



HK(IFRIC)–Int 17 *Distributions of Non-cash Assets to Owners*

HKICPA Standard Setting Department Staff Summary (January 2009)

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The HKICPA Standard Setting Department welcomes your comments and feedback, which should be sent to commentletters@hkicpa.org.hk.

Introduction

1. HK(IFRIC)–Int 17 *Distributions of Non-cash Assets to Owners* is effective for annual periods beginning on or after 1 July 2009, the same effective date as IFRIC Interpretation 17 *Distributions of Non-cash Assets to Owners*. Recognising the difficulty that entities would face in recognising past distributions at their fair values the Interpretation requires prospective application of the guidance (that is, retrospective application is not permitted). Earlier application is permitted provided that HKFRS 3 (Revised) *Business Combinations*, HKAS 27 (Revised) *Consolidated and Separated Financial Statements* and the related amendments to HKFRS 5 *Non-current Assets Held for Sale and Discontinued Operations* are applied at the same time.

Reasons for issuing HK(IFRIC)–Int 17

2. The objective of the Hong Kong Institute of Certified Public Accountants (HKICPA) in issuing HK(IFRIC)–Int 17 is to maintain international convergence arising from the issuance of IFRIC Interpretation 17 by the International Accounting Standards Board (IASB).

The issues addressed in the Interpretation were first published in a draft Interpretation D23 *Distributions of Non-cash Assets to Owners* in January 2008. Existing Hong Kong Financial Reporting Standards do not address how an entity should measure distributions of assets other than cash when it pays dividends to its owners. 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 HK(IFRIC) – Int 17 is issued to provide guidance.

Scope of HK(IFRIC)–Int 17

3. The Interpretation applies to non-reciprocal distributions of non-cash assets to owners acting in their capacity as owners, in which all owners of the same class of equity instruments are treated equally. It also applies to distributions in which an entity gives its owners a choice between receiving non-cash assets and a cash alternative.
4. HK(IFRIC) – Int 17 does not apply to the following distributions in which:
 - (a) the assets being distributed ultimately are controlled by the same party or parties before and after the distribution; or
 - (b) an entity distributes some of its ownership interests in a subsidiary but retains control of the subsidiary.

The Interpretation also does not address the accounting by shareholders who receive such a distribution.

Main features of HK(IFRIC) – Int 17

When to recognise a dividend payable

5. 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 when declaration of the dividend is approved by the relevant authority if the jurisdiction requires such approval, or when the dividend is declared if the jurisdiction does not require further approval.

Measurement of a dividend payable

6. An entity should measure the dividend payable at the fair value of the net assets to be distributed. In case where shareholders are given with 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.

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

7. An entity should recognise the difference between the dividend paid and the carrying amount of the net assets distributed in profit or loss. If the liability remains outstanding at the end of a reporting period and the fair value of the non-cash asset has changed, the liability is remeasured through equity as an adjustment to the amount of the distribution.

Presentation and disclosures

8. An entity shall present the difference between the carrying amount of the assets distributed and the carrying amount of the dividend payable when an entity settles the dividend payable as a separate line item in profit or loss.
9. An entity shall also disclose the carrying amount of the dividend payable at the beginning and end of the period and the change in the carrying amount of the



liability recognised during the period as a result of a change in the fair value of the assets to be distributed.

Amendments to HKFRS 5 *Non-current Assets Held for Sale and Discontinued Operations*

10. HKFRS 5 has been amended so as to scope in a non-current asset (or disposal group) that is classified as held for distribution to owners. Whether or not a non-cash asset is classified as held for distribution to owners is determined using the principle of whether the transaction is highly probable.
11. When the non-cash asset is classified as held for distribution to owners, an entity shall measure the non-cash asset at the lower of its carrying amount and fair value less costs to distribute (that is, incremental costs directly attributable to the distribution, excluding finance costs and income tax expense).

Other references on IFRIC 17

1. Deloitte IAS Plus on IFRIC issues Interpretation on non-cash distributions
http://www.deloitte.com/dtt/cda/doc/content/cn_audit_0812ifric17_311208.pdf
2. KPMG IFRS Briefing Sheet on IFRIC 17 *Distributions of Non-cash Assets to Owners*
http://www.kpmg.com.hk/en/virtual_library/Audit/IFRS_briefingsheet/IFRSBS08115.pdf

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