Commission Regulation (EU) No 662/2010 of 23 July 2010 amending Regulation (EC) No 1126/2008 adopting certain international accounting standards in accordance with Regulation (EC) No 1606/2002 of the European Parliament and of the Council as regards International Financial Reporting Interpretations Committee's (IFRIC) Interpretation 19 and International Financial Reporting Standard (IFRS) 1 (Text with EEA relevance)

COMMISSION REGULATION (EU) No 662/2010

of 23 July 2010

amending Regulation (EC) No 1126/2008 adopting certain international accounting standards in accordance with Regulation (EC) No 1606/2002 of the European Parliament and of the Council as regards International Financial Reporting Interpretations Committee's (IFRIC) Interpretation 19 and International Financial Reporting Standard (IFRS) 1

(Text with EEA relevance)

THE EUROPEAN COMMISSION,

Having regard to the Treaty on the Functioning of the European Union,

Having regard to Regulation (EC) No 1606/2002 of the European Parliament and of the Council of 19 July 2002 on the application of international accounting standards[(1)], and in particular Article 3(1) thereof,

Whereas:

(1) By Commission Regulation (EC) No 1126/2008[(2)] certain international standards and interpretations that were in existence at 15 October 2008 were adopted.

(2) On 26 November 2009, the International Financial Reporting Interpretations Committee (IFRIC) published IFRIC Interpretation 19 *Extinguishing Financial Liabilities with Equity Instruments*, hereinafter 'IFRIC 19'. The aim of the IFRIC 19 is to provide guidance on how a debtor should account for its equity instruments issued in full or partial settlement of a financial liability following renegotiation of the terms of the liability.

(3) The consultation with the Technical Expert Group (TEG) of the European Financial Reporting Advisory Group (EFRAG) confirms that IFRIC 19 meets the technical criteria for adoption set out in Article 3(2) of Regulation (EC) No 1606/2002. In accordance with Commission Decision 2006/505/EC of 14 July 2006 setting up a Standards Advice Review Group to advise the Commission on the objectivity and neutrality of the European Financial Reporting Advisory Group's (EFRAG's) opinions[(3)], the Standards Advice Review Group considered EFRAG's opinion on endorsement and advised the Commission that it is well-balanced and objective.

Changes to legislation: *There are outstanding changes not yet made to Commission Regulation (EU) No 662/2010. Any changes that have already been made to the legislation appear in the content and are referenced with annotations. (See end of Document for details) View outstanding changes*

(4) The adoption of IFRIC 19 implies, by way of consequence, amendments to International Financial Reporting Standard (IFRS) 1 in order to ensure consistency between international accounting standards.

(5) Regulation (EC) No 1126/2008 should therefore be amended accordingly.

(6) The measures provided for in this Regulation are in accordance with the opinion of the Accounting Regulatory Committee,

HAS ADOPTED THIS REGULATION:

Article 1

The Annex to Regulation (EC) No 1126/2008 is amended as follows:

(1) International Financial Reporting Interpretations Committee's (IFRIC) Interpretation 19 is inserted as set out in the Annex to this Regulation;

(2) International Financial Reporting Standard (IFRS) 1 is amended as set out in the Annex to this Regulation.

Article 2

Each company shall apply IFRIC 19 and amendment to IFRS 1, as set out in the Annex to this Regulation, at the latest, as from the commencement date of its first financial year starting after 30 June 2010.

Article 3

This Regulation shall enter into force on the third day following that of its publication in the *Official Journal of the European Union*.

This Regulation shall be binding in its entirety and directly applicable in all Member States.

Done at Brussels, 23 July 2010.

For the Commission

The President

José Manuel BARROSO

***Changes to legislation:** There are outstanding changes not yet made to Commission Regulation (EU) No 662/2010. Any changes that have already been made to the legislation appear in the content and are referenced with annotations. (See end of Document for details) View outstanding changes*

ANNEX

INTERNATIONAL ACCOUNTING STANDARDS

IFRIC 19	**IFRIC Interpretation 19 *Extinguishing Financial Liabilities with Equity Instruments***
IFRS 1	**Amendment to IFRS 1 *First time Adoption of International Financial Reporting Standards***

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IFRIC INTERPRETATION 19 ***Extinguishing Financial Liabilities with Equity Instruments***

REFERENCES

— *Framework for the Preparation and Presentation of Financial Statements*

— IFRS 2 *Share-based Payment*

— IFRS 3 *Business Combinations*

— IAS 1 *Presentation of Financial Statements*

— IAS 8 *Accounting Policies, Changes in Accounting Estimates and Errors*

— IAS 32 *Financial Instruments: Presentation*

— IAS 39 *Financial Instruments: Recognition and 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’. The IFRIC has received requests for guidance on the accounting for such transactions.

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: