



## COMMITTEE OF EUROPEAN SECURITIES REGULATORS

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EFRAG

35 Square de Meeus  
1000 Brussels  
Belgium

Date: 29 September 2009  
Ref.: CESR/09-903

**RE: CESR's response to EFRAG's draft comment letter on IFRIC's Draft Interpretation D25 *Extinguishing Financial Liabilities with Equity Instruments***

The Committee of European Securities Regulators (CESR) has, through its standing committee on financial reporting (CESR-Fin), considered EFRAG's draft comment letter on IFRIC's Draft Interpretation D25 *Extinguishing Financial Liabilities with Equity Instruments*.

We thank you for this opportunity to comment on your draft letter.

CESR is supportive of this IFRIC project and agrees there is a lack of appropriate guidance in the existing standards in this area. This is to be particularly regretted in the current economic environment where financial difficulties are leading entities with a significant level of leverage to renegotiate all or part of their financial liabilities. CESR therefore welcomes the fact that early application of the Interpretation is allowed.

CESR is generally supportive of the comments made by EFRAG on D25 *Extinguishing Financial Liabilities with Equity Instruments*:

1. For theoretical as well as practical reasons, CESR supports the amendment proposed by EFRAG in paragraph 4 of its comment letter that would result in the use of the fair value of the liability extinguished to measure the equity instruments issued (however, we have concerns regarding the exception included in the proposal). CESR agrees that the proposed treatment should be consistent with paragraph 49 (c) of the Framework. CESR also believes this proposal will provide a pragmatic solution to situations where both the financial liability and the equity instrument of the issuer are traded. In such cases, based on the existing fair value hierarchy in IAS 39, it is difficult to assess which of the two market prices is the more "reliably determinable". Therefore, in drawing a line between both options EFRAG's proposal represents a useful and pragmatic solution to a complex problem. A solution which, in CESR's view, is appropriately supported by principles provided by the Framework.
2. Regarding the two other comments made by EFRAG on whether paragraph 49 of IAS 39 applies to this kind of transaction and whether a scope exclusion might be appropriate for some common control transactions, CESR also agrees that clarification is needed.

I would be happy to discuss all or any of these issues further with you.

Yours sincerely,

Fernando Restoy  
Chairman of CESR-Fin