THE 6TH INTERNATIONAL CONFERENCE
"THE CHANGING ECONOMIC LANDSCAPE:
ISSUES, IMPLICATIONS AND POLICY OPTIONS"

ISSN1331 – 677X (UDK 338)

May 30th - June 1st 2013

ACCOUNTING FOR DEBT RESTRUCTURING IN THE CURRENT CRISIS: ITALIAN EXPERIENCE BY ITALIAN LEGAL CONDITIONS

Roberta Provasi[a], Patrizia Riva[b]

[a]Assistant Professor, University of Milan-Bicocca, Via R. Bicocca degli Arcimboldi 8, 20126 Milan, Italy
e-mail: roberta.provasi@unimib.it
[b]Assistant Professor, University of Eastern Piedmont, Via Perrone 18, 28100 Novara, Italy
e-mail: patrizia.riva@eco.unipmn.it

ARTICLE INFO

Keywords:

- Going concern
- Debt restructuring
- Crisis
- Accounting standards
- Bankruptcy reform

ABSTRACT

Since 2007 a financial crisis has hit economies generating inevitable consequences on Italian Companies solvency level. This paper identifies some intermediate solutions purely contractual arrangements for debt rescheduling between debtor and creditors introduced by the Bankruptcy Reform, which considers: recovery and resolution planning ,restructuring agreement, pre-insolvency agreements with creditors. To solve the crisis it is required the adoption of appropriate procedures aiming at the fair presentation in the financial statements. For this reasons Italian Accounting Entity, (OIC) on July 2011 issued a new document OIC 6, "Accounting Principles" which aimed to prescribe the accounting treatment and disclosures, produced by the debt restructuring. Finally, this paper highlights how the OIC n. 6 philosophy has emphasizes the public interest in preserving the firm as an economic value to the community .

Reference to this paper should be made as follows: Provasi R, Riva P,. 2013. Accounting for debt restructuring in the current crisis. Italian experience by Italian legal conditions, *Ekonomska istraživanja – Economic Research Special Issue 2013*

I. INTRODUCTION

The ongoing crisis in the international markets has generated considerable worsening economic , financial and capital conditions of Italian companies, with inevitable consequences on their solvency degree often precarious. This has resulted in the progressive use of certain legal institutions introduced by Bankruptcy Reform including the main: recovery and resolution planning (*piano attestato ex art.67 lf*), restructuring agreement (*accordo di ristrutturazione ex art. 182 bis*), pre-insolvency agreements with creditors (*concordato preventivo ex art. 160 lf*). The growing interest of those new solutions is also due to their non-compulsory setting up that can or not include, depending on the real situation to be faced: the reduction of the liability or the extension of the date loans maturity; the sale of the debtor's assets; the prediction of new finance from creditors, or the conversion of debt into equity, aimed at a general rebalancing corporate finance and suitable to safeguard business continuity.

The main tools for solving the crisis, alternative to bankruptcy, require the adoption of appropriate procedures aiming at the fair presentation in the financial statements. For this reasons the Organismo Italiano di Contabilità (OIC) in July 2011 issued a new document which is no. 6 of the "Accounting Principles". The purpose of this standard is to prescribe the accounting treatment and disclosures, to be provided in the Notes on the effects produced by a debt restructuring, specifically regulating even the new legal institutions introduced by the Bankruptcy Reform. The new accounting standard is exclusively dedicated to companies which fit the following requirements:

- they have entered into an agreement for loan extension or its reduction in various ways expressly permitted by the Bankruptcy Reform or by the Debt Moratorium (introduced by art. 5, c.3-quarter DL July 1st, 2009);
- they don't adopt international standards;
- they prepare the financial statements on a going concern basis.

The main goal of the OIC n. 6 is to regulate critical accounting aspects related to a debt restructuring namely:

- the date of the debt restructuring from which must be considered for the financial statements, the economic and financial effects of restructuring.
- the effects on the income statement and balance sheet;
- the information to be reported in the notes.

