



Extinguishing Financial Liabilities with Equity Instruments (Interpretation D25)

August 2009

**COMMENTS TO THE IFRIC MUST BE RECEIVED BY
OCTOBER 5, 2009**

**COMMENTS TO THE AcSB MUST BE RECEIVED BY
OCTOBER 15, 2009**

This Exposure Draft of proposed International Financial Reporting Standards reflects proposals made by the IASB's International Financial Reporting Committee (IFRIC) that the AcSB intends to adopt as Canadian generally accepted accounting principles.

Individuals and organizations are invited to send written comments on the Exposure Draft proposals. Comments are requested from those who agree with the Exposure Draft as well as from those who do not.

Comments are most helpful if they are related to a specific paragraph or group of paragraphs, and, when expressing disagreement with the Exposure Draft, they clearly explain the problem, and include a suggested alternative supported by specific reasoning. All comments received by the AcSB will be available on its website at www.acsbcanada.org 10 days after the comment deadline, unless confidentiality is requested.

To be considered, comments to the AcSB must be received by October 15, 2009, addressed to:

**Peter Martin, CA
Director, Accounting Standards
Accounting Standards Board
277 Wellington Street West
Toronto, Ontario M5V 3H2**

For ease of handling, we prefer comments to be sent by e-mail (in Word format) to:
ed.accounting@cica.ca

Highlights

The Accounting Standards Board (AcSB) proposes, subject to comments received following exposure, to incorporate into Canadian GAAP the interpretation on extinguishing financial liabilities with equity instruments proposed recently by the International Accounting Standards Board's International Financial Reporting Interpretations Committee (IFRIC). The final interpretation is expected to form part of the International Financial Reporting Standards (IFRSs) to be adopted by publicly accountable enterprises.

Background

The IFRIC received requests for guidance on how entities should measure equity instruments issued in a “debt-to-equity swap”. Given the diversity in practice, the IFRIC decided to provide interpretive guidance.

Draft Interpretation

The IFRIC's Draft Interpretation D25 “[Extinguishing Financial Liabilities with Equity Instruments](#)” (the Draft Interpretation) is available on the IASB website at www.iasb.org.

Main features

The Draft Interpretation provides guidance on accounting for “debt-to-equity swaps” in which a debtor and a creditor renegotiate the terms of a financial liability, with the result that the liability is fully or partially extinguished by the debtor issuing equity instruments to the creditor. To account for these arrangements consistently, the IFRIC has proposed the following:

- The issue of equity instruments to a creditor to extinguish all or part of a financial liability is consideration paid. This proposal is consistent with using equity instruments to acquire goods and services or conducting two transactions: to pay cash to settle the liability; and to receive cash for the equity issuance.
- Equity instruments issued to a creditor to extinguish all or part of a financial liability should initially be measured at the fair value of the equity instruments issued or the fair value of the liability extinguished, whichever is more reliably determinable. This proposal is consistent with measurement of equity instruments in other IFRSs, yet reflects that it may be difficult to do when an entity is in financial difficulty.
- The entity recognizes in profit or loss the difference between the carrying amount of the financial liability (or part of the financial liability) extinguished and the initial measurement of the equity instruments issued.
- When the terms of the financial liability that remains outstanding are substantially different from those of the original financial liability, the entity accounts for the modification as the extinguishment of the original financial liability and the recognition of a new financial liability.
- An entity separately discloses a gain or loss recognized from the transaction.

Timing of adoption in Canada

IFRICs in Canadian GAAP

The effective date of the Interpretation will be determined by the IFRIC after exposure. The IFRIC has proposed that the Draft Interpretation be applied retrospectively from the earliest comparative period presented and proposes to

permit early adoption. The IFRIC currently expects to issue the Draft Interpretation in final form in the fourth quarter of 2009. No consequential guidance relating to IFRS 1 *First-time Adoption of International Financial Reporting Standards* has been proposed.

Assuming the IFRIC's timetable is met, the AcSB intends to incorporate the interpretation into Canadian GAAP as part of the IFRSs to be adopted by publicly accountable enterprises. Publicly accountable enterprises are required to adopt IFRSs as Canadian GAAP for interim and annual financial statements related to fiscal years beginning on or after January 1, 2011. Other entities may choose to adopt IFRSs. IFRSs include Interpretations originated by the IFRIC.

Pre-changeover Canadian GAAP

The requirements in IAS 39 *Financial Instruments: Recognition and Measurement* that the IFRIC interpreted in developing its proposals are the same as the corresponding requirements in FINANCIAL INSTRUMENTS — RECOGNITION AND MEASUREMENT, Section 3855. As Canadian practice has been to account for debt-to-equity swaps in a manner consistent with that proposed in the Draft Interpretation and to avoid diverting stakeholders' efforts from preparing to adopt IFRSs, the AcSB is proposing not to adopt the Interpretation into Canadian GAAP before the changeover to IFRSs. Following GENERALLY ACCEPTED ACCOUNTING PRINCIPLES, Section 1100, stakeholders could consult the final version of the IFRIC Interpretation or US Statement of Financial Accounting Standard No.15 *Accounting by Debtors and Creditors for Troubled Debt Restructurings* as other sources of GAAP for additional guidance and reach a consistent interpretation.

Comments requested

The AcSB encourages Canadian stakeholders to respond to the IFRIC on its Draft Interpretation. In the Invitation to Comment, the IFRIC requests comments on any aspect of the Draft Interpretation. The AcSB requests that comment letters be sent directly to the IFRIC with a copy to the AcSB.

The AcSB has identified questions regarding the Draft Interpretation on which it would like input from Canadian respondents.

1. The Draft Interpretation has been developed by the IFRIC for application by entities around the world. Assuming the Draft Interpretation is finalized by the IFRIC, do you believe that there are aspects of the Draft Interpretation that make some or all of it inappropriate for Canadian entities, even though it is appropriate for entities in the rest of the world? If so, please specify which aspects and what circumstances make the accounting requirements proposed in the Interpretation inappropriate for Canadian entities.
2. The AcSB has determined that it will generally not issue application or interpretative guidance on IFRSs. An exception might be when an aspect of IFRSs needs further interpretation in light of specific Canadian legal, tax, regulatory or other circumstances that do not apply in other countries and, therefore, will not be addressed by the IFRIC. Do the proposals in the Draft Interpretation require such application or interpretative guidance? If so, please specify the issue giving rise to the need for additional material, the reasons additional guidance is required and the nature of that guidance.

Responses to these additional questions should be sent directly to the AcSB.

The deadline for commenting to the IFRIC on its Draft Interpretation is October 5, 2009. The deadline for responding to the AcSB on the questions set out above is October 15, 2009.