



IFRS AT A GLANCE
IFRIC 19 *Extinguishing Financial Liabilities*
with Equity Instruments



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ISSUES

IFRIC 19 addresses the following issues:

- ▶ Are equity instruments issued to extinguish debt considered 'consideration paid' per IFRS 9.3.3.3?
- ▶ How should the issuing entity initially measure these equity instruments?
- ▶ How should the issuing entity account for any difference between the carrying amount of the financial liability and the equity instruments issued?

SCOPE

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 to extinguish all (or part) of the financial liability - commonly referred to as 'debt for equity swaps'.

The Interpretation does not cover:

- ▶ If the creditor is a direct/indirect shareholder and is acting in its capacity as a direct/indirect existing shareholder
- ▶ The creditor and the issuing 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 consideration to the entity
- ▶ The issuing of equity shares to extinguish debt is in accordance with the original terms upon entering into the financial liability (such as convertible debt).

CONSENSUS

ARE EQUITY INSTRUMENTS ISSUED TO EXTINGUISH FINANCIAL LIABILITIES, CONSIDERATION PAID?

The issue of instruments is to be treated as consideration to extinguish financial liabilities.

The financial liability is removed from the statement of financial position only when IFRS 9.3.3.1 is satisfied:

- ▶ i.e. when the obligation (in part or in full) specified in the contract is discharged or cancelled or expires.

INITIAL MEASUREMENT OF CONSIDERATION PAID

The equity instruments issued are measured and recognised at fair value of the issued equity instruments (if fair value can be measured reliably).



FAIR VALUE IS NOT RELIABLY MEASURABLE

The equity instruments are required to be measured to reflect the fair value of the financial liability extinguished.

- ▶ Demand features of the financial liability are not taken into account (IFRS 13.47 does not apply).



DATE OF RECOGNITION

The equity instruments issued are initially recognised and measured at the date the financial liability (or part) is extinguished.



DIFFERENCE BETWEEN CARRYING AMOUNT OF FINANCIAL LIABILITY EXTINGUISHED AND CONSIDERATION PAID

The difference between the carrying amount of the financial liability (or part of a financial liability) extinguished, and the consideration paid, is recognised in profit or loss in accordance with IFRS 9.3.3.2.

PART EXTINGUISHMENT - ADDITIONAL CONCERNS

If only part of the financial liability is extinguished, the entity is required to 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 allocates the consideration paid between the part of the liability extinguished and the part of the liability that remains outstanding.

The entity considers all relevant facts and circumstances relating to the transaction in making this allocation.

If the remaining liability has been substantially modified, the entity is required to:

- ▶ Extinguish the original liability
- ▶ Recognise a new liability, as required by IFRS 9.3.3.2.












Changes are recognised and disclosed as a separate line item in profit or loss.

Contact

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EUROPE

Anne Catherine Farlay	 France	annecatherine.farlay@bdo.fr
Jens Freiberg	 Germany	jens.freiberg@bdo.de
Teresa Morahan	 Ireland	tmorahan@bdo.ie
Ehud Greenberg	 Israel	ehudg@bdo.co.il
Stefano Bianchi	 Italy	stefano.bianchi@bdo.it
Roald Beumer	 Netherlands	roald.beumer@bdo.nl
Reidar Jensen	 Norway	reidar.jensen@bdo.no
Leonid Sidelkovskiy	 Russia	L.Sidelkovskiy@bdo.ru
David Cabaleiro	 Spain	david.cabaleiro@bdo.es
René Füglistner	 Switzerland	rene.fueglistner@bdo.ch
Moses Serfaty	 United Kingdom	moses.serfaty@bdo.co.uk




SUB SAHARAN AFRICA



Theunis Schoeman	 South Africa	tschoeman@bdo.co.za
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NORTH AMERICA &







Armand Capisciolto	 Canada	acapisciolto@bdo.ca
Wendy Hambleton	 USA	whambleton@bdo.com


LATIN AMERICA

Marcello Canetti	 Argentina	mcanetti@bdoargentina.com
Victor Ramirez	 Colombia	vramirez@bdo.com.co
Ernesto Bartesaghi	 Uruguay	ebartesaghi@bdo.com.uy

Arshad Gadit	 Bahrain	arshad.gadit@bdo.bh
Antoine Gholam	 Lebanon	agholam@bdo-lb.com

ASIA PACIFIC

Aletta Boshoff	 Australia	aletta.boshoff@bdo.com.au
Hu Jian Fei	 China	hu.jianfei@bdo.com.cn
Fanny Hsiang	 Hong Kong	fannyhsiang@bdo.com.hk
Pradeep Suresh	 India	pradeepsuresh@bdo.in
Khoon Yeow Tan	 Malaysia	tanky@bdo.my
Ng Kian Hui	 Singapore	kianhui@bdo.com.sg



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