The focus of the research is to highlight how the underlying philosophy of the OIC n. 6 has been to emphasize the public interest in preserving the firm as an economic value to the community[1]. For this reason, about the new Italian regulations, the intervention of the Court introduced by the Bankruptcy Reform is limited to the only purpose of ensuring the reliability and the correctness of the parties involved, allowing the debtors and creditors freedom of initiative in setting the conditions to reach a restructuring agreement. To this, the economic effect of debt restructuring can only lead to a new distribution between shareholders and creditors of the business losses or at most a change in ownership. The OIC n. 6 focuses primarily on the first type of

---

[1] C. Calandrini, Ristrutturazione del debito e crisi dell'impresa. Brevi considerazioni sull'OIC 6, in Il Fallimentarista, Giuffrè Editore, marzo 2013, pag. 1-12.

restructuring debt agreement to which the creditors are so even if their economic conditions are worse than those of the starting situation. The creditors are available to accept the loss in order to avoid a greater further loss. At the same time the debtor agrees to contribute to the preservation of the company with additional allocations of corporate assets or guarantees addition and sometimes even accepting a partial reduction of corporate governance power. The contribution of the creditors for the company's return to financial equilibrium will still be determining only if the entrepreneur maintains a caution behavior at both the managerial and accounting policies. In the end it is very important to respect the fundamental rule: business losses to be suffered before and significantly by the shareholders and then by the creditors themselves.

The data attest that Italian companies have shown in recent years a growing interest to the different forms of debt restructuring introduced by the Bankruptcy Reform. The reasons are certainly imputable to the different technical and accounting methodologies and to the different legal institutions introduced by the law. Any reflection on the accounting discipline of business crisis should therefore provide some considerations including:

- debt restructuring operation; specific, because it is characterized by the simultaneous presence of two antithetical aspects: the situation of the enterprise crisis and the simultaneous assertion that there is a going concern basis;
- the methods by which the debt restructuring are made and their effects on the financial statement depend considerably on the shape of the existing loan agreements;
- the financial leverage level has a direct impact on the debt restructuring methods;
- exposes creditors to the same risk as those normally made by shareholders;
- the restructuring impact on the creditor income statement also depends on the credit rating rules;
- there should be a consistency between the restructuring accounting rules for both creditor and debtor;
- how can the debt restructuring be considered a solution for the financial equilibrium recovery even in the presence of reduced profitability

II. GOING CONCERN AS A CONDITION FOR DEBT RESTRUCTURING[2]

The financial statements of the last few years have to face the problem of the entity's ability to continue as a going concern basis. The annual accounts must be prepared in the event of business continuity, a hypothesis often questioned in difficult economic times. In such contexts, in Italy is important the role of the Board of Directors that examine carefully the economic and financial situation and try to assess whether the company can continue its activity. Also for the assessment of debt refinancing, request for Moratorium Debt and other forms of restructuring agreements the safeguard of the going concern assumption is a basic precondition. The company's ability to continue its business in the foreseeable future is a fundamental principle for the financial

[2] In Italy the going concern basis has been widening disciplined and illustrated by many documents including the main ones: Article 2423-bis Civil Code, IAS 1, ISA 570, PR 570, Document of the Bank of Italy, Consob and Isvap No. 2, 6 February 2009, Consob Communication No. 9012559, Research Paper Assirevi No. 138, Document of the National Union of Young Chartered Accountants of 25 May 2010.

statements editing, according to Civil Code and both National and International Accounting Standards[3].

According to art. 2423 bis Civil Code entitled, "Principles of Financial Statements editing" the assessment of annual financial statements must be made prudently and in a going concern basis and considering the economic function of the asset or liability concerned. The financial statements settlement rely on this fundamental principle in accordance with the so-called operating values. It implies that the values entered are considered on the assumption that the company will continue its activities in its normal course in the foreseeable future. Neither the intention nor the need must exist to put it into liquidation or to cease the activity being subjected to a bankruptcy proceeding.

