidance on the accounting by the entity making the distribution.
- 7 The Interpretation does not apply to transactions that involve an exchange transaction between an entity and its owners. The Interpretation also does not apply to common control transactions (i.e. distributions within the same group in which the assets being distributed are controlled by the same party or parties before and after the distribution) and neither does it apply to a distribution of a portion of an entity's ownership interest in a subsidiary when control of that subsidiary is retained.

The issues

- 8 IFRIC 17 provides guidance on three issues: (1) when should a liability for a dividend payable within the scope of the Interpretation be recognised, (2) how should that liability be measured and re-measured, and (3) how to account for settlement of that liability.

When should a liability for a dividend payable be recognised?

- 9 IFRIC 17 requires a liability for a dividend payable to be recognised when the dividend has been appropriately authorised and is no longer at the discretion of the entity.
- 10 What this means in practice will depend on what 'appropriately authorised' means and what it requires within the relevant legal jurisdiction. For example, in some jurisdictions the liability for the dividend payable will be recognised when it is declared by management or by the Board of Directors and, in other jurisdictions, it might require a further level of approval – for example by the shareholders of the entity.

How should the liability be measured initially and subsequently?

- 11 IFRIC 17 requires that, when a liability for a distribution of non-cash assets is recognised initially, it shall be measured at the fair value of the assets to be distributed. (The assets to be distributed will be measured at the lower of their carrying amount and fair value less costs to distribute.)
- 12 If an entity gives its owners a choice of receiving a non-cash asset or a cash alternative, the entity will need to consider the probabilities of occurrence relating to the choices the owners can elect and their respective fair values when measuring the dividend liability at fair value of the non-cash assets to distribute.
- 13 At the end of each reporting period before settlement of the liability and at the date the liability is settled, an entity shall re-measure the carrying amount of the liability if the fair value of the assets to be distributed has changed and shall recognise the changes in the amount of the liability in equity (i.e. in the same place where the dividend payable was initially recognised).

How should any difference between the amount of the liability and the carrying amount of the assets to be distributed be accounted for when the liability is settled?

- 14 When an entity distributes the assets to its owners, it will derecognise both the assets distributed and the corresponding liability and recognise the difference between the amount of the liability and the carrying amount of the assets in profit and loss. This 'difference' will generally be a 'gain' and will occur when the assets are carried at an amount which is lower than their fair value.

EFRAG'S initial analysis of the costs and benefits of ifric 17

- 15 EFRAG carried out an initial assessment of the costs and benefits expected to arise for preparers and for users from implementing the IFRIC, both in year one and in subsequent years. The results of EFRAG's initial assessment can be summarised as follows. The implementation of IFRIC 17 in the EU is likely to:
- (a) involve some preparers in some additional year one and ongoing costs. However, when considered in aggregate, those costs will not be significant;
 - (b) involve users in no year one or ongoing incremental costs; and
 - (c) result in improvements in the comparability, and therefore the quality, of the information provided and thus bring benefits to users.
- Overall, the benefits to be derived from adopting IFRIC 17 are likely to outweigh the costs involved.
- 16 EFRAG published its initial assessment and supporting analysis on 14 March 2009 and invited comments on it by 1 May 2009. In response, EFRAG received seven comment letters. Five respondents agreed with EFRAG's assessment of the benefits of implementing IFRIC 17 and the associated costs involved for users and preparers. The other two respondents did not comment specifically on EFRAG's initial assessment of the costs and benefits of implementing IFRIC 17 in the EU, but supported EFRAG's recommendation that IFRIC 17 be adopted for use in Europe.
- 17 In addition, EFRAG consulted its User Panel on the impact that the Interpretation would have on users.

EFRAG'S FINAL ANALYSIS OF THE COSTS AND BENEFITS OF IFRIC 17

- 18 Based on its initial analysis and stakeholders' views on that analysis, EFRAG's detailed final analysis of the costs and benefits of IFRIC 17 is presented in the paragraphs below.

Costs for preparers

- 19 EFRAG's assessment is that:
- (a) IFRIC 17's requirements on when to recognise a liability for a dividend payable will not involve preparers with any incremental costs as this issue is a simple clarification of existing IFRSs and will have no implications in practice.
 - (b) IFRIC 17's requirements on the measurement of the liability initially and subsequently will involve some preparers in incremental costs in the year the distribution is declared and ongoing costs until the settlement date.

