ASIC
Australian Securities & Investments Commission

Media and information releases

IR 05-57 ASIC clarifies impact of IFRS on dividends

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The Australian Securities & Investments Commission today announced its interpretation of the impact that the adoption of Australian International Financial Reporting Standards (AIFRS) will have on a company's ability to use past retained profits to pay dividends.

'ASIC has issued this clarification to assist companies' capital management planning and determination of their dividend policies', Mr Malcolm Rodgers, Executive Director of Regulation, said.

Under s254T of the Corporations Act 2001 (the Act), a company can only pay dividends out of profits. The retained profits shown in the last financial report of a company are relevant for this purpose.

Upon the adoption of AIFRS, the retained profits of some companies will change and in a number of instances, there will be material adjustments.

ASIC believes that retained profits previously reported on a pre-AIFRS basis cease to have relevance for paying dividends after the first half-year financial report of a disclosing entity, or full year financial report of a non-disclosing entity prepared under the Act using AIFRS, is completed. Only retained profits and current year profits recorded under AIFRS will be relevant from that time going forward.

The impact on each company will depend upon its particular circumstances, the level of any reduction in retained earnings, volatility of future profits and its dividend policy.

In addition to the above considerations, ASIC reminds company directors that in determining whether to pay a dividend, they must also have regard to the solvency of the company (refer s588G of the Act) and their general directors' responsibilities.

Background
AIFRS apply for reporting periods commencing on or after 1 January 2005. For companies that are disclosing entities (including listed companies) with a 30 June 2005 balance date, this will be their financial report for the half-year ended 31 December 2005.

Under s254T of the Act, a company may be able to pay a dividend in excess of current year profit by using past retained profits. The effect of ASIC's interpretation is that the future level of past retained profits, as affected by AIFRS, will be the new level for the purposes of determining whether a company can pay dividends in future years.