The importance of business continuity issue, emerges from international accounting standards. International Accounting Standard IAS/IFRS n. 1 provides that management should highlight any significant uncertainties in the financial statements that may cause significant doubt on the entity's ability to continue as a going concern. In assessing the going concern basis, the management considers all the available information about the future that is at least 12 months after the date of the financial statements publications.

To test the ability of continuing its economic life in the most profitable way, the companies should consider a wide range of events and circumstances such as the financial, operational and legal issues that individually or collectively may cause significant doubt about the going concern assumption. It should also be noted that the current crisis context, characterized by volatility and uncertainty makes it difficult to predict and may affect the development of the business plans prepared by management in previous years. This requires great attention in the assets valuation process to be tested for impairment and provide the disclosures in the financial statements in accordance to IAS 36, "Impairment of assets". Particularly, directors must specify in the notes to the financial statement, the basis used to determine the recoverable amount and the related assumptions. In this connection it might be useful to refer to the contents of the Standard on Auditing n. 570 (PR 570, Principle Review) providing a series of indicators that can be used to verify the going concern principle. Also auditing is very important to assess the existence of the going concern status. Management is responsible for the assessment of the going concern assumption but the auditor is responsible for assessing the adequacy of the management's conclusions of the going concern evolution.

---

[3] R. D. Martin, Going-concern Uncertainty Disclosures and Conditions: Comparison of French, German and US Practices, in Journal of International Accounting, Auditing and Taxation, Vol. 9, Issue 2, June 2000, pages 137-158.

TABLE 1. INDICATORS PROVIDED DOCUMENT PR 570- GOING CONCERN, PUBLISHED ON 1/10/2007

Financial Indicators
-Situation of negative equity or negative net working capital
-Loans with a fixed maturity and close to maturity without realistic prospects of renewal or repayment, or excessive reliance on short-term loans to finance long-term assets
-Indications for termination of financial support by the lenders and other creditors
-Historical financial statements or prospective negative cash flow
-Negative main economic-financial ratios
-Substantial operating losses or significant deterioration in the value of assets that generate cash flow
-Lack or discontinuities in the dividends' distribution
-Inability to pay creditors on due dates
-Inability to comply with the term of loan agreements
-Changing forms of payment terms granted by suppliers from the condition "credit" to the cash on "delivery"
-Inability to obtain financing for essential new product development or other essential investments
Management indicators
-Loss of key executives or administrators not able to replace
-Loss of major market, franchise, concession or principal supplier
-Difficulty becoming established or difficulty in maintaining the normal flow of important supplies
Other indicators
-Reduce capital under the legal limits or non-compliance with other laws
-Litigation and tax issue that if successful, result indemnification obligations that the company is unable to meet
-Changes in legislation or government policy to affect the company adversely

Source: Author calculation

These indicators are well established by the Italian accounting practice, they are useful to identify the main threats that usually can generate risks to the business continuity. Simultaneously, managers should also consider the limitations that these indicators involve. For this reason the correct professional practice suggests to the managers not to perform each item of financial statement but to evaluate the corporate performance and to make the appropriate financial analysis after having reclassified the Balance Sheet[4].

[4] Accounting literature is full of studies cointaining models that use financial ratios to identify the probability of a going concern qualification. G. Kleinman, A. Anandarajan, The Usefulness of off-balance sheet variables as predictors of auditors' going concern opinions: an empirical analysis in Managerial Auditing Journal, Vol. 14, issue 6, 1999. D. Martens, L. Bruynseels, B. Baesens, M. Willekens, J. Vanthienen, Predicting going concern opinion with data mining, in Decision Support Systems, Vol 45, Issue 4, November 2008, pages 765-777; H. C. Koh, C. Low, Going Concern Prediction using data mining techniques, in Managerial Auditing Journal, Vol. 19, issue n.3, 2004, pp 462-476.

