

Extinguishing financial liabilities with equity instruments: Theory and practice problems

Olga Lukashina, ISMA University, 1 Lomonosova Str., build. 6, Riga, LV-1019, Latvia

Zaiga Oborenko *, ISMA University, 1 Lomonosova Str., build. 6, Riga, LV-1019, Latvia

Marga Zhivitere, Ventspils University College Centre for Entrepreneurship Innovation and Regional Development (CEIRD), 101a Inzenieru Str., LV-3601, Ventspils, Latvia

Suggested Citation:

Olga, L., Oborenko, Z. & Zhivitere, M. (2016). Extinguishing Financial Liabilities with Equity Instruments: Theory and Practice Problems. *Global Journal of Business, Economics and Management: Current Issues*. 6(1), 35-43.

Received 16 March, 2016; revised 10 April, 2016; accepted 15 May, 2016.

Selection and peer review under responsibility of Prof. Dr. Andreea Iluzia IACOB, Bucharest Academy of Economic Studies, Romania.

©2016 SciencePark Research, Organization & Counseling. All rights reserved.

Abstract

In 2010 the EU introduced “fair value” accounting rules to evaluate equity instruments issued by debtors for creditors to extinguish their financial liability to the creditor. An entity shall not apply these rules to transactions in situations where the creditor is also a direct or indirect shareholder. Therefore, the approaches to accounting for such a creditor’s “internal” liabilities, which are transferred to an entity’s own equity is an issue that remains to be resolved. It gives rise to voluntarism by independent valuers of the contribution to the equity. This enables tax evasion, since creation of “internal” debt is often used to legalize a capital obtained illegally. This issue is particularly relevant for small and medium sized businesses that are credited mostly by their owners. In Latvia, such businesses account for over 90% of the market. The purposes of this study are: 1) to prove that state regulation of the evaluation of all debts transferred to a debtor entity’s equity is essential; 2) to define approaches to the choice of methods when the amount of capitalized debt is evaluated.

The main findings of this investigation are: Debt capitalization improves financial stability indices of both the debtor (entity issuing equity) and the creditor. However, a debt-for-equity swap transaction opens the opportunity for tax evasion, as well as for the legalization of illegally obtained funds. The Commercial Law of Latvia does not contain any rules on capitalization of debt, which enables a voluntary approach to this process. An institute of independent valuers of property contributions to equity is not sufficient to prevent a shadow economy, the illegal takeovers of businesses, as well as losses borne by creditors when they obtain a share of a debtor’s equity instead of the debt.

Keywords: capitalization of debts, equity instruments, fair value, financial liability, set-off of claims, income tax

* ADDRESS FOR CORRESPONDENCE: **Zaiga Oborenko** , ISMA University, 1 Lomonosova Str., build. 6, Riga, LV-1019, Latvia. E-mail address: zaigaob@inbox.lv

1. Introduction

1.1 Background work and the nature of the paper

The subject matter under analysis in this article is a special kind of transaction where a company settles with the debt holder by means of shares in its share capital rather than cash. As a result, the debt holder becomes a shareholder (co-owner) of the borrower's company. To this end, the borrower increases its share capital. This kind of transaction is sometimes referred to as 'debt for equity swaps'. In Latvia, such transactions are called 'debt capitalization'.

Under International Financial Reporting Standards (IFRS), debt and equity transactions fall under two groups. The first group includes transactions related to an entity's 'external' liabilities. The debt holder is not a shareholder of the borrower's company and has no control over it. Transactions of the second group bear on an entity's 'internal' liabilities to its shareholders.

The term 'debt for equity swap' is commonly applied to the first group of transactions, while 'debt capitalization' is used to refer to the second group. IFRS provides some rules and explanations on the transfer of financial obligations to a debtor's own equity (IFRIC, 2010). It points out however, that these rules do not apply to the second group of transactions. Therefore, the approach to accounting for such a creditor's "internal" liabilities that are transferred to an entity's own equity is an issue which remains to be resolved. It gives rise to voluntarism by independent valuers of the contribution to the equity. This enables tax evasion, since creation of "internal" debt is often used to legalize a capital obtained illegally. This issue is particularly relevant for businesses which are credited mostly by their owners.

