Department for Business & Trade

UKEB
UK Endorsement Board

UK-Adopted International Accounting Standards

IFRIC Interpretation 19

Extinguishing Financial Liabilities with Equity Instruments

Accounting Standards issued at 1 January 2024

Terms of Use for Users

IFRIC Interpretation 19

Extinguishing Financial Liabilities with Equity Instruments

References

- *Framework for the Preparation and Presentation of Financial Statements*[1]
- IFRS 2 *Share-based Payment*
- IFRS 3 *Business Combinations*
- IFRS 9 *Financial Instruments*
- IFRS 13 *Fair Value Measurement*
- IAS 1 *Presentation of Financial Statements*
- IAS 8 *Accounting Policies, Changes in Accounting Estimates and Errors*
- IAS 32 *Financial Instruments: Presentation*

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.

(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.

[1] The reference is to the IASC's *Framework for the Preparation and Presentation of Financial Statements*, adopted by the Board in 2001 and in effect when the Interpretation was developed.

(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 3.3.3 of IFRS 9?

(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 3.3.3 of IFRS 9. 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 3.3.1 of IFRS 9.

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 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 3.3.3 of IFRS 9. 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 3.3.2 of IFRS 9.

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 IAS 8 from the beginning of the earliest comparative period presented.

14 [Deleted]

15 IFRS 13, issued in May 2011, amended paragraph 7. An entity shall apply that amendment when it applies IFRS 13.

16 [Deleted]

17 IFRS 9, as issued in July 2014, amended paragraphs 4, 5, 7, 9 and 10 and deleted paragraphs 14 and 16. An entity shall apply those amendments when it applies IFRS 9.