

August 2009

Summary of EFRAG meetings held in August 2009

On Tuesday, 18 August 2009, EFRAG held a meeting by public conference call to discuss the following:

- IASB Exposure Draft *Classification of Rights Issues*
- IFRIC Draft Interpretation *Extinguishing Financial Liabilities with Equity Instruments*

On Friday 21 August 2009, EFRAG held an additional meeting by public conference call to discuss:

- IFRIC Draft Interpretation *Extinguishing Financial Liabilities with Equity Instruments*

IASB Exposure Draft *Classification of Rights Issues*

At its first meeting in August, EFRAG discussed the IASB's ED *Classification of Rights Issues* that proposes to amend IAS 32 *Financial Instruments: Presentation*, so that foreign currency rights issues are classified as equity – instead of liabilities - by the issuing entity. After the meeting, EFRAG issued a draft comment letter on the ED, which included the following points:

- EFRAG agrees that accounting for most kinds of foreign currency rights issues as financial liabilities will not reflect the substance of these transactions and therefore EFRAG supports the IASB's decision to amend IAS 32 urgently and broadly supports the amendments proposed.
- EFRAG has some concerns about the proposals, including:
 - We do not find the IASB's arguments in the Basis of Conclusions comprehensive. EFRAG believes that the IASB needs to differentiate this decision from earlier agenda decisions on similar instruments and also to clearly state that the amendment represents an exception to the current equity/liability model in IAS 32.
 - We believe the IASB should provide further guidance on the nature of rights issues. Without this guidance we believe that the amendment, as currently drafted, could potentially apply to a broader range of instruments than the IASB envisaged and may, as a result, be susceptible to structuring risk.
- In the longer term, we would expect the IASB to address the issue of foreign currency rights issues, foreign currency convertible bonds and similar instruments in its active project on Financial Instruments with Characteristics of Equity.

EFRAG Update is published as a convenience for EFRAG's constituents. All conclusions reported are tentative and may be changed or modified at future meetings.

IFRIC Draft Interpretation *Extinguishing Financial Liabilities with Equity Instruments*

At both its meetings in August EFRAG discussed its draft comment letter in response to IFRIC's draft interpretation D25 *Extinguishing Financial Liabilities with Equity Instruments*. The draft interpretation addresses the accounting by an entity that renegotiates the terms of a financial liability and issues equity instruments to the creditor to extinguish the liability fully or partially. After the meeting EFRAG issued a draft comment letter which summarises that EFRAG broadly agreed with the draft consensus, with one exception. The ED proposes that equity instruments issued shall be measured at the fair value of the financial liability settled or the fair value of the equity instruments issued; whichever is more reliably measurable. EFRAG thought that, in order to be consistent with the Framework – and perhaps to clarify the intent of the consensus, the equity instruments issued should be measured at the fair value of the financial liability extinguished, unless this value cannot be reliably measured. Only in this case shall the equity instruments be measured at their fair value.

The draft comment letter also recommends IASB to clarify whether IAS 39's requirement that the fair value of a financial liability with a demand feature would be relevant in determining the fair value of the financial liabilities extinguished. Furthermore, the draft comment letter expresses EFRAG's concern about the implications of the interpretations on some common control transactions where the relative ownership of debt and equity remains the same before and after the conversion.

The comment deadline on EFRAG's draft comment letter is set at 29 September 2009.

Future meetings

The next meetings of EFRAG TEG will take place on 16 September 2009 and from 8 - 9 October 2009.

The next CFSS meeting takes place on 7 October 2009.