1.2 Practical application

In practice, debt capitalization is especially popular with small and medium-sized companies, and which account for 90% of the Latvian market. When such companies start up, their owners register their investment as a loan to the company, rather than a contribution to the share capital. An active growth of borrowed capital entails poor financial stability figures of a company. Attracting outside investments is unavailable for them. Some of these companies lose their competitive edge, operate at a loss and their equity becomes negative.

Researchers in many countries have studied the reasons why companies adopt such a financial policy. Thus, Fatica, Hemmelgarn and Nicodème (2012) of the European Commission pointed out that there are a number of reasons for such a distorted debt-equity ratio including, 'among which [are] the existence of agency and bankruptcy costs, of asymmetric information, of limited market efficiency, but also the role of taxation'. Alan Carter (Carter, 2013) summarized studies on tax legislation made by specialists from a number of countries and came to the same conclusion. Indeed, there is less risk of losing borrowed cash than that of contribution to equity. Interest on loans is written off to a borrower's expenses, which decreases his tax base. Dividends on investment, on the other hand, are accrued after profit tax has been paid, and they are taxable again when distributed.

Tax capitalization may improve a company's stability index and is, therefore, used quite frequently. Small and medium sized companies do not use international standards for their accounting and reporting. Therefore, national legislation should have rules to regulate the transfer of 'owner's loans' to an entity's equity.

There are no specific rules in Latvian legislation to regulate debt capitalization. Academic programmes of Latvian educational institutions do not include either debt capitalization or methods of debt evaluation. Such a state of affairs explains why this study is relevant.

1.3 Purposes of the study: 1) to prove the need for regulation of credit debt capitalization by the state and to outline the limits of such regulation; 2) to define the approaches to evaluation of debts to shareholders; 3) to work out suggestions on how to reflect debt capitalization processes in Latvian legislation.

1.4 Methods for the research are descriptive and analytical research, financial modelling, the Delphi method and comparative analysis.

2. The need for and limits of regulation of debt capitalization

Capitalization of debts is especially attractive for a debtor operating at a loss. In the course of debt capitalization, the company ceases to be insolvent and becomes eligible for investment or even for capitalization of unpaid tax debt. In Latvia this procedure is permitted if after debt capitalization the amount of debt does not exceed the amount of equity capital. It means that the proportion of borrowed and own capital does not drop below the recommended 1:1 ratio (Cabinet of Ministers, 2008). In other countries, this standard may be different. For example, in Canada (Farrar & Mawani, 2008) the ratio of "debt: equity" is adopted at the level of 2: 1.

Courtney D. Winn in his paper (Winn, 2014) found the optimal debt-to-equity ratio for each firm and made the conclusion that "companies of all industry types are able to optimize their returns based on historical firm value."

What are the instances where capitalization of debts, rather than those related to tax is possible and expedient? What criteria should an expert be guided by when evaluating capitalized debt? Should these issues be addressed at the level of national legislation? Let us use the situation in Latvia as an example to try and find a solution for these issues.

Historical analysis of debt capitalization in Latvia has shown that government regulation of debt capitalization is beneficial. Thus, before Latvia joined the EU (1992-2002) there were a number of rules concerning debt capitalization in the Law of Joint-Stock Companies and the Law of Limited Liability Companies. Under these laws, debt capitalization was not permitted if equity was negative. Such restrictions proved to be effective. Company owners were forced to renounce some of their claims to the company in order to eliminate losses and to enhance its stability. In other words, they transferred them by way of a gift. A donation resulted in the occurrence of revenue, which brought about profit tax payment. As a result, the national budget was replenished, while the companies' equity became positive. With equity being in the black, companies were able to capitalize remaining debts to their creditors without having to pay tax.

In the first ten years of Latvia's sovereignty its legislation did not have any rules on independent evaluation of debts, to say nothing of any other kinds of non-monetary contribution to share capital. Similarly, there were no restrictions on cash transactions or strict requirements to use cash registers. This state of affairs brought about income tax avoidance: cash which was earned illegally was recorded as debt either to the owner of the company or to an 'external' creditor. This debt could later be capitalized and transferred to share capital.

