

S02.04-SP-06

Impacts of a refinancing of debt on debt issuance costs

Summary

Description	Unamortized debt issuance costs existing debt	Additional fees and costs incurred
New lender	Derecognized as part of gain or loss on extinguishment existing debt	Amortized over expected term of the new debt
Same lender and (a) different currency, or (b) 10% test failed	Derecognized as part of gain or loss on extinguishment existing debt	Expensed as incurred
Same lender and (a) same currency, and (b) 10% test passed	Amortized over expected term modified debt	Amortized over expected term modified debt

Details

Debt issuance costs include any fees, points paid or received, transaction costs and other premiums or discounts. Debt issuance costs do not include insurance fees and taxes. They are recognized as a deduction of a financial liability and amortized over the expected term of the debt, through the effective interest rate method.

When the debt is refinanced, it should be analyzed if the existing debt is extinguished. We distinguish the following:

Different lender

An existing debt is extinguished when the obligation specified in the existing debt contract is discharged. The new debt obtained from a different lender is recognized. As such, a refinancing with a different lender cannot be considered to be a *modified* debt, for which the accounting treatment is described in the section below ('Same lender'). In the case of refinancing with a new lender, any unamortized debt issuance costs from the existing debt are derecognized and will impact the gain or loss on extinguishment. In case the lender is a syndicate, judgment shall be exercised so to determine if the lender has changed.

The debt issuance costs from the new debt will be recognized as a deduction from the new debt and will be amortized over expected term of the new debt using the effective interest rate method.

Same lender

In case of a refinancing with the same lender, one needs to assess if the terms of the new debt are substantially different from those of the existing debt.

As a first step, the currency of the debt shall be investigated. In case the currency of the debt has changed, there is a very strong presumption that the new debt is substantially different. We believe such presumption could be rebutted in case of a peg between the currencies of the existing and the new debt.

Second, in case the currency of the debt remains unchanged, the following amounts shall be compared (so-called '10% test'):

- a. the discounted present value of the cash flows under the new terms, including any fees paid net of any fees received and discounted using the original effective interest rate (i.e. that of the existing debt), and
- b. the discounted present value of the remaining cash flows of the original financial liability, using this same original effective interest rate.

With respect to a variable rate debt, the discount rate can be determined as the forward rate over the remaining term of the existing debt, plus the margin applicable to this existing debt.

If (a) is at least 10 per cent different from (b), the debt is considered to be substantially different. In this case, the existing debt is considered to be extinguished, which means that any unamortized debt issuance costs from the existing debt are derecognized and will impact the gain or loss on extinguishment. Similarly, any costs or fees incurred are also recognized as part of the gain or loss on extinguishment.

To the contrary, if (a) is less than 10 per cent different from (b), the debt is NOT considered to be substantially different. In this case, any unamortized debt issuance costs from the existing debt are not derecognized, and any costs or fees incurred are recognized as a deduction from the debt and amortized over the remaining term of the modified liability. A new effective interest rate is calculated, which is used to amortize the carrying amount of debt issuance costs at refinancing (i.e. the sum of the unamortized debt issuance costs from the existing debt, plus the debt issuance costs from the debt modification) over the expected remaining term of the modified debt.