EFRAG notes that some preparers are currently using a different approach to that required by IFRIC 17. For those preparers the increase in costs will arise because the entity will need to change the current approach and use a fair value measurement attribute to measure the transactions within the scope of IFRIC 17. However, EFRAG noted that, although implementation of IFRIC 17 would involve some costs, some entities are currently applying the approach required by the Interpretation. Furthermore, EFRAG understands that some tax jurisdictions already require an entity to provide information to the tax authorities on the fair value of an in-specie distribution (distributions in kind) that an entity makes. In those jurisdictions, the adoption of IFRIC 17 is unlikely to have any significant cost implications.
 - (c) IFRIC 17's requirements as to the accounting treatment of the difference that might arise on settlement between the amount of the liability and the carrying

amount of the assets to be distributed will not involve preparers with any incremental costs.

- 20 In summary, EFRAG's assessment is that IFRIC 17 will result in some incremental costs for preparers in year one and on an ongoing basis until the distribution is settled—although in neither case are those costs likely to be significant.

Costs and benefits for users

- 21 EFRAG is not aware of any aspect of IFRIC 17 that will increase the costs users will incur in analysing the financial statements as a result of its adoption.
- 22 EFRAG also notes that IFRIC 17 will eliminate the diversity of accounting in respect of distributions of non-cash assets to owners, and will therefore enhance the comparability of the information provided. This will benefit users.

Conclusion

- 23 Summarising, EFRAG's assessment is that IFRIC 17 is likely to:
- (a) involve some preparers in some additional year one and ongoing costs. However, EFRAG's assessment is that, when considered in aggregate, those costs will not be significant;
 - (b) involve users in no year one or ongoing incremental costs; and
 - (c) result in improvements in the comparability, and therefore the quality, of the information provided and thus bring benefits to users.
- 24 EFRAG's assessment is that the benefits to be derived from adopting IFRIC 17 are likely to outweigh the costs involved.

Stig Enevoldsen

EFRAG, Chairman

27 May 2009

Attachment 2



Jörgen Holmquist
Director General
European Commission
Directorate General for the Internal Market
1049 Brussels

27 May 2009

Dear Mr Holmquist

Adoption of IFRIC 17 *Distributions of Non-cash Assets to Owners*

Based on the requirements of the Regulation (EC) No 1606/2002 of the European Parliament and of the Council on the application of international accounting standards, we are pleased to provide our opinion on the adoption of IFRIC 17 *Distributions of Non-cash Assets to Owners* (IFRIC 17), which was published in November 2008. The interpretation was proposed in a draft interpretation on which EFRAG commented.

International Financial Reporting Standards do not provide specific guidance on the accounting treatment of distributions to owners. Although there are no significant issues concerning the accounting treatment of cash dividends—which are probably the most common type of distributions made to the owners of an entity—there are a number of issues that arise concerning distributions of non-cash assets to owners and IFRIC 17 seeks to address some of those issues. To summarise, IFRIC 17 requires that:

- (a) the liability for a dividend payable shall be recognised when the dividend has been appropriately authorised and is no longer at the discretion of the entity;
- (b) the liability to distribute a non-cash asset to an owner shall be measured at the fair value of the assets to be distributed, and shall re-measure the carrying amount of the liability at the end of each reporting period if the fair value of the assets to be distributed has changed; and
- (c) the entity shall recognise the difference between the amount of the liability and the carrying amount of the assets in profit and loss.

IFRIC 17 becomes effective for annual periods beginning on or after 1 July 2009, with earlier application permitted.

EFRAG has carried out an evaluation of IFRIC 17. As part of that process, EFRAG issued an initial evaluation of IFRIC 17 against the EU endorsement criteria for public comment and, when finalising its advice and the content of this letter, it took the comments received in response into account. EFRAG's evaluation is based on input from standard setters, market participants and other interested parties, and its discussions of technical matters are open to the public.

EFRAG's endorsement advice on IFRIC 17

EFRAG supports IFRIC 17 and has concluded that it meets the requirements of Regulation (EC) No 1606/2002 of the European Parliament and of the Council on the application of international accounting standards in that:

- it is not contrary to the 'true and fair principle' set out in Article 16(3) of Council Directive 83/349/EEC and Article 2(3) of Council Directive 78/660/EEC; and
- it meets the criteria of understandability, relevance, reliability and comparability required of the financial information needed for making economic decisions and assessing the stewardship of management.

