



Mr. Stig Enevoldsen
Chairman
Technical Expert Group
EFRAG
Square de Meeûs 35
B-1000 BRUXELLES

E-mail: commentletter@efrag.org

8 October 2009

Ref.: ACC/HvD/LF/ID

Dear Mr. Enevoldsen,

**Re: FEE Comments on EFRAG's Draft Comment Letter on IFRIC D25
*Extinguishing Financial Liabilities with Equity Instruments***

- (1) FEE (the Federation of European Accountants) is pleased to provide you below with its comments on the EFRAG Draft Comment Letter on IFRIC D25 *Extinguishing Financial Liabilities with Equity Instruments*.
- (2) Like EFRAG, we welcome this draft interpretation addressing the issues on the accounting of transactions referred to as "debt for equity swaps", i.e. when a debtor and 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. We also acknowledge that the draft interpretation does not address the accounting by the creditor.
- (3) We agree with EFRAG that existing IFRS lacks guidance on the transactions being addressed by the draft interpretation and that as a result, there appears to be diversity in practice. Therefore, like EFRAG, we support IFRIC in its efforts to develop interpretative guidance on such transactions.

Consensus of the draft interpretation

- (4) Paragraph 5 of the draft interpretation states that “an entity shall 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 or the fair value of the liability extinguished, whichever is more reliably determinable”. We agree with EFRAG that this paragraph could be improved and clarified and in that respect we suggest it should be reworded. In particular, as currently drafted it could be misinterpreted in the sense that there is a choice as to the measurement basis to be used. Like EFRAG, we do not believe it is IFRIC’s intention to offer a free choice in the measurement basis.
- (5) We, however, disagree with EFRAG that theoretically based on consistency with the Framework equity instruments should be measured in the first instance at the fair value of the financial liability extinguished as argued by EFRAG in paragraph 4 of its draft comment letter. We agree with the draft interpretation of taking that fair value, which can be most reliably measured (be it of the financial liability or of the equity instrument).
- (6) The situation may happen, in a debt for equity swap, that the fair value of the equity instrument issued is higher than the fair value of the financial liability that is extinguished (for example the creditor would demand more favourable terms in order to accept the renegotiation). In such situations we believe that - provided the fair value of the equity instrument can be measured reliably - the fair value of the equity instrument is the appropriate measurement rather than the fair value of the liability extinguished.
- (7) For these reasons, FEE believes that the consensus reached by IFRIC in paragraph 5 of the draft interpretation is practically expedient as long as the exchange is an arm’s length transaction and it is established that there is no other consideration embedded in the delivery of the equity instruments than the extinguishment of the financial liability considered. We recommend that the debtor needs to explain why the measurement method chosen results in the most reliable measurement.

Two detailed concerns

- (8) We share EFRAG’s detailed concerns that:
 - On the basis that debt for equity swaps often take place when the issuer is in financial difficulty and at such times the issuer has probably breached its debts covenants, which often has the effect of making financial liabilities repayable on demand, we agree with EFRAG that it would be helpful if the final interpretation made it clear whether paragraph 49 of IAS 39, which details the measurement requirement for a financial liability with a demand feature, should be applied in such circumstances;

- It is not clear in the draft interpretation whether IFRIC has considered the treatment of some common control transactions where the relative ownership of debt and equity remains the same before and after conversion and the possible cost/benefit implications of this draft interpretation on such transactions, especially where the reporting entity is a wholly-owned subsidiary and its debt is not actively traded. We support EFRAG's suggestion that a scope exclusion similar to that in IFRIC 17 Distributions of Non-cash Assets to Owners might be appropriate, unless further guidance simplifying the valuation in such circumstances is provided.
- (9) We support EFRAG's drafting suggestions relating primarily to the basis for conclusions, as detailed in paragraph 6 of its draft comment letter.

For further information on this letter, please contact Ms. Saskia Slomp, Technical Director.

Yours sincerely,

A handwritten signature in black ink, appearing to be 'Hans van Damme', written over a horizontal line.

Hans van Damme
President