Accounting Standards Board of Japan (ASBJ)

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The International Financial Reporting Interpretations Committee
of the International Accounting Standards Board
30 Cannon Street
London EC4M 6XH
United Kingdom

Dear Sirs,

Comments on IFRIC DRAFT INTERPRETATION D23
"Distributions of Non-cash Assets to Owners"

We welcome the opportunity to comment on the exposure draft "Distributions of Non-cash Assets to Owners". The views expressed below are those of the International Issues Standing Committee of the Accounting Standards Board of Japan (ASBJ).

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

Paragraph 9 of the draft Interpretation proposes that an entity should measure a liability to distribute non-cash assets to its owners in accordance with IAS 37 *Provisions, Contingent Liabilities and Contingent Assets*. The IFRIC concluded that all dividends payable, regardless of the types of assets to be distributed, should be addressed by a single standard.

Do you agree with the proposal? If not, do you agree that all dividends payable should be addressed by a single standard? Why? What alternative would you propose?

Applying IAS37

1. We agree with the view that an entity should measure a liability to distribute non-cash assets to its owners in accordance with IAS 37. However, we consider that the application of IAS 37 should be explained as an analogical application based on paragraph 10 and 11(a) of IAS 8, not a direct application, because that liability does not meet the definition of a provision under IAS 37.

2. We are aware that the exposure draft of Proposed Amendments to IAS 37 issued in June 2005 proposes expanding its scope. However we believe it is inappropriate for IFRIC to adopt this

proposal in advance, because the role of IFRIC is to develop interpretations within the frame of the existing IFRSs.

3. IAS 8 provides that in the absence of an IFRSs that specifically applies to a transaction, other event or condition, management shall use its judgment in developing and applying an accounting policy, refer to, and consider the applicability of, the requirements and guidance in IFRSs dealing with similar and related issues (paragraph 10 and 11(a)). In the light of those provisions, we consider IFRIC could develop an interpretation which requires that a liability to distribute non-cash assets to its owners should be measured by analogical application of the existing IFRSs including IAS 37. We also believe IFRIC should explain why it concludes that analogical application is appropriate.

Scope of the Interpretation

4. We suggest that the scope of the Interpretation should exclude a demerger such as spin-off and a pro rata distribution of shares of a subsidiary to owners of the parent entity, as well as a distribution of an asset that is ultimately controlled by the same parent entity before and after the distribution as proposed in paragraph 5 of the draft Interpretation.

5. In the deliberation of the draft Interpretation, IFRIC considered whether an entity should measure the distribution of an asset that is ultimately controlled by the same parent entity and the corresponding dividend payable based on the carrying amount of the ownership interest recorded in its financial statements or fair value. IFRIC concluded that distribution is out of scope of the Interpretation because it could not reach consensus on this matter and might consider the Board is now considering whether it should take a project relating to a business combination under common control on to its agenda. Some IFRIC member argued that (1) nothing has changed from the perspective of parent entity and (2) the transaction is primarily for the purpose of group restructuring as reasons for that distribution should be measured base on the carrying amount. We consider that such rationales, particularly (1) above, could be applicable to a demerger such as spin-off and a pro rata distribution of shares of a subsidiary to owners of the parent entity. Therefore, we consider that those transactions should be excluded from the scope of the Interpretation and their treatment should be addressed when the Board will undertake the issue of business combinations under common control.

Question 2 Specifying how any difference between the carrying amount of the assets distributed and the carrying amount of the dividend payable should be accounted for when an entity settles the dividend payable

Paragraph 12 of the draft Interpretation proposes that, when the dividend payable is settled, any difference between the carrying amount of the assets distributed and the carrying amount of the dividend payable should be recognised in profit or loss. Paragraphs BC28–BC43 of the Basis for Conclusions explain the reasons for this proposal. The Basis for Conclusions also includes an alternative view that the difference should be recognised directly in equity (see paragraph BC44). Which view do you support and why?

6. We take the view that the difference between the carrying amount of the assets distributed and the carrying amount of the dividend payable should be recognised in profit or loss when an entity declares a distribution. We believe that a distribution of non-cash assets to its owners should be deemed as a settlement of the investment to the assets, therefore the difference should be recognised in profit or loss, similarly to sales of assets.

Other comment

7. The draft Interpretation proposes that:

   (a) an entity shall measure a distribution of an asset and the corresponding dividend payable based on the fair value of the asset to be distributed in accordance with IAS 37 when the entity declares a distribution.

   (b) the entity shall recognise the difference between the carrying amount of the assets distributed and the carrying amount of the dividend payable in profit or loss when the entity settles the dividend payable.

8. The above proposal of the draft Interpretation would give rise to unreasonable consequence in some situations. That is, when the distribution of an asset has been already declared but it is not settled yet at the end of the period, retained earnings would be reduced by the fair value of the asset which might be much larger than the carrying amount. This could result in the statement of financial position not reflecting faithfully the entity’s actual financial position.

9. When an entity distributes the asset in the period in which the entity declares the distribution (ie, no dividend payable remains), that problem would not occur. However, in our understanding the draft Interpretation assumes that some dividend payable could remain at the end of the period, given that it addresses the issue of measurement of dividend payable.

We believe that the proposed treatment, which could give rise to the unreasonable consequence as mentioned above, is obviously problematic from the viewpoint of faithful representation.

10. We suggest that an asset to be distributed as well as dividend payable should be measured at fair value once the entity declares a distribution and at that time the difference between the carrying amount of the asset distributed and the carrying amount of the dividend payable should be recognised in profit or loss. We believe that such treatment would achieve more faithful representation of the entity's financial position than the proposal of the draft Interpretation.

11. We are aware that IFRIC considered whether the distribution could be a trigger to revaluate the asset in its deliberation and reached the conclusion that it could not be because no IFRSs suggest the distribution could be a trigger. However, considering the possible unreasonable consequence of the proposal of the draft Interpretation, we believe that priority should be placed on "relevance" and "reliability" that are the fundamental qualitative characteristics which accounting information must have.

We hope that our comments will contribute to the work of the IASB and IFRIC in arriving at their final decision.

Take Arai

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Board Member (full-time), Accounting Standards Board of Japan