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Straight away

IFRS bulletin from PricewaterhouseCoopers

IFRIC 19 clarifies the accounting for 'debt for equity swaps'

What is the issue?

IFRIC 19 "Extinguishing financial liabilities with equity instruments" was published today. IFRIC 19 clarifies the accounting when an entity renegotiates the terms of its debt with the result that the liability is extinguished by the debtor issuing its own equity instruments to the creditor (referred to as a "debt for equity swap"). Before IFRIC 19, some recognised the equity instrument at the carrying amount of the financial liability and did not recognise any gain or loss in profit or loss. Others recognised the equity instruments at the fair value of equity instruments issued and recognised any difference between that amount and the carrying amount of the financial liability in profit or loss. As a result, there was diversity in practice in the accounting for such transactions and the issue became more pervasive in light of the current economic environment.

IFRIC 19 requires a gain or loss to be recognised in profit or loss when a liability is settled through the issuance of the entity's own equity instruments. The amount of the gain or loss recognised in profit or loss will be the difference between the carrying value of the financial liability and the fair value of the equity instruments issued. If the fair value of the equity instruments cannot be reliably measured then the fair value of the existing financial liability is used to measure the gain or loss. Entities will no longer be permitted to reclassify the carrying value of the existing financial liability into equity (with no gain or loss being recognized in profit or loss). The amount of the gain or loss should be separately disclosed on the face of the statement of comprehensive income or in the notes.

Am I affected?

All entities that enter into debt for equity swap transactions (in full or partial settlement of a financial liability) are affected by IFRIC 19. IFRIC 19 does not impact the investor's accounting. It also does not change the guidance for convertible bonds where extinguishing the liability by issuing equity shares is in accordance with its original terms. IFRIC 19 also does not apply to transactions with shareholders or to most transactions between entities under common control.

What do I need to do?

IFRIC 19 shall be applied for annual periods beginning on or after 1 July 2010 which for calendar year end companies means their 2011 financial statements; earlier application is permitted. The interpretation should be applied retrospectively from the beginning of the earliest comparative period presented as application to earlier periods would result only in a reclassification of amounts within equity.

Entities undertaking such 'debt for equity' swaps should understand the requirements of this interpretation.

If you have any questions on IFRIC 19, please speak to your regular PwC contact.

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