

Equity Swap (IFRIC 19)

- To settle the obligation, the debtor will issue share capital to the creditor.
- Measurement of share capital in order of priority:
 1. FV of shares
 2. FV of liability
 3. CV of liability
- The debtor recognizes gain or loss on extinguishment as the difference between carrying amount of the liability, including any accrued interest, and measurement of capital.
- Such gain or loss is a separate line item in the income statement.

Modification of Terms (IFRS)

- Reduction of principal amount, reduce the interest rates, or extend the term or the liability.
- The difference between the carrying amount of the old liability and the present value of the new/modified liability and any fees between the entity and the lender, using the original effective interest rate is computed.
- If the difference computed is at least 10% of the carrying amount of the old liability, there is substantial modification.
 - Cancel the old liability and recognize a new liability at fair value.
 - The prevailing market interest rate is used to compute the fair value.
 - Recognize gain or loss on extinguishment as the difference between the carrying amount of the old liability and the fair value of the new liability.
 - Any fees incurred because of the substantial modification shall be part of the gain or loss on extinguishment.
- If the difference computed is less than 10% of the carrying amount of the old liability, there is no extinguishment (non-substantial modification).
 - The PV of the modified liability is computed using the original effective interest rate.
 - The gain or loss on modification is computed as difference between CV of the old liability and the PV of the modified liability.
 - Any fees incurred as a result of the non-substantial modification will be included in the carrying amount of the modified liability.
 - The original effective interest rate is adjusted to reflect such costs.