Nowadays, operations of most private entrepreneurs in Latvia are regulated by the Commercial Law (Commercial Law of Latvia). When this law was adopted in 2000, it contained a number of rules to the effect that debt capitalization should be deemed to be a proprietary contribution to share capital. However, these rules were revoked in the spring of 2003, namely, two months after the law came into effect. This could imply that debt capitalization in Latvia had become impossible, since it was neither a monetary nor a proprietary contribution to share capital. The Latvian Register of enterprises stopped accepting documents from companies wishing to increase their equity in this way, while lawyers' protests and complaints followed. Thus, Aigars Strupish, who headed the development of Latvian Commercial Law, wrote a book in which he argued that debt capitalization may be deemed a

proprietary contribution since it enables the creditor to exercise his proprietary title (Strupišs, 2003, p. 86). Eventually, registration of debt capitalization transactions was resumed.

Thus, a contradiction between the right of obligation theory, judicial practices and their real life application to business practices appeared in 2003, and this contradiction still exists. There are no references to debt capitalization in Latvian Commercial Law. Nevertheless, the Register of enterprises has taken a decision to add capitalization valuers to the list of experts on the valuation of proprietary investment. Currently, it is not possible to increase share capital and equity by way of debt capitalization unless there is an expert's conclusion.

As one can see, even though capitalization of debts actually exists in practice, it is not regulated by specialized legislation. This situation gives rise to problems of capitalization applicability in economic management practice. Firstly, the subjective approach by valuers, as well as a lack of consistency in the methods and outcomes of valuation of capitalized debts, brings discredit to this process with entrepreneurs. Secondly, owners and managers of some entities are reluctant to reveal their internal accounting documents to valuers. Thirdly, independent experts provide paid services, and the companies' desire to cut costs is quite explicable. This is especially relevant in cases where the expert gives a negative opinion, or a zero valuation of the debt.

Let us consider an example where there is only negative equity and a debt to the owner for the same amount in a company's financial statement. There are no assets on the credit side, total assets being zero. It is easy to understand why an expert made a conclusion to the effect that debt capitalization is impossible and that it should be transferred to the company by way of a gift. On the other hand, the client's position is understandable, too. If there is an unsatisfied debt holder, it is impossible to liquidate a company on a voluntary basis. Donation, on the other hand, will result in the emergence of revenue and revenue tax. Such a company's owner will be looking for workarounds to transfer debts to equity, rather than capitalize debt and transfer it by way of a gift; there are legitimate ways to do this.

Offset of mutual liabilities is one of them. Assume an entity files an application with the Register of enterprises to increase its share capital in cash. According to Latvian legislation, limited liability companies are allowed to make payments six months after a share capital increase has been registered (Commercial law of Latvia, p.198(3)8). So, immediately after the registration of an increase in share capital (not paid yet), the company's balance sheet includes increased equity and the owner's debt to the company. It is worth reminding that there already was a credit debt to the owner which the company intended to capitalize. Now, it is possible to carry out a cross-cancellation of the creditor's and debtor's obligations. There is no need for capitalization. Equity has been increased and the company's financial stability has been enhanced. Latvian legislation does not provide any rules to the effect that an offset should be equated to a non-monetary contribution and that it needs expert valuation.

Another way is monetary contribution arrangements. The company may borrow for a couple of days the sum which is necessary to pay back its debt to the lending co-owner. This amount is received on the company's bank account and the debt is paid back to the debt holder. The creditor, being a co-owner of the company, transfers this money back to the company's account with a comment that this is a contribution to share capital increase. The company pays back the money it borrowed for a couple of days, and registers equity increase. The company may now be liquidated without tax and without the need to call an expert.

Aigars Strupish's opinion on this matter is quite noteworthy. According to him, 'the aim of debt capitalization disguised by this kind of bogus monetary contribution constitutes avoidance of capitalized debt valuation, which should be deemed the reason for revocation of this kind of transaction' (Strupišs, 2003, p. 87). This assertion is hardly compelling. Indeed, it is not possible to avoid compliance with a rule that does not exist. Besides, the law does not forbid extinguishing a loan with another loan. Thus, we may conclude that judicial regulation of both debt capitalization and

approaches to its valuation is essential in Latvia.

Availability of instruments (standards, guidelines and regulations) developed by the EU, and their application in the national legislation makes normative regulation of a creditor's debt capitalization feasible.