For the reasons given above, EFRAG believes that it is in the European interest to adopt IFRIC 17 and, accordingly, EFRAG recommends its adoption. EFRAG's reasoning is explained in the attached 'Appendix 1 – Basis for Conclusions'.

Two EFRAG members have concerns about IFRIC 17 that cause those members to believe that EFRAG should not recommend IFRIC 17 for endorsement. The reasoning of those members is explained in the attached 'Appendix 2—Dissenting View'.

On behalf of the members of EFRAG, I should be happy to discuss our advice with you, other officials of the EU Commission or the Accounting Regulatory Committee as you may wish.

Yours sincerely

Stig Enevoldsen
EFRAG, Chairman

APPENDIX 1

BASIS FOR CONCLUSIONS

This appendix sets out the basis for the conclusions reached, and for the recommendation made, by EFRAG on IFRIC 17 Distributions of Non-cash Assets to Owners (IFRIC 17).

In its comment letters to the IASB, EFRAG points out that such letters are submitted in EFRAG's capacity as a contributor to the IASB's due process. They do not necessarily indicate the conclusions that would be reached by EFRAG in its capacity as adviser to the European Commission on endorsement of the final IFRS or Interpretation on the issue.

In the latter capacity, EFRAG's role is to make a recommendation about endorsement based on its assessment of the final IFRS or Interpretation against the European endorsement criteria, as currently defined. These are explicit criteria which have been designed specifically for application in the endorsement process, and therefore the conclusions reached on endorsement may be different from those arrived at by EFRAG in developing its comments on proposed IFRSs or Interpretations. Another reason for a difference is that EFRAG's thinking may evolve.

- 1 When evaluating IFRIC 17, EFRAG asked itself four questions:
 - (a) Is there an issue that needs to be addressed?
 - (b) If there is an issue that needs to be addressed, is an Interpretation an appropriate way of addressing it?
 - (c) Is IFRIC 17 a correct interpretation of existing IFRS?
 - (d) Does the accounting that results from the application of the IFRIC meet the criteria for EU endorsement?
- 2 Having formed tentative views on the issues and prepared an initial evaluation, EFRAG issued that initial evaluation for comment on 14 March 2009 and asked for comments on it by 1 May 2009. EFRAG has considered all the comments received in response to this invitation, and the main comments received are dealt with in the discussion in this appendix.

IS THERE AN ISSUE THAT NEEDS TO BE ADDRESSED?

- 3 EFRAG understands that at present there is significant diversity in practice on how to account for distributions of non-cash assets to the owners of an entity. Although EFRAG is of the view that distributions of non-cash assets do not occur on a regular basis—these are very specific transactions that only occur when certain significant events take place within an organisation—it understands that, when they do occur, the amounts involved can be significant. EFRAG agrees that this diversity is undesirable and is an issue that needs to be addressed.

IS AN INTERPRETATION AN APPROPRIATE WAY OF ADDRESSING IT?

- 4 The diversity results because existing IFRS lack specific guidance on how to account for distributions to owners and, as a consequence, different interpretations have evolved. EFRAG is of the view that in cases where an inconsistency in accounting practice is caused by differing interpretations of one or more existing standards it will generally be appropriate to deal with the issue by means of an Interpretation.
- 5 As explained below, the Interpretation has a limited scope and applies only to some distributions of non-cash assets to owners acting in their capacity as owners. Those distributions are the ones for which the IFRIC thought the accounting was most diverse in practice. One implication of this is that uncertainty—and some diversity in practice—will remain for those distributions to owners not covered by the scope of IFRIC 17.
- 6 IFRIC 17 does not apply to common control transactions as defined by IFRSs, i.e. transactions undertaken within the same group. The IASB has a project on common

control transactions which is likely to consider guidance on distributions to owners within the same group. EFRAG has considered whether it is premature for the IFRIC to be developing guidance on how to account for distributions to owners which are not common control transactions bearing in mind that the IASB will need to consider the accounting for other types of distributions that occur within the same group of entities. However, the project is currently inactive and it will be several years before that project will result in a standard. If the IFRIC could not act in the meantime, that would mean several years of diversity in accounting practice and a lack of comparability for those transactions addressed in IFRIC 17.

