



5 October 2009

Our ref: ICAEW Rep 110/09

ifric@iasb.org

Dear Sir or Madam

IFRIC DRAFT INTERPRETATION D25

The Institute of Chartered Accountants in England and Wales (the Institute) welcomes the opportunity to comment on the draft interpretation D25 *Extinguishing Financial Liabilities with Equity Instruments* published by the International Financial Reporting Interpretations Committee in August 2009.

The Institute operates under a Royal Charter, working in the public interest. Its regulation of its members, in particular its responsibilities in respect of auditors, is overseen by the Financial Reporting Council. As a world leading professional accountancy body, the Institute provides leadership and practical support to over 132,000 members in more than 160 countries, working with governments, regulators and industry in order to ensure the highest standards are maintained. The Institute is a founding member of the Global Accounting Alliance with over 775,000 members worldwide.

We are content with most aspects of the consensus in the draft interpretation. However, we believe that IFRIC should reach a view on which measurement approach is most appropriate, only allowing entities to revert to the alternative measurement when it is too difficult (probably on cost/benefit grounds) to obtain the preferred one. Leaving either approach as acceptable subject to the test of reliability is bound to lead to uncertainty when it is unclear which is more reliably determinable (and it is easy to envisage debates arising between companies and auditors about what "more reliably determinable" really means in practice). We nevertheless believe that the alternative should be allowed as there will be circumstances, often dependent on whether the debt or equity is traded, when one value will clearly be more difficult to obtain - and possibly less reliably determinable - than the other.

We recognise that there are arguments for and against each measurement approach. Our own preference is that the equity be valued first. Our reasoning for this is that if a debt for equity swap is taken up, this will only be because the debt holders consider that the equity they are being offered is worth more to them than the debt they currently hold. Accordingly, valuing the equity instruments at the same amount as the debt would mean that the equity is undervalued and the gain that is recognised is too high. However, as we have said, our primary concern is that IFRIC should decide which is the right value to use in principle and only then allow the alternative on the grounds of cost/benefit (or possibly difficulty of measurement).

On a drafting matter, it would be helpful if the scope of the interpretation explicitly excluded transactions with shareholders in their capacity as owners. The wording in paragraph BC6 implies that this is the case, but it could be clearer.

Please contact me should you wish to discuss any of the points raised in this response.

Yours sincerely

Dr Claire Stone ACA
Financial Services Faculty

T +44 (0)20 7920 8446

E claire.stone@icaew.com