In addition, the correct behavior is not limited to the quantitative analysis. To implement judgments it is needed to get qualitative assessment about marketing, personnel or market that cann0ot be found and expressed by the accounting information usually included financial statement[5].

III. THE MORATORIUM DEBT FOR SMES: LEGAL AGREEMENT FOR ITALIAN COMPANIES TO TACKLE THE CRISIS AND RESTRUCTURE THEIR DEBT.

On August 3rd, 2009, the Minister of Economy and Finance has signed the "Agreement" among ABI and other associations Observatory Banks Companies (including Confindustria, Casartigiani, Confcommercio, Confagricoltura, Confapi, Confartigianato, Confedilizia, Confesercenti, Confetra, Coldiretti, CAN, Claai, Cia, Alleanze Cooperative Italiane) on certain benefits for SMEs in "temporary" financial difficulties. The agreement aims to support the flow of credit to the productive system in order to provide liquidity to small and medium-sized enterprises. Companies admitted to the moratorium are SMEs.

The agreement - entered into force as of September 9th, 2009 - provides that SMEs have following requirements in order to join:

1. the applicant companies, even if they are in temporary difficulty, must have an economic and financial situation that can prove business continuity. The companies that at September 30th, 2008 showed a position classified by the bank as "performing" and at the submission's they doesn't have positions classified as "refurbished" or "non-performing" or enforcement proceedings in progress, may be admitted to the Agreement;
2. the Agreement provides the suspension for 12 months of a part of the loan, installment (only the share capital) for the medium to long term bank loans and finance leases. With the suspension the original amortization plan will undergo a shift for a period similar to the suspended period, it does not involve changes regarding the interest rate and frequency of installment suspended.

The Moratorium Debt has been constantly renovated since 2009, has left to 290.000 Medium-sized companies, about 19 billion of cash available for the real economy (data end of 2012).

The extension was necessary in the persistence view of a difficult situation that requires the maintenance of support measures for enterprises. This was an important initiative for Italian companies that allowed a further extension until June 30th 2013. The aim of the Moratorium was also to mitigate Basel 3 parameters that obliges banks to absorb more capital for supplying credit, to strengthen the guarantee fund for SMEs to shared actions for business networks financial support.

The Moratorium Debt was met with acclaim by the Italian SMEs. The data reported in Table 2 show the Moratorium Debt's Trend.

---

[5] B. Goodman, D.N. Braunstein, A. Reinstein, G. W. Gregory, Explaining Auditors' Going Concern Decisions: Assessing Management Capability, in Journal of Applied Business Research Vol. 11, n.3, 1995, pag. 82-93; Riva P. "Le informazioni non finanziarie nel sistema di bilancio. Comunicare le misure di performance", Egea, ottobre, 2001.

TABLE N. 2 – MORATORIUM DEBT'S TREND*

	Applications	*Funding suspended (Billion Euro)*
December 2009	110.000	5
December 2010	190.000	9
December 2011	260.000	15
December 2012	290.000	22,4

*Source: *MEF and ABI data*

The data also show that 90% of Italian Banks joined the Moratorium and 56,5% of the SMEs applicants are located in Northern Italy.

The Moratorium must also be properly accounted for the financial statements in accordance with the following provisions:

1. Art. 2424 Civil Code requires the separate disclosure of the payable liabilities due after one year. Therefore it's necessary to return for companies that have taken advantage of the moratorium, clearly the current portion of the liabilities with respect to the medium term.
2. Regarding to the financial costs for obtaining financing (cost of inquiries, substitute tax, ecc.), recognized in the balance sheet under "Other intangible assets" and amortized over the term of the loan, it should expose the plan depreciation according to the new life of the loan as a result of the Moratorium.
3. For leasing the financial effects are two: reassessment of the new amortization leasing plan with the consequent recognition of the accrued expenses related to the cost missing during the period of suspension; restatement of deferred income related to the possible maxi initial operation of the new term contracted.
4. Information to be reported in the Notes. The suspension effects of the loans principal payment and that of finance lease payments must be adequately described with particular reference to certain information identified according to art. 2427 Civil Code: the changes in the debts composition; the amount of payables due after more than 5 years; a description of financial leases.

