

---

**INTERPRETATION OF  
FINANCIAL  
REPORTING STANDARD**

**INT FRS 119**

---

**Extinguishing Financial Liabilities with Equity  
Instruments**

This Interpretation is applicable for annual reporting period beginning on  
1 January 2023.

# CONTENTS

	<i>from paragraph</i>
<b>REFERENCES</b>	
<b>BACKGROUND</b>	<b>1</b>
<b>SCOPE</b>	<b>2</b>
<b>ISSUES</b>	<b>4</b>
<b>CONSENSUS</b>	<b>5</b>
<b>EFFECTIVE DATE AND TRANSITION</b>	<b>12</b>
<b>APPENDIX</b>	
<b><i>Amendment to FRS 101 First-time Adoption of Financial Reporting Standards</i></b>	

Interpretation of Financial Reporting Standard 119 *Extinguishing Financial Liabilities with Equity Instruments* (INT FRS 119) is set out in paragraphs 1–17 and the Appendix. The scope and authority of Interpretations are set out in the *Preface to Financial Reporting Standards*.

# Interpretation of Financial Reporting Standard 119

## *Extinguishing Financial Liabilities with Equity Instruments*

### References

---

- *Framework for the Preparation and Presentation of Financial Statements*<sup>1</sup>
- FRS 1 *Presentation of Financial Statements*
- FRS 8 *Accounting Policies, Changes in Accounting Estimates and Errors*
- FRS 32 *Financial Instruments: Presentation*
- FRS 102 *Share-based Payment*
- FRS 103 *Business Combinations*
- FRS 109 *Financial Instruments*
- FRS 113 *Fair Value Measurement*

### Background

---

- 1 A debtor and creditor might renegotiate the terms of a financial liability with the result that the debtor extinguishes the liability fully or partially by issuing equity instruments to the creditor. These transactions are sometimes referred to as 'debt for equity swaps'.

### Scope

---

- 2 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 of the entity to extinguish all or part of the financial liability. It does not address the accounting by the creditor.
- 3 An entity shall not apply this Interpretation to transactions in situations where:
- (a) the creditor is also a direct or indirect shareholder and is acting in its capacity as a direct or indirect existing shareholder.
  - (b) the creditor and the 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 contribution to, the entity.
  - (c) extinguishing the financial liability by issuing equity shares is in accordance with the original terms of the financial liability.

### Issues

---

- 4 This Interpretation addresses the following issues:
- (a) Are an entity's equity instruments issued to extinguish all or part of a financial liability 'consideration paid' in accordance with paragraph 3.3.3 of FRS 109?

---

<sup>1</sup> The reference is to the *Framework for the Preparation and Presentation of Financial Statements*, in effect when the Interpretation was developed.

- (b) How should an entity initially measure the equity instruments issued to extinguish such a financial liability?
- (c) How should an entity account for any difference between the carrying amount of the financial liability extinguished and the initial measurement amount of the equity instruments issued?

## Consensus

---

- 5 The issue of an entity's equity instruments to a creditor to extinguish all or part of a financial liability is consideration paid in accordance with paragraph 3.3.3 of FRS 109. An entity shall remove a financial liability (or part of a financial liability) from its statement of financial position when, and only when, it is extinguished in accordance with paragraph 3.3.1 of FRS 109.
- 6 When equity instruments issued to a creditor to extinguish all or part of a financial liability are recognised initially, an entity shall measure them at the fair value of the equity instruments issued, unless that fair value cannot be reliably measured.
- 7 If the fair value of the equity instruments issued cannot be reliably measured then the equity instruments shall be measured to reflect the fair value of the financial liability extinguished. In measuring the fair value of a financial liability extinguished that includes a demand feature (eg a demand deposit), paragraph 47 of FRS 113 is not applied.
- 8 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 shall consider all relevant facts and circumstances relating to the transaction in making this allocation.
- 9 The difference between the carrying amount of the financial liability (or part of a financial liability) extinguished, and the consideration paid, shall be recognised in profit or loss, in accordance with paragraph 3.3.3 of FRS 109. The equity instruments issued shall be recognised initially and measured at the date the financial liability (or part of that liability) is extinguished.
- 10 When only part of the financial liability is extinguished, consideration shall be allocated in accordance with paragraph 8. The consideration allocated to the remaining liability shall form part of the assessment of whether the terms of that remaining liability have been substantially modified. If the remaining liability has been substantially modified, the entity shall account for the modification as the extinguishment of the original liability and the recognition of a new liability as required by paragraph 3.3.2 of FRS 109.
- 11 An entity shall disclose a gain or loss recognised in accordance with paragraphs 9 and 10 as a separate line item in profit or loss or in the notes.

## Effective date and transition

---

- 12 An entity shall apply this Interpretation for annual periods beginning on or after 1 July 2010. Earlier application is permitted. If an entity applies this Interpretation for a period beginning before 1 July 2010, it shall disclose that fact.
- 13 An entity shall apply a change in accounting policy in accordance with FRS 8 from the beginning of the earliest comparative period presented.
- 14 [Not used]

INT FRS 119

- 15 FRS 113, issued in September 2011, amended paragraph 7. An entity shall apply that amendment when it applies FRS 113.
- 16 [Not used]
- 17 FRS 109, as issued in December 2014, amended paragraphs 4, 5, 7, 9 and 10. An entity shall apply those amendments when it applies FRS 109.

**Appendix**  
**Amendment to FRS 101 *First-time Adoption of Financial Reporting Standards***

*The amendment in this appendix shall be applied for annual periods beginning on or after 1 July 2010. If an entity applies this Interpretation for an earlier period, the amendment shall be applied for that earlier period.*

\* \* \* \* \*

*The amendment contained in this appendix when this Interpretation was issued in 2010 has been incorporated into the text of FRS 101 as issued on or after 22 January 2010.*