- 7 IFRIC 17 contains amendments to existing standards (IFRS 5 *Non-current Assets Held for Sale and Discontinued Operations* and IAS 10 *Events after the Reporting Date*). EFRAG believes that, generally speaking, amendments to standards should be made through the IASB's processes rather than through the IFRIC's processes, primarily because it believes that the IASB's due process is more extensive. However, it believes it is acceptable for more minor changes to standards—such as the amendments being made in this case—to be made by the IFRIC.

Conclusion

- 8 Having taken the above considerations into account, EFRAG has concluded that an Interpretation is an appropriate way of addressing the uncertainties described above relating to accounting for some distributions of non-cash assets to owners.

IS IFRIC 17 A CORRECT INTERPRETATION OF EXISTING IFRS?

- 9 EFRAG has considered whether IFRIC 17 is a correct interpretation of existing IFRS literature. IFRIC 17 addresses three main issues involving distributions of non-cash assets to owners.
- (a) When should a liability for a dividend payable be recognised?
 - (b) How should the liability be measured initially and subsequently?
 - (c) How should any difference between the amount of the liability and the carrying amount of the assets to be distributed be accounted for when the liability is settled?

Each of these issues is discussed below. The application of IFRIC 17 by analogy is then discussed.

When should a liability for a dividend payable be recognised?

- 10 The Interpretation clarifies that a liability for a distribution to owners is only recognised on the date when it is appropriately authorised and is no longer at the discretion of the entity making the distribution—in other words when all the parties that are required by law to approve a distribution to owners have done so. IFRIC 17 notes that such 'approval' can vary from jurisdiction to jurisdiction, and should be assessed accordingly.
- 11 Although existing IFRS literature does not specifically provide guidance on the accounting for distributions to owners, EFRAG believes that it is well understood that the entity must have an obligation before it can recognise a liability for that distribution. The Interpretation clarifies this point and indeed, by amending IAS 10 in the way it has, reinforces the message.

Conclusion

- 12 In EFRAG's view, the clarification provided in IFRIC 17 is a correct interpretation of existing IFRS.

How should the liability be measured initially and subsequently?

Initial measurement

- 13 IFRIC 17 states that, when a liability for a distribution of non-cash assets is recognised initially, it shall be measured at the fair value of the assets to be distributed. IFRIC 17 (paragraph 12) further clarifies that, if an entity gives its owners a choice of receiving a non-cash asset or a cash alternative, the entity will need to consider the probabilities of occurrence of the choices the owners can elect and their respective fair values when estimating the fair value of the liability.
- 14 As previously explained, existing IFRS literature does not provide guidance on how an entity should measure liabilities arising on non-cash distributions to owners. In practice IAS 37 and IAS 39 are considered helpful. The IFRIC noted that the guidance set out in IAS 37 and IAS 39 can be relevant to measuring liabilities for dividends payable and that the most relevant standard will depend on the type of asset being distributed. An issue however is that the two standards require different measurement attributes to be applied to the liabilities that fall within their scope; the objective of the guidance in IFRIC 17 is to ensure that all liabilities for non-cash distributions within the scope of IFRIC 17 are measured the same way—at the fair value of the assets that will be used to settle that liability.
- 15 EFRAG agrees with IFRIC's view that liabilities arising on non-cash distributions do not fit comfortably within the scope of any existing IFRS. EFRAG further agrees that, all other things being equal, an objective should be to ensure that all such liabilities are measured in the same way and at an amount that reflects the value of the asset being distributed. EFRAG notes that measuring all such liabilities at the fair value of the assets to be distributed is a way of meeting that objective.
- 16 For the above reason, EFRAG believes that, all other things being equal, IFRIC 17's requirements for the initial measurement of liabilities for the distribution of non-cash assets to owners are a reasonable interpretation of existing IFRS.