A number of specialists have pointed out that it is very important to use EU instruments in order to align and harmonize accounting and reporting practices of different countries. Thus, in 2014 Manuel Kapsis (Kapsis, 2014) noted the significant role that IASB (International Accounting Standards Board) plays in eliminating the differences in the interpretation of distinction between equity and liabilities. One year later he said again (Kapsis, 2015) that for these issues, which are still relevant, to be solved, it is necessary a) to define these issues, b) to find appropriate approaches to their solution, and then c) to select one of the approaches. Whereas Firas Aziz M. Jawad and Xinping Xia (Firas Aziz M. Jawad & Xinping Xia, 2015) point out that uniform accountancy and reporting rules across countries play an important role in subduing excessive creativity by practising accountants as well as in eliminating loopholes used by company owners to decrease expenses and to increase profit. Georg Wamser (Wamser, 2008) shows the necessity of uniform solutions both nationally and internationally, since globalization of business enables transfer of profit across countries. As mentioned above and as other specialists note, potentialities of economic regulation at the EU level are not used enough.

The need to regulate debt capitalization is due to a discrepancy between the theory of law and its implementation in real life business practice. On the one hand, the law of obligation provides for several ways to terminate obligations and rights including set-off and renovation of mutual liabilities. On the other hand, the Commercial Law of Latvia does not have any provisions for debt capitalization, the latter being important for small and medium-sized business. In order to eliminate the above mentioned discrepancy in Latvia, the following steps are essential. **Firstly**, the Commercial Law of Latvia should specify the feasibility of and restrictions on the transfer of financial liabilities to an entity's equity. On the one hand, it is advisable to restore the article of the law which allows debt capitalization and restricts the use of capitalization if the entity's equity is negative. On the other hand, it would be useful to study the Estonian experience, where the Code of Commerce has been supplemented with a rule (Commercial Code of Estonia, 1995, p. 194.1) which allows the set-off of claims as a specific non-monetary way of equity increase. **Secondly**, the law should specify the role of experts carrying out the evaluation of capitalized debt. Perhaps, their duties should include preparing a conclusion on whether a specific debt capitalization should be equated to a monetary or a proprietary contribution. **Thirdly**, accountancy and/or tax legislation should establish criteria for the selection of capitalized debt valuation methods. Furthermore, it should specify possible ways of accounting for such transactions in taxation. This will help to reduce the use of loopholes in accountancy, commercial and tax legislation.

3. Approaches to and methods for valuation of capitalized debts.

3.1 The core of the issue.

When we consider valuation of capitalized debt, the question at issue is how to determine the fair value, which is the basis of debt for a debtor's equity swap. It defines the number of shares acquired by the creditor. Hence, it also defines the number of votes when decisions are made at a shareholders' meeting, and also the distribution of profit and liquidation quota.

For example, a company's share capital is worth 60 thousand, each share denomination being 1 thousand; there are reserves and profit worth another 120 thousand, which makes up an equity (net assets) worth 180 thousand. The debt holder would like to exchange his claims to the company (120 thousand) for its shares. How many shares will the debt holder get? He may get 120 shares at their nominal value of 1 thousand. Or he may get 40 shares at their fair value of 3 thousand (180: 60). If the debt holder gets 120 voting shares, he will have control ($\frac{2}{3}$ of the votes) over the company. If, on the

other hand, he is given 40 shares, his equity share will only be 40% (40 shares out of 100), and he will not be able to influence the operations of the company in a significant way.

In each particular case, this issue is resolved between the parties of the transaction - the debtor and the debt holder. However, there is one more party concerned with this transaction, namely, individual shareholders. In order to protect their interests, the Directive 2012/30/ES requires an independent valuation of any non-cash contributions to equity, which also applies to debts transferred to debtor's equity (European Parliament, 2012). Thus, in accordance with EU regulations, the solution of the existing issue is up to the expert involved in the valuation of the worth of the debt capitalization transaction.

3.2 Approaches to valuation and selection criteria.

As mentioned before, there are two approaches to the valuation of the worth of debt to equity exchange transactions. The first approach is essentially valuation of the worth of shares transferred to the debt holder, while the second one deals with valuation of the capitalized debt. Methods applied for the first approach (the fair value of the shares) are explained in 'International Valuation Standards' and IFRS-2, while IFRS-39 deals with the methods related to the second approach (the fair value of financial liabilities).

Before 2009 there was no consensus in the EU as to what criteria should be relied on when choosing the approach to valuation of debts to creditors for debtor's shares transactions. Deloitte (Deloitte, 2009), Ernst & Young (Ernst & Young, 2009), and the Hong Kong Institute of Certified Accountants (2014) describe the current state of affairs as follows: 'Certain entities recognise the equity instruments issued at the carrying amount of the financial liability, while others recognise the equity instruments at the fair value of either the liability extinguished or the equity issued. The Interpretation eliminates this diversity' (Hong Kong Institute of Certified Accountants, 2014, p. 8-BC4).

