Rechnungslegungs Interpretations
Accounting Interpretations Committee e. V.

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EFRAG
Stig Enevoldsen
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Berlin, 23 September 2009

**IFRIC D25 – Extinguishing Financial Liabilities with Equity Instruments**

Dear Mr Enevoldsen

Attached please find our draft comment letter on IFRIC D25.

If you would like to discuss any aspects of this comment letter in more detail, please do not hesitate to contact me.

With best regards

*Guido Fladt*
*AIC, Chairman*

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Mr Robert Garnett
Chair of the
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Berlin, 23 September 2009

**Comment Letter on IFRIC Interpretation D25 *Extinguishing Financial Liabilities with Equity Instruments***

Dear Bob

We appreciate the opportunity to comment on the draft Interpretation IFRIC D25. We fully endorse the IFRIC's aim to support the IASB in establishing and improving International Financial Reporting Standards.

We broadly agree with the draft consensus, specifically that an entity has to recognise 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 amount of the equity instruments issued in accordance with IAS 39.41. However, with regard to a few issues we would like to submit the following comments.

Referring to the scope we suggest to clarify whether the term 'issues equity instruments to the creditor' only relates to the issuance of new equity instruments or whether the term is intended to include the issuance of treasury shares as well.

While we agree with the draft consensus, we have concerns with the guidance as laid out in D25.5 dealing with the measurement of the equity instruments issued to a creditor to extinguish all or part of a financial liability. D25.5 prescribes that the measurement shall be based on the fair value of the equity instruments issued or the fair value of the liability extinguished, whichever is more reliably determinable. However, the IFRIC in D25.BC10 describes two different approaches to analyse the issue of equity instruments to extinguish a financial liability as consisting of two transactions:

Approach 1: First, the issue of new equity instruments to the creditor for cash and second, the creditor accepting payment of that amount of cash to extinguish the financial liability.

Approach 2: The first transaction could be considered to be the renegotiation of the financial liability that leads to the extinguishment of the original liability and

the recognition of the new renegotiated liability in accordance with IAS 39 paragraph 40.
The second transaction would be the conversion of the new liability into equity in accordance with its terms.

We are of the opinion that in line with the analysis of approach 1 it is appropriate to initially measure equity instruments issued to a creditor to extinguish all or part of a financial liability at the fair value of the equity instruments issued. On the other hand, in considering the analysis of approach 2 it appears to be more appropriate to base the initial measurement of the equity instruments issued on the fair value of the liability extinguished.

Therefore, we propose to the IFRIC to base its argumentation either on the merits of approach 1 or of approach 2, whichever more realistically represents an analysis of the issue of equity instruments to extinguish a financial liability. Once this decision has been made by the IFRIC, the measurement guidance to be provided in D25.5 shall be

- either the fair value of the equity instruments
- or the fair value of the liability extinguished,

without providing an accounting choice to use one or the other, whichever is more reliably determinable. Only in case the preferred measurement basis can not be determined reliably, the initial measurement shall be based on the basis of the other measurement basis.

Finally, with regard to the transition guidance of D25.10 we consider it to be problematic in most of the instances to apply the proposed Interpretation retrospectively due to determining fair values in retrospect. Therefore we suggest requiring all entities to apply the Interpretation prospectively to future transactions. We expect the entities that could apply the proposed Interpretation retrospectively – as mentioned in D25.BC21 – to be a small minority.

If you would like further clarification of the issue, please do not hesitate to contact me.

With best regards

*Guido Fladt*
*AIC, Chairman*