

ISSUES

- NZ IFRIC 19 addresses the following issues:
- Are equity instruments issued to extinguish debt considered “consideration paid” per NZ IFRS 9 - *Financial Instruments* paragraph 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 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 NZ 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 to be 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 (NZ IFRS 13 *Fair Value Measurement* paragraph 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 NZ IFRS 9.3.3.2.

PART EXTINGUISHMENT - ADDITIONAL CONCERNS

- 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 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, and
 - Recognise a new liability, as required per NZ IFRS 9.3.3.2.
- Changes are recognised and disclosed as a separate line item in the profit or loss.

TIER 2 NZ IFRS RDR REPORTERS

NZ IFRS RDR Reporters are required to comply with NZ IFRIC 19 in full.