Subsequently, the EU adopted Interpretation 19, which is essentially an explanation of the choice of approach to the valuation of debt capitalization (IFRIC, 2010). However, this document is only applicable to 'external' debt holders. For this group of debt capitalization, the priority of the first approach to transaction valuation has been recognized (IFRIC, 2010, p.6). However, the document does not exclude the possibility of applying the second approach if the first one is not applicable (IFRIC, 2010, ph.7).

The search for other criteria relevant to debt capitalization transactions is ongoing. In this context, the position taken by the audit company PwC is both noteworthy and useful. Its choice of approach to valuation relies on the influence of 'significant equity holders': 'However, if all debt holders have equity interests in the borrower, the debt restructuring typically would be considered a capital transaction. In that case, the gain should be recorded in equity.... If there are significant debt holders that do not own equity that is a strong indicator that again should be recorded in the income statement and not in equity. Likewise, if significant equity holders own no debt, it is a strong indicator that a gain should be recorded in the income statement and not in equity.' (PwC, 2015, p.101).

Thus, one may conclude that both of the above mentioned criteria should be taken into consideration, namely, both the debt holder's status and the equity holder's significance, when 'internal' debt capitalization is valued.

There is still no consensus about internal debt capitalization when it comes to practice. Some specialists, namely, Aigars Strupish (Latvia) suggest that the fair value of the shares should be applicable for capitalization (Strupišs, 2003, p. 101-103). Others think it appropriate to use the nominal (balance) value of extinguished liabilities as the basis for calculation. Thus, according to Vittorio Salvadori di Viesenhoff and Roberto Egori (Italy) 'Under Italian GAAP, 37 debt-for-equity swaps are treated as neutral events, whereby the carrying value of the debt converted into equity (normally equal to par value) is derecognized from the liability side of the balance sheet, against the recognition

of items in the net equity of the borrower (e.g. share capital, share premium) for a corresponding amount...' (Wiesenhoff & Egori, 2012).

It is worthwhile abandoning valuation of the items to be exchanged, i.e. equity and debt, unless capitalization will influence the ratio of profit and liquidation quota distribution among equity holders. Assume, debt to the single owner of the company is being capitalized; or capitalized debt is exchanged for preference shares with fixed dividends but without the right to vote at a shareholders' meeting.

In some cases it is advisable to evaluate both shares and debts. The results of such valuation may prove to be quite different. This would enable us to integrate our findings in a similar way to the theory and practice of business valuation. To this end, special integration indices, or 'confidence coefficient' for each of the approaches are to be introduced, which would enable us to work out the average value of a debt capitalization transaction. Ordering customers may be involved in negotiating the value of credibility indices. For example, as a result of the first approach it was found that the fair value of one share is 3 thousand, so when the debt of 120 thousand is capitalized, the debt holder should receive 40 shares. The second approach, however, shows that the fair value of the debt equals 120 thousand, and as a result of capitalization the debt owner should receive 120 shares at the nominal value of 1 thousand. Both the debt holder and the debtor have 30% confidence in the first approach; hence the confidence coefficient is 0.3. Confidence in the second approach is 70%, the confidence coefficient being 0.7. Thus, an integrated result of such a transaction would be as follows: for the debt of 120 thousand, the debt holder will receive 96 shares of the debtor's capital ($40 \cdot 0.3 + 120 \cdot 0.7 = 96$).

3.3 Recommendations

An expert should carry out a preliminary analysis of the transaction before he/she starts to value capitalization of ANY financial liabilities. Such analysis should include a number of steps. Firstly, documents should be audited for the following: debt emergence (monetary contribution or acquisition of other assets for the debtor); for authenticity and debt formation process (cession, etc.); for the debt holder's status (whether or not he/she may influence the borrower). Secondly, a cross reference is to be made between the asset transferred to the entity at the moment of debt emergence and the entity's economic operations. Thirdly, a borrower's liquid asset backing of capitalized debt is to be analysed.

The expert should then determine the purpose of the intended debt capitalization and determine if this transaction will bring about changes in profit and liquidation quota distribution ratio in the entity in question. As a result, an independent expert will be able to assess the viability of capitalization and to select the appropriate approach to its valuation, namely, whether to value capitalized liabilities or the shares received, or to value both of the items swapped with a subsequent integration of valuation outcome.

