



New Zealand Equivalent to IFRIC Interpretation 19

Extinguishing Financial Liabilities with Equity Instruments (NZ IFRIC 19)

Issued December 2009 and incorporates amendments to 30 November 2012 other than consequential amendments resulting from early adoption of NZ IFRS 9 *Financial Instruments* (2010)

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EXTINGUISHING FINANCIAL LIABILITIES WITH EQUITY
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The following is available within New Zealand on the XRB website as additional material

BASIS FOR CONCLUSIONS

NZ IFRIC 19

New Zealand Equivalent to IFRIC Interpretation 19 *Extinguishing Financial Liabilities with Equity Instruments* (NZ IFRIC 19) is set out in paragraphs 1–NZ 15.1 and the Appendix. NZ IFRIC 19 is accompanied by an IFRIC Basis for Conclusions.

Any New Zealand additional material is shown with either “NZ” or “RDR” preceding the paragraph number.

Reduced Disclosure Regime

Tier 2 for-profit entities must comply with all the provisions in NZ IFRIC 19.

New Zealand Equivalent to IFRIC Interpretation 19

Extinguishing Financial Liabilities with Equity Instruments (NZ IFRIC 19)

References

- NZ *Framework for the Preparation and Presentation of Financial Statement*¹
- NZ IFRS 2 *Share-based Payment*
- NZ IFRS 3 *Business Combinations*
- NZ IFRS 13 *Fair Value Measurement*
- 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

- NZ 1.1 This Interpretation applies to Tier 1 and Tier 2 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.
- 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?
 - (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?

¹ In September 2010 the IASB replaced the *Framework* with the *Conceptual Framework for Financial Reporting*.

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 47 of NZ IFRS 13 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.
- 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.
- 15 NZ IFRS 13, issued in June 2011, amended paragraph 7. An entity shall apply that amendment when it applies NZ IFRS 13.
- NZ 15.1 *Framework: Tier 1 and Tier 2 For-profit Entities*, issued in November 2012, amended extant NZ IFRSs by deleting any public benefit entity paragraphs, deleting any differential reporting concessions, adding scope paragraphs for Tier 1 and Tier 2 for-profit entities and adding disclosure concessions for Tier 2 entities. It made no changes to the requirements for Tier 1 entities. A Tier 2 entity may elect to apply the disclosure concessions for annual periods beginning on or after 1 December 2012. Early application is permitted.

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.

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 November 2012 other than consequential amendments resulting from early adoption of NZ IFRS 9 *Financial Instruments* (2010).

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
NZ IFRS 13 <i>Fair Value Measurement</i>	June 2011	Early application permitted	1 Jan 2013
<i>Framework: Tier 1 and Tier 2 For-profit Entities</i> ¹	Nov 2012	Early application permitted	1 Dec 2012

Table of Amended Paragraphs in NZ IFRIC 19		
Paragraph affected	How affected	By ... [date]
Paragraph 7	Amended	NZ IFRS 13 [June 2011]
Paragraph 15	Added	NZ IFRS 13 [June 2011]
Paragraph NZ 15.1	Added	<i>Framework: Tier 1 and Tier 2 For-profit Entities</i> [Nov 2012]

¹ This pronouncement amended extant NZ IFRSs by (i) deleting any public benefit entity paragraphs, (ii) deleting any differential reporting paragraphs, (iii) adding scope paragraphs for Tier 1 and Tier 2 for-profit entities, and (iv) adding RDR disclosure concessions.