Subsequent measurement

- 17 IFRIC 17 requires that, at the end of each reporting period before the liability is settled and at the date it is settled, the liability shall be remeasured to the fair value at that reporting date of the asset to be distributed. It also requires that any change in the amount of the liability is recognised in equity (which is where the initial liability for the dividends payable was charged). The IFRIC explains that other IFRSs - for example IAS 37 *Provisions, Contingent liabilities and Contingent Assets* - require an entity to remeasure liabilities at the end of each reporting period. Specifically, under IAS 37 an entity is required to adjust the carrying amount of a liability to reflect the best estimate of the liability. IAS 37 further explains that the best estimate represents the amount that an entity would rationally pay to settle an obligation at the balance sheet date or transfer it to a third party at the time.
- 18 Some EFRAG members were concerned at this requirement to remeasure the liability at each reporting period and on the date the liability is settled. In their view, the amount of the liability should be measured at the value of the assets to be distributed at the date of the decision to declare and appropriately authorise the distribution, because that represents the amount of the entity's obligation. In their view, it can be argued (when considering dividends in kind with no cash alternative) that the subsequent measurement of the liabilities is not necessary as an entity cannot settle the dividend obligation other than by delivering the assets and is not permitted to pay someone to assume the obligation—therefore there is no basis to revise the estimate. These EFRAG members believe that, on this basis, the liability can be measured at the cost of settling the obligation, and the cost to the entity is the fair value of the assets at the date the dividend was declared and appropriately authorised.

- 19 However, the majority of EFRAG members believe that, all other things being equal, the objective should be to measure the liability for the distribution based on the value of the assets that will be distributed; and that therefore, if the value of the assets changes, so should the value of the liability until it is settled.

The accounting mismatch

- 20 In addition to clarifying how IFRS should be applied to distributions of non-cash assets to owners, IFRIC 17 amends the scope of IFRS 5 to include non-current assets or disposal groups held for distribution to owners so that the measurement requirements in IFRS 5 apply to those assets. As a result, if the fair value of the assets less the costs to distribute the asset is higher than its carrying amount, IFRIC 17 will result in the liability to distribute the asset being measured at the asset's fair value while the asset being distributed would remain at its (lower) carrying amount. Thus, IFRIC 17 could create an 'accounting mismatch' in the financial statements of the entity undertaking the distribution if the recognition and settlement of the liability fall into different accounting periods.
- 21 IFRIC 17 explains that the mismatch is a consequence of IFRSs applying different measurement attributes for assets and liabilities at different times with different triggers for remeasurement. It could also be the result of different recognition requirements. (For example, if it is a business that is being transferred—as would be the case in a spin-off transaction—the liability will need to reflect the fair value of the business, which could include internally-generated goodwill and intangible assets that will not be recognised under existing IFRS.)
- 22 This accounting mismatch concerned most EFRAG members, albeit to varying degrees. Those EFRAG members believe that a key objective of the accounting for an obligation to distribute non-cash assets to owners is to measure the assets and the liability at the same amount. Some believe it is a more important objective than measuring the liability based on the value of the assets to be distributed.
- 23 EFRAG notes that an accounting mismatch will arise only when the assets are not carried at fair value and in the relatively short period between the date the liability is recognised and the date it is settled. It also notes that in practice entities will generally arrange distribution transactions so that the period between when the liability arises and when the liability is settled is as short as possible and that the recognition and settlement of the liability do not fall within different reporting periods. Furthermore, EFRAG understands that distributions within the scope of IFRIC 17 do not occur frequently.
- 24 For the reasons explained above, on balance the majority of EFRAG members concluded that in this case the accounting mismatch, though a concern, is not sufficient reason to recommend non-endorsement.

Legal matters

- 25 In some legal jurisdictions within Europe, there are legal constraints limiting the amount of a dividend to available profits. When a liability to distribute non-cash assets to owners is measured at an amount that is greater than the carrying amount of the assets to be distributed, it will in effect mean that profits (i.e. the increase in the value of the asset above cost) are being distributed that have not yet been recognised. Such a situation can result in insufficient profits being available to carry out the distribution. Of course, on settlement those profits will be recognised.
- 26 EFRAG agrees that, because an entity will need to consider the laws and regulations imposed by the relevant jurisdiction under which it operates before it considers a proposal to distribute a dividend, it is possible that in some cases the requirements in IFRIC 17 might mean that an entity is no longer able to make a distribution that it would

have been able to make before IFRIC 17 was applicable. However, in EFRAG's view, this is not something for the IFRIC to resolve.

Conclusion

- 27 For the reasons stated above, EFRAG's view is that the way a liability for a distribution of a non-cash asset is measured in IFRIC 17 is, on balance, a reasonable interpretation of existing IFRS.