IV. DEBT RESTRUCTURING OPERATIONS PURSUANT TO THE OIC[6] DOCUMENT N. 6 "DEBT RESTRUCTURING AND DISCLOSURES"

In April 2010 was released by OIC a draft of the document "Debt Restructuring and Disclosures". The final version was released in July 2011. The main difference between the draft and the final version is the prediction of the distinction between "debt restructuring" and "debt renegotiation". Debt Restructuring is aimed at allowing the debtor firm to overcome a difficult financial situation while the Debt Renegotiation is a modification of the original terms of the debt.

[6] OIC represents the National Standard Setter formed on November 27, 2001 in legal form of Foundation; for its constitution was attended by the principal organizations representing major categories of accounting professionals. Current members of the OIC Fundation are Assirevi, Cndcec, Abi, Andaf, Ania, Assilea, Assonime, Confagricoltura, Confapi, Confcommercio, Confindustria, Aiaf, Assogestioni, Centrale Bilanci, Borsa Italiana (www.fondazioneoic.es/)

The new Oic n. 6 is designed to regulate the accounting effects of the Debt Restructuring and to provide guidance on the disclosures in the notes to give back. The document rules apply only to those entities that prepare financial statements in accordance to the Civil Code using the national accounting standards. Therefore it doesn't apply to companies that prepare their financial statements in accordance to Legislative Decree of February 28th, 2005, n. 38 (i.e. subjects IAS/IFRS) and to insurance companies that are following the special sector dictated by the Insurance Code. The document is also applicable for the consolidated financial statements and interim financial statements, consistent with the structure and content of their financial statement instead, the companies in liquidation, shall apply OIC Document n. 5- Liquidation Balance Sheet[7].

The OIC considered to provide an appropriate accounting standards for the debt restructuring in order to standardise the accounting behavior and make financial statement more comparable[8]. In Italy before the publication of the OIC n. 6 there wasn't a specific law for the debt restructuring operations, the only rules were discernible in some international standards, including IAS 39, IAS 37, IFRS 5 and IFRIC 19.With reference to the debtor's financial statements, IAS 39 Financial Instruments establishes: Recognition Measurement, when a debt is renegotiated, if the difference between its carrying amount and the economic value of the new debt is substantial (more than 10%) it must account for the new operation as the old debt extinction and recognition of a new liability to be detected at its fair value at the time of the transaction. This result is recognized as a gain in the income statement independently of restructuring contractual form. With reference to the financial statement of the creditor, IAS 39 considers as objective evidence of impairment in when the firm for economic or legal reasons related to the borrower's financial difficulties, grants at the same facility that otherwise would not have given. Hence the requirement to recognize an impairment loss equal to the difference between the asset's carrying amount and its fair value (the present value of expected future cash flows discounted using the original effective interest rate of the debt).

According to paragraph 4) of the OIC n. 6, Debt Restructuring is "an operation by which the creditor or group of creditors, for economic reasons, allows a concession to the debtor because of its financial difficulties ".

The creditor, to support the debtor in difficulty, gives up to certain rights already contractually defined and this allows to the debtor an economic and financial advantage.

Therefore, there must be two conditions under OIC n. 6 to set up a Debt Restructuring:

1. the debtor has to be in a financial difficulty;
2. the creditor (because of the debtor financial difficulty) makes him a concession that gives rise to an immediate or deferred benefit to the debtor and a corresponding loss to the lender.

