

New Zealand Equivalent to IFRIC Interpretation 19

Extinguishing Financial Liabilities with Equity Instruments (NZ IFRIC 19)

Issued December 2009 and incorporates amendments up to and including 30 June 2011 other than consequential amendments resulting from early adoption of NZ IFRS 9 *Financial Instruments* (2010) and NZ IFRS 13 *Fair Value Measurement*

This Interpretation was issued by the Financial Reporting Standards Board of the New Zealand Institute of Chartered Accountants and approved by the Accounting Standards Review Board in December 2009 under the Financial Reporting Act 1993. This Interpretation is a Regulation for the purpose of the Regulations (Disallowance) Act 1989.

NZ IFRIC 19

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ISBN 978-1-877529-10-8

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EXTINGUISHING FINANCIAL LIABILITIES WITH EQUITY
INSTRUMENTS
(NZ IFRIC 19)**

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HISTORY OF AMENDMENTS

Table of Pronouncements – NZ IFRIC 19 *Extinguishing Financial Liabilities with Equity Instruments*

This table lists the pronouncements establishing and substantially amending NZ IFRIC 19. The table is based on amendments approved as at 30 June 2011 other than consequential amendments resulting from early adoption of NZ IFRS 9 *Financial Instruments* (2010) and NZ IFRS 13 *Fair Value Measurement*.

Pronouncements	Date approved (ASRB approval)	Early operative date	Effective date (annual reporting periods... on or after ...)
NZ IFRIC 19 <i>Extinguishing Financial Liabilities with Equity Instruments</i>	Dec 2009 (Approval 127)	Early application permitted	1 July 2010

New Zealand Equivalent to IFRIC Interpretation 19 *Extinguishing Financial Liabilities with Equity Instruments* (NZ IFRIC 19) is set out in paragraphs 1–13 and the Appendix. NZ IFRIC 19 is accompanied by an IFRIC Basis for Conclusions. The scope and authority of Interpretations are set out in paragraphs 2 and 7–16 of the *Preface to International Financial Reporting Standards*.

Any additional material is shown with grey shading. The paragraphs are denoted with “NZ” and identify the types of entities to which the paragraphs apply.

Differential Reporting

Qualifying entities must comply with all the provisions in NZ IFRIC 19.

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References

- *NZ Framework for the Preparation and Presentation of Financial Statements* *
- *NZ IFRS 2 Share-based Payment*
- *NZ IFRS 3 Business Combinations*
- *NZ IAS 1 Presentation of Financial Statements*
- *NZ IAS 8 Accounting Policies, Changes in Accounting Estimates and Errors*
- *NZ IAS 32 Financial Instruments: Presentation*
- *NZ IAS 39 Financial Instruments: Recognition and Measurement*

Background

- 1 A debtor and creditor might renegotiate the terms of a financial liability with the result that the debtor extinguishes the liability fully or partially by issuing equity instruments to the creditor. These transactions are sometimes referred to as 'debt for equity swaps'. The IFRIC has received requests for guidance on the accounting for such transactions.

Scope

- 2 This Interpretation 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 of the entity to extinguish all or part of the financial liability. It does not address the accounting by the creditor.
- 3 An entity shall not apply this Interpretation to transactions in situations where:
 - (a) the creditor is also a direct or indirect shareholder and is acting in its capacity as a direct or indirect existing shareholder.

* In February 2011 the *NZ Framework for the Preparation and Presentation of Financial Statements* was replaced with the New Zealand equivalent to the IASB *Conceptual Framework for Financial Reporting*.

- (b) 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.
- (c) extinguishing the financial liability by issuing equity shares is in accordance with the original terms of the financial liability.

Issues

- 4 This Interpretation addresses the following issues:
- (a) Are an entity's equity instruments issued to extinguish all or part of a financial liability 'consideration paid' in accordance with paragraph 41 of NZ IAS 39?
 - (b) How should an entity initially measure the equity instruments issued to extinguish such a financial liability?
 - (c) How should an entity account for any difference between the carrying amount of the financial liability extinguished and the initial measurement amount of the equity instruments issued?

Consensus

- 5 The issue of an entity's equity instruments to a creditor to extinguish all or part of a financial liability is consideration paid in accordance with paragraph 41 of NZ IAS 39. An entity shall remove a financial liability (or part of a financial liability) from its statement of financial position when, and only when, it is extinguished in accordance with paragraph 39 of NZ IAS 39.
- 6 When equity instruments issued to a creditor to extinguish all or part of a financial liability are recognised initially, an entity shall measure them at the fair value of the equity instruments issued, unless that fair value cannot be reliably measured.
- 7 If the fair value of the equity instruments issued cannot be reliably measured then the equity instruments shall be measured to reflect the fair value of the financial liability extinguished. In measuring the fair value of a financial liability extinguished that includes a demand feature (eg a demand deposit), paragraph 49 of NZ IAS 39 is not applied.
- 8 If only part of the financial liability is extinguished, the entity shall assess whether some of the consideration paid relates to a modification of the terms of the liability that remains outstanding. If part of the consideration paid does relate to a modification of the terms of the remaining part of the liability, the entity shall allocate the consideration paid between the part of the liability extinguished and the part of the liability that remains outstanding. The entity shall consider all relevant facts and circumstances relating to the transaction in making this allocation.

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- 9 The difference between the carrying amount of the financial liability (or part of a financial liability) extinguished, and the consideration paid, shall be recognised in profit or loss, in accordance with paragraph 41 of NZ IAS 39. The equity instruments issued shall be recognised initially and measured at the date the financial liability (or part of that liability) is extinguished.
- 10 When only part of the financial liability is extinguished, consideration shall be allocated in accordance with paragraph 8. The consideration allocated to the remaining liability shall form part of the assessment of whether the terms of that remaining liability have been substantially modified. If the remaining liability has been substantially modified, the entity shall account for the modification as the extinguishment of the original liability and the recognition of a new liability as required by paragraph 40 of NZ IAS 39.
- 11 An entity shall disclose a gain or loss recognised in accordance with paragraphs 9 and 10 as a separate line item in profit or loss or in the notes.

Effective date and transition

- 12 An entity shall apply this Interpretation for annual periods beginning on or after 1 July 2010. Earlier application is permitted. If an entity applies this Interpretation for a period beginning before 1 July 2010, it shall disclose that fact.
- 13 An entity shall apply a change in accounting policy in accordance with NZ IAS 8 from the beginning of the earliest comparative period presented.

Appendix Amendments to other pronouncements

The amendments in this appendix shall be applied for annual periods beginning on or after 1 July 2010. If an entity applies this Interpretation for an earlier period, these amendments shall be applied for that earlier period.

The amendments contained in this appendix when this Interpretation was issued in 2009 have been incorporated into the relevant pronouncements published in this volume.

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