In the case of capitalization of the debt to a company's co-owners, a distinction should be made between two valuation options:

- 1) the ratio of profit and liquidation quota distribution among co-owners remains *unchanged*. If this is so, financial liabilities to be capitalized should be audited and then exchanged for new shares at par value;
- 2) the ratio of profit and liquidation quota distribution among co-owners *is changed*. In this case, a fair value of a share being acquired should be calculated. Capitalized debts should be audited and their nominal value should be exchanged for a definite number of the borrower's shares (possibly, with allowance for share premium).

If debts to independent outside debt holders are to be capitalized, it is advisable to apply the

approach suggested by international financial reporting standards, in particular, the above mentioned Interpretation 19. Selection of the methods for valuation of the shares being acquired may rely either on the method of business valuation (including its share value), or on the methods suggested by IFRS-2. In selecting methods for valuation of financial liabilities (creditor's debts) the rules of IFRS-39 would be more appropriate.

4. Conclusions

It is essential that judicial regulation of non-government creditor's debt capitalization be introduced in Latvia.

Following the example of Lithuania and Estonia, Latvian legislation should adopt a rule to the effect that an independent expert valuation of contributions to equity is necessary for 'proprietary' rather than 'non-monetary' contributions.

It would be expedient to supplement Latvian legislation with a number of rules to regulate conditions and approaches to valuation of financial liabilities which are transferred to the borrower's equity. In our opinion, the most essential regulatory norm would be a restriction on debt capitalization for companies with a negative equity. In such cases, writing off debt to persons who actually have control over the entity should be regarded as a gift, it should be accounted for as appropriate and taxable.

It is advisable to restore the rule in the Latvian legislation which would allow company owners to provide non-remunerable and non-taxable assistance, including forgiveness of a debt, and to recognize such amounts in accounting as their own equity rather than revenue. The reason for this suggestion is the fact that the said amounts do not result from economic activities of the company but represent the owner's personal and voluntary contribution to their own equity. The adoption of the above mentioned rule would eliminate the need for capitalization of internal debts in the cases where capitalization is used mainly to extinguish the company's losses and to reduce taxable profit.

References

- Cabinet of Ministers of Latvia. (2008). Procedures for the privatization of the tax debt capitalization methods. Rules of the Cabinet of Ministers of the Latvian Republic. Nr.986. Riga, December 2, 2008 - paragr.7.2.-only in Latvian. Retrieved from <http://likumi.lv/doc.php?id=184814>
- Carter, A. (Ed). (2013). International Tax Dialogue: Key issues and debates in VAT, SME taxation and the tax treatment of the financial sector. 2013.-217, pages 109-110. Retrieved from <http://www.oecd.org/tax/tax-global/ITD-publication-decade-sharing-experiences.pdf>
- Commercial Code of Estonia (1995). Act of the Republic of Estonia, passed 15 February 1995, entered into force 1 September 1995. (RT I 1995, 26/28, 355; consolidated text RT I 2005, 63, 481), Translation published 16.06.2015. – article 194.1. Retrieved from <https://www.riigiteataja.ee/en/eli/ee/Riigikogu/act/516062015010/consolide>
- Commercial Law of Latvia. The law of Latvian republic 04.05.2000 (with amendments to 16.01.14./Text consolidated by Latvian State Language Centre). - Sections 197(5), 250(4), 198(1)8. Retrieved from http://www.vvc.gov.lv/advantagecms/LV/meklet/meklet_dokumentus.html?query=+The+Commercial+Law+of+Latvia&Submit=Mekl%C4%93t&resultsPerPage=10
- Deloitte (2009). IAS Plus update. IFRIC clarifies accounting for debt for equity swaps. Deloitte. December 2009.-4. Page 1. Retrieved from <http://www.iasplus.com/en/binary/iasplus/0912ifric19.pdf>
- Ernst & Young (2009). Extinguishing financial liabilities with equity instruments. EYGM Limited. ey.com/IFRS. Issue 62 / November 2009. Supplement to IFRS outlook.-pages 1-2. Retrieved from https://www2.eycom.ch/publications/items/ifrs/olk/200911_supplement_62/200911_supplement_ifrs_outlook_62.pdf