To indicate what is meant by financial difficulties of the debtor, the OIC No. 6 provides all those situations where the debtor is unable to obtain adequate financial resources, necessary to satisfy the needs of its operations and the related payment obligations.

---

[7] OIC n. 5, Liquidation Balance Sheet, published June 25, 2008, regulates the restructuring operations that have "liquidating purpose" of the enterprise.
[8] L. Baker, Fasb Updates Accounting for Debt Restructuring Tax-News.com, New York, 13 October 2010

TABLE 3 - FINANCIAL SITUATIONS DIFFICULTIES PROVIDED BY THE OIC 6

the debtor company shows a financial disequilibrium that cannot generate adequate cash flows to repay its debts
the financial disequilibrium is also accompanied by economic disequilibrium caused by loss evidenced by negative EBIT and EBITDA
the company debtor fails to obtain from the bank or other lenders additional funding
the company shows doubts on going concern

Source: Author calculation

The OIC n. 6 takes into consideration two different types of debt that may be subject to restructuring:

1. those expressly provided by the Bankruptcy Law. In this case, the legal institutions adoptable for the debt restructuring are; Pre-Insolvency agreements with creditors (Art 160 LF) Recovery and resolution planning (Art.e 67, paragraph 3 – d), LF) Restructuring agreement (Art.182-bis LF).
2. other payables consist in: bank loans and overdrafts, trade payables arose for the purchase of goods and services, some tax and social security debts, liabilities for leases, agreements for Moratorium Debt.

The date of Debt Restructuring is very important because it represents the period from when the effects in the financial statements must be accounted for.

For the purpose of the OIC n. 6, the restructuring date correspond to the legal date of the concluded operation or undersigning date of the agreement with the lender. Of course, the use of the different institutions regulated by the bankruptcy law have different effects on the parties (for example relating to the rights, responsibilities, powers, management, etc.).

Instead at the end of the correct accounting treatment two aspects are very important to be considered:

1. The restructuring period. The conclusion of the Debt restructuring agreement takes time. For this reason the process is divided into steps, namely: the negotiation phase, the agreement execution phase and finally the periods during which there'll be the economic and debt restructuring financial effects..
2. Restructuring disposal. Debt restructuring can be done in different ways: revision of the original terms of the loan, assets transfer or ownership from the debtor to the creditor with partial or total extinction of the debt; capital increase of the company in favor of the creditor with partial or total extinction of debt, a combination of several previous mode. In turn, the revision of the loan terms can be done by: a reduction of the share to be reimbursed ; reduction of interest accrued but not yet paid; interest rate reduction for the interest not yet accrued, deferred payment.

The OIC 6 also distinguishes two types of transactions according to the impact produced on the income statement at the date of restructuring;

1. Transactions with immediate impact on the income statement. This category includes all operations that require a reduction in par value (principal) of the debt and / or a reduction in accrued interest. In such cases must be reported as an extraordinary item in the income statement as it is a gain realized and is equal to the reduction of the

debt or the interest accrued.

2. Operations with impact on the income statement deferred that occur when the restructuring involves a reduction in the interest rate for the remaining term of the loan or when the original maturities of the payments are deferred over time so interest-free or a lower rate than contract. In these cases, the restructuring benefits will be accounted for the subsequent years but the financial statement in which restructuring takes place must be provided in the notes a statement on the "economic value of debt" post-restructuring. This value is the present cash flows value (principal and interest) that under the new arrangements the debtor must pay discounted from the original interest rate of the debt-restructuring. The difference between the debt economic value and the debt original value is a potential capital gain that in accordance to the principle of prudence should not be recognized in the Income Statement.

For both methods the OIC n. 6 provides the obligation to register immediately in the income statement the costs related to the restructuring (costs for professional consulting, financial services, etc..) without the capacity to capitalize because of its inability to generate future economic benefits. The OIC n. 6 states that sometimes professional fees are related to the operation result and can provide an articulated remuneration initially as a fixed and then as a variable component recognized upon the occurrence of certain conditions called success fees.

