Grant Thornton

Technical Accounting Alert

IFRIC 19 Extinguishing Financial Liabilities with Equity Instruments

Introduction

On 26 November 2009, the International Financial Reporting Interpretations Committee published IFRIC 19 'Extinguishing Financial Liabilities with Equity Instruments'. This is expected to be issued in Australia as Interpretation 19.

IFRIC 19 addresses the accounting by an entity when the terms of a financial liability are renegotiated and result in the entity issuing equity instruments to a creditor to extinguish all or part of the financial liability. These transactions are sometimes referred to as 'debt for equity swaps'.

IFRIC 19

The consensus reached in IFRIC 19 on how to account for such transactions is as follows:

- the issue of equity instruments to a creditor to extinguish all (or part of a financial liability) is consideration paid in accordance with IAS 39.41
- the entity shall initially measure the equity instruments issued to the creditor to extinguish the liability at the fair value of the instruments issued, unless that fair value cannot be reliably measured
- if the fair value of the equity instruments issued cannot be reliably measured, then the equity instruments issued shall be measured to reflect the fair value of the financial liability extinguished
- the difference between the carrying amount of the financial liability extinguished and the consideration paid, is recognised in profit or loss in accordance with IAS 39.41 and disclosed as a separate line item in profit or loss or in the notes.

Scope of IFRIC 19

IFRIC 19 only addresses the accounting by the debtor; it does not address the accounting by the creditor. In addition, IFRIC 19 does not apply where:

- the creditor is also a direct or indirect shareholder and is acting in its capacity as such
- the creditor and the entity are controlled by the same party or parties before and after the transaction and the substance of the transaction includes an equity distribution by, or contribution to, the entity
- extinguishing the financial liability by issuing equity shares is in accordance with the original terms of the financial liability.

Effective date

IFRIC 19 is effective for annual periods beginning on or after 1 July 2010. Earlier application is permitted.

A change in accounting policy shall be applied in accordance with IAS 8 'Accounting Policies, Changes in Accounting Estimates and Errors' from the beginning of the earliest comparative period presented.

Grant Thornton comment

Prior to the publication of IFRIC 19, there was significant diversity in practice in the accounting for these types of transactions. Some entities accounted for the extinguishment of the liability in a debt for equity swap by measuring the equity instruments at their fair value, while others measured them by reference to either the book value or the fair value of the liabilities extinguished.

IFRIC 19's preferred measurement basis (using the fair value of the equity instruments) significantly reduces the scope for an 'accounting choice' over how the equity instruments issued should be measured. We also believe that where equity instruments are issued as consideration, it is right that the consideration should be measured on the fair value of what is being paid, ie the equity instruments issued in these types of transaction. We therefore welcome the publication of IFRIC 19.

Further information

For further information on any of the information included in this TA alert, please contact your local Grant Thornton Australia contact or a member of the National Audit Support team at NAS@grantthornton.com.au