- European Parliament (2012). Directive 2012/30/eu of the European parliament and of the council of 25 October 2012. - Document 32012L0030. *Official Journal of the European Union*. 14.11.2012 – articles 9-10. Retrieved from <http://eur-lex.europa.eu/legal-content/EN/TXT/?uri=celex:32012L0030>
- Farrar, J. & Mawani, A. (2008). Debt-Equity Limitations in Thin Capitalization Rules: Canadian Evidence. *Social Science Research Network*. January 4, 38p. ([CAAA](#)) 2008 Annual Conference Paper
- Fatica, S., Hemmelgarn, T. & Nicodème, G. (2012). The Debt-Equity Tax Bias: consequences and solutions. European Commission. TAXATION PAPERS. WORKING PAPER N.33 – 2012- 26 p.. ISBN 978-92-79-25419-2, pages 6-8. Retrieved from http://ec.europa.eu/taxation_customs/resources/documents/taxation/gen_info/economic_analysis/tax_papers/taxation_paper_33_en.pdf
- Firas Aziz M. Jawad & Xinping Xia. (2015). International Financial Reporting Standards and Moral Hazard of Creative Accounting on Hedging. *International Journal of Finance and Accounting* 2015, 4(1): 60-70, page 61, Retrieved from <http://article.sapub.org/10.5923.j.ijfa.20150401.06.html>
- Hong Kong Institute of Certified Accountants (2014). Extinguishing Financial Liabilities with Equity Instruments. HK (IFRIC. Page 8-BC4. Retrieved from http://app1.hkicpa.org.hk/ebook/HKSA_Members_Handbook_Master/volumell/hk%28ifric%29-int%2019.pdf
- IFRIC. (2010). COMMISSION REGULATION (EU) No 662/2010 of 23 July 2010. Annex. IFRIC. Interpretation 19. Extinguishing Financial Liabilities with Equity Instruments.- paragr.4,3. Retrieved from http://ec.europa.eu/finance/accounting/docs/arc/2010-03-04_ifric19_annex_en.pdf
- Kapsis, M. (2014). Financial Instruments with Characteristics of Equity research project. Project Plan. IASB Agenda ref.13B. April 2014. IASB Meeting. STAFF PAPER. -9, page2 ph7, page 4 ph 11, page 23. Retrieved from <http://www.ifrs.org/Meetings/MeetingDocs/IASB/2014/April/AP13B-FI.pdf>
- Kapsis, M. (2015). Financial Instruments with Characteristics of Equity research project. Project status and scope. IASB Agenda ref.5B. May 2015. IASB Meeting. STAFF PAPER. -7. page 3, thesis 8. Retrieved from <http://www.ifrs.org/Meetings/MeetingDocs/IASB/2015/May/AP05B-FICE.pdf>
- PwC. (2015). Financing transactions: debt, equity and instruments in between, 2014. Second edition, March 2015. PWH-333 – p. 101. Retrieved from http://www.pwc.com/en_US/us/cfodirect/assets/pdf/accounting-guides/pwc-guide-financing-transactions-debt-equity-second-edition-2015.pdf
- Strupišs, A. (2003). Commentary on the Commercial Law. Komerclikuma komentāri.III.Rīga. A. Strupiša juridiskais birojs, SIA. Pages 86, 87,101-103
- Winn, C. D. (2014). Optimal debt--to--equity ratios and stock returns. *All Graduate Plan B and other Reports*. Paper 363./Utah State University. – page 23. Retrieved from <http://digitalcommons.usu.edu/gradreports/363>
- Wamser, G. (2008). The Impact of Thin- Capitalization Rules on External Debt Usage – A Propensity Score Matching Approach. Ifo Working Paper No. 62.October 2008. Retrieved from [http://www.cesifo-group.de/pls/guest/download/Ifo%20Working%20Papers%20\(seit%202005\)/IfoWorkingPaper-62.pdf](http://www.cesifo-group.de/pls/guest/download/Ifo%20Working%20Papers%20(seit%202005)/IfoWorkingPaper-62.pdf)
- Wiesenhoff, S. V. & Egori, R. (2012). Italy - Tax Issues in Consensual Debt Restructuring. In *Derivatives & financial instruments– special issue*. 2012. Ed. Machiel Lambooi. IBFD. 36-43, p.41. Retrieved from <http://www.yumpu.com/en/document/view/42524396/tax-issues-in-consensual-debt-restructuring-freshfields>