EFRAG

European Financial Reporting Advisory Group

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.

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27 May 2009