

NZ IFRIC 19 (Diff Rep)



NZ IFRIC Interpretation 19 (Diff Rep)

Extinguishing Financial Liabilities with Equity Instruments (NZ IFRIC 19 (Diff Rep))

Issued November 2012 excluding consequential amendments resulting from early adoption of NZ IFRS 9 (2010) (Diff Rep) *Financial Instruments* and NZ IFRS 13 (Diff Rep) *Fair Value Measurement*

This Interpretation was issued by the New Zealand Accounting Standards Board of the External Reporting Board pursuant to section 24(1)(a) of the Financial Reporting Act 1993.

This Interpretation is a Regulation for the purposes of the Regulations (Disallowance) Act 1989.

As at 1 December 2012, the requirements in this Interpretation are identical to the requirements in NZ IFRIC 19 *Extinguishing Financial Liabilities with Equity Instruments* as applied by qualifying entities. Versions of NZ IFRIC 19 applied by qualifying entities prior to adoption of this Interpretation are available in the Archived Standards page of the External Reporting Board (XRB) website at xrb.govt.nz

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ISBN 978-1-927237-88-5

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HISTORY OF AMENDMENTS

Table of Pronouncements – NZ IFRIC 19 (Diff Rep) *Extinguishing Financial Liabilities with Equity Instruments*

This table lists the pronouncement establishing NZ IFRIC 19 (Diff Rep).

Pronouncements	Date approved	Early operative date	Effective date (annual reporting periods... on or after ...)
NZ IFRIC 19 (Diff Rep) <i>Extinguishing Financial Liabilities with Equity Instruments</i>	Nov 2012	Early application permitted	1 Dec 2012

Table of Amended Paragraphs in NZ IFRIC 19 (Diff Rep)		
Paragraph affected	How affected	By ... [date]
Paragraph NZ 1.1	Inserted	NZ IFRIC 19 (Diff Rep) [Nov 2012]
Paragraph 12	Deleted	NZ IFRIC 19 (Diff Rep) [Nov 2012]
Paragraph NZ 12.1	Inserted	NZ IFRIC 19 (Diff Rep) [Nov 2012]

The following tables list the pronouncements establishing and substantially amending NZ IFRIC 19 as applied by Diff Reps prior to the issue of this Interpretation as NZ IFRIC 19 (Diff Rep) other than consequential amendments resulting from early adoption of NZ IFRS 9 (2010) *Financial Instruments* and NZ IFRS 13 *Fair Value Measurement*.

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

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NZ IFRIC Interpretation 19 (Diff Rep) *Extinguishing Financial Liabilities with Equity Instruments* (NZ IFRIC 19 (Diff Rep)) is set out in paragraphs 1–13. NZ IFRIC 19 (Diff Rep) is accompanied by an IFRIC Basis for Conclusions.

Any additional material is shown with grey shading and the paragraphs are denoted with “NZ”.

Differential Reporting

Qualifying entities must comply with all the provisions in NZ IFRIC 19 (Diff Rep).

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References

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

NZ IFRIC 19 (Diff Rep) is identical to NZ IFRIC 19 applied by qualifying entities prior to the issuance of NZ IFRIC 19 (Diff Rep). That is, there is no change to the recognition, measurement, presentation and disclosure requirements of NZ IFRIC 19 on adoption of this Interpretation.

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

NZ 1.1 This Interpretation applies only to Tier 3 for-profit entities.

- 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.

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- 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.
 - (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 (Diff Rep)?
 - (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 (Diff Rep). 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 (Diff Rep).
- 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 (Diff Rep) 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

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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.

- 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 (Diff Rep). 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 (Diff Rep).
- 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 [Deleted]

NZ 12.1 A Tier 3 for-profit entity shall apply this Interpretation for annual periods beginning on or after 1 November 2012. Early application is permitted. This Interpretation replaces NZ IFRIC 19 as applied by qualifying entities prior to the issuance of this Interpretation. There are no changes to the requirements of NZ IFRIC 19 as it applied to qualifying entities.

13 [Deleted]

IFRIC Basis for Conclusions

BC1–BC34 [Paragraphs BC1–BC34 do not form part of NZ IFRIC 19 (Diff Rep).]