How should any difference between the amount of the liability and the carrying amount of the assets to be distributed be accounted for when the liability is settled?

- 28 When an entity settles the liability for the distribution, the entity will derecognise both the liability and the assets being distributed. IFRIC 17 requires that at that time any difference between the amount of the liability and the carrying amount of the assets distributed should be recognised in profit and loss. The Interpretation explains that the carrying amount of the assets would not normally be greater than the liability for the distribution because of the recognition of impairment losses required by other IFRSs, so the 'difference' will generally be a credit balance.
- 29 The IFRIC's reasoning is that the difference arises not because of the distribution transaction but because of an increase in the value of the assets arising from the performance of those assets. As such, the difference is not part of a transaction with the owners in their capacity as owners; rather it is a cumulative gain on the assets that is being recognised on derecognition of the asset. The IFRIC therefore believed the credit balance should be recognised in the same way as if the entity would sell the asset and distribute the proceeds to its owners—in profit and loss (in accordance with paragraphs 68 and 71 of IAS 16).

Conclusion

- 30 The majority of members agree with IFRIC 17's conclusions. However, a minority disagree, believing that the distribution of assets to an entity's owners represents a non-reciprocal transaction between an entity and its owners in their capacity as equity holders, which is different to generating a gain from a sale to a third party. In their view, the entity is in effect receiving nothing in return for the distribution and gains should not arise in such circumstances. However, on balance these EFRAG members concluded that this concern is not sufficiently significant to cause them to recommend non-endorsement of IFRIC 17.

Applying IFRIC 17 by analogy

- 31 Although the scope of IFRIC 17 is in theory limited to certain distributions to owners, interpretations of this kind are always available for application by analogy. Some EFRAG members were concerned the guidance in IFRIC 17 might be applied by analogy to situations in which the accounting that would result from the application of IFRIC 17 might be less acceptable.
- 32 However, the majority of EFRAG members believe that application by analogy is a question of judgement and of the facts and circumstances of individual transactions—after all, a piece of IFRS literature should be applied by analogy only when it is applicable—and that question cannot be answered universally for all types of arrangements.

Overall conclusion

- 33 Having taken into account all the arguments discussed above, EFRAG's view is that IFRIC 17 is, on balance, a reasonable interpretation of existing IFRS.

DOES THE ACCOUNTING THAT RESULTS FROM THE APPLICATION OF IFRIC 17 MEET THE CRITERIA FOR EU ENDORSEMENT?

34 Finally, EFRAG asked itself whether it believed that the information resulting from the application of IFRIC 17 would meet the criteria for EU endorsement; in other words, that:

- (a) it is not contrary to the 'true and fair principle' set out in Article 16(3) of Council Directive 83/349/EEC and Article 2(3) of Council Directive 78/660/EEC; and
- (b) it meets the criteria of understandability, relevance, reliability and comparability required of the financial information needed for making economic decisions and assessing the stewardship of management.

EFRAG also considered whether it would be in the European interest to adopt the Interpretation.

Relevance

35 According to the Framework, information has the quality of relevance when it influences the economic decisions of users by helping them evaluate past, present or future events or confirming, or correcting, their past evaluations. EFRAG considered whether IFRIC 17 would result in the provision of relevant information; information that has predictive value, confirmatory value or both.

36 As explained earlier, the majority of EFRAG members believe that the accounting required by IFRIC 17 represents a reasonable interpretation of existing IFRS. It results in a liability being recognised as soon as an obligation to transfer non-cash assets to owners has been accepted; it requires that liability to be measured at an amount that reflects the up-to-date value of the assets to be distributed; and it requires the change in the value of the asset to be recognised in profit or loss, thereby offsetting over time the change in the value of the liability since it was incurred. It thus results in relevant information being provided to users.

Reliability

37 EFRAG also considered the reliability of the information that will be provided by applying IFRIC 17. The Framework explains that information has the quality of reliability when it is free from material error and bias and can be depended upon by users to represent faithfully that which it either purports to represent or could reasonably be expected to represent.

38 In EFRAG's view, the main issue here is whether the requirement that fair value be used to measure the liability to distribute non-cash assets would lead to difficulties in estimation and, as a consequence, unreliable information being presented in the financial statements.

39 EFRAG believes that the reliability issues that arise when estimating the fair value of liabilities under IFRIC 17 are similar to those that arise under other IFRS literature, and it did not consider the requirements in IFRIC 17 to be more onerous than those in other existing IFRS literature.

Comparability

40 The notion of comparability requires that like items and events are accounted for in a consistent way through time and by different entities, and that unlike items and events should be accounted for differently.

41 The IFRIC's objective in issuing IFRIC 17 was to eliminate the current diversity in practice in the accounting for certain distributions of non-cash assets to owners. In EFRAG's view IFRIC 17 will provide information that is more comparable than hitherto and ensures that users of financial statements can compare like with like.

Understandability

- 42 The notion of understandability requires that the financial information provided should be readily understandable by users with a reasonable knowledge of business and economic activity and accounting and the willingness to study the information with reasonable diligence.
- 43 The majority of EFRAG members believe that the information provided by applying IFRIC 17 is understandable as it provides information that is relevant to users of financial statements and ensures that transactions that are economically similar are accounted for in a similar and transparent way. In addition, IFRIC 17 should help ensure that meaningful information is provided about the sometimes complex transactions that fall within its scope; information that will be useful to users in assessing the value an entity is giving away in the form of a distribution to its owners.

True and Fair

- 44 For the reasons set out above, the majority of EFRAG members see no reason to conclude that IFRIC 17 is inconsistent with the true and fair view requirement.

European Interest

- 45 EFRAG considered whether adoption of the Interpretation might cause those entities that are using a different approach currently to incur costs in excess of the benefits expected from applying the accounting IFRIC 17 requires. Its assessment is that, although the implementation of IFRIC 17 would involve some costs, they are likely to be outweighed by the benefits arising from its implementation.

Conclusion

- 46 After considering all the above arguments, the majority of EFRAG members have concluded that, on balance, IFRIC 17 satisfies the criteria for EU endorsement and EFRAG should therefore recommend its endorsement.

Appendix 2

Dissenting Views

The views of two EFRAG members who voted against recommending endorsement of IFRIC 17 are explained in this appendix.

- 1 Two EFRAG members (Ms Anna Sirocka and Mr Alan Dangerfield) believe that IFRIC 17 should not be endorsed for use in the European Union and therefore dissent from EFRAG's decision to recommend its endorsement. Their views are explained in the paragraphs below.
- 2 Ms Sirocka and Mr Dangerfield believe that IFRIC 17 should not be endorsed for use in the European Union because they believe aspects of IFRIC 17 do not meet the endorsement criteria. Those aspects are:
 - (a) The accounting mismatch that can arise from the application of IFRIC 17. This concern is explained further in paragraph 3 below.
 - (b) The requirement to remeasure at each reporting date the liability arising from the obligation to distribute non-cash assets to owners. This concern is explained further in paragraph 4 below.
- 3 Mr Dangerfield believes that a set of accounting requirements that have the effect of creating an accounting mismatch and recognising gains when assets are distributed in exchange for nothing results in the relevance and understandability criteria not being met. He believes that, for information to be meaningful and understandable, the statement of financial position should show the same amounts for the liability and the corresponding asset. The accounting required in IFRIC 17 does not do that. He further believes that:
 - (a) the information that would result from such accounting would not be understandable because changes in the value of the liability will be reported but the offsetting changes in the value of the asset will not be. This will distort the entity's equity, which is a crucial element in financial reporting (for returns ratios, covenants etc);
 - (b) the information that would result from such accounting would not be relevant, because users of financial statements are likely to disregard the gains reported in profit or loss as a result of applying IFRIC 17 because they know there will be offsetting losses that will be recognised in later accounting periods; and
 - (c) if there are no benefits to users arising from such an accounting treatment, it is unlikely that the ongoing cost to be incurred by preparers to remeasure the liability at each reporting date and on the date the liability is settled will be offset by benefits.

Ms Sirocka disagrees with the requirement in IFRIC 17 to remeasure the liability at each reporting date until the liability is settled and on the date of settlement. In her view this is not required by existing IFRSs in situations which involve an entity settling a liability by delivering a non-cash asset, nor is it required in order to provide decision-useful information. She is concerned that the accounting in IFRIC 17 might be applied by analogy to situations for which the accounting in IFRIC 17 might