The accounting standard specifies that the success fee should be accounted in the financial statements when the conditions are provided and if at present of the financial statements provision, these conditions have not been verified yet, it is possible to predict an allowance for impairment losses in the financial statements according to OIC n. 19[9]. In this case, the provision for risks should be recognized as an extraordinary costs in the financial statement.

This approach has been highly criticized by the Italian professional as professional fees of the debt restructuring can be reasonably related to future economic benefits. This is incurred to preserve the value of the firm over time, to save jobs and to restore the normal conditions of corporate profitability. In addition, the capitalization costs for professional fees are justified by the OIC n. 24, which maintains that the professional costs may be capitalized in the year in which they are incurred and then eventually reversed in subsequent periods and being recognized in the income statement if there were not the conditions for the restructuring debt agreement.

The second part of the OIC n. 6 regulates the disclosure that have to be fulfilled in the Notes, to clarify to the readers of the financial statements the company financial difficulties and above all its debts and also the characteristics of the debt restructuring and its effect on the

[9] *OIC n. 19, Fondi per rischi ed oneri eTFR, issued 30/05/2005*

company net financial position, namely:

TABLE 4 - INFORMATION ABOUT DEBT RESTRUCTURING IN THE NOTES

1. Information on economic debt value
2. Information on the going concern
3. Information on financial difficulty
4. Total debt
5. Restructuring main features
6. Net financial position
7. Other information's
8. Restructuring plan, state of progress

Source: Author calculation

The informations about the economic value of the debt at the date of the restructuring are the most important. The economic value of the debt is "the present value of future cash flows that the debtor would have to repay to the creditor as of share capital and share interest, according to the new conditions of the restructuring debt agreement, flows are discounted at the effective interest rate of the operation before restructuring. The effective interest rate equals the present value of future payments considered under the new terms of the contract and the debt book value before restructuring.

For the economic value of the debt, definition taken by the concept of "amortized cost" according to IAS 39.

The economic value in accordance with the OIC n.6 does not coincide to the fair value of the debt: in fact it represents the present value of the same present cash flows discounted at the market rate that should be applied to a financing operation, presenting technical and financial characteristics and same riskiness degree of debt restructuring. In almost all cases, the fair value of the debt would be lower than the economic value of the debt.

Example

Company A has registered a debt with a 3 years residual maturity with a nominal value of 300, fully refundable at the end of the third year. The interest rate is 10%,the interests are paid annually. Following the financial difficulties, the company enters into a restructuring agreement that provides the payment of 90 total interest at the end of the third year at the same time to repay the capital.

The nominal value of the debt has not changed and therefore does not seem to be a positive component of income from restructuring. Instead it is necessary to determine the economic value of the debt for disclosure purposes in the Notes. To determine the economic value of the debt is necessary to discount the cash flows at the effective interest rate before restructuring (10%).

Year	*Cash flows*	*Discount rate 1/ (1+t)N*	*Present value*
1	0	0,909	0
2	0	0,826	0
3	390	0,751	292,89
Tot	390		292,89

The notes to the financial statements prepared at the date of restructuring presents the following information

Book value		*Economic value*		*Benefit of the restructuring*	
At the time of restructuring	At the balance sheet date	At the time of restructuring	At the balance sheet date	At the time of restructuring	At the balance sheet date
300	300	292,89	292,89	7,11	7,11

The economic value of the debt disclosure required in most parts of the OIC n.6:

1. par. 6.2.1: "In all cases the information on the economic value of the debt assumed as a result of the restructuring has a particular importance in the Notes ";
2. par. 6.2.1.2: "The Notes shall be provided with adequate information of the benefit resulting from the debt restructuring";
3. par. 7.5: "The Notes contain the following information: (...) the economic value of the debt at the date of the debt restructuring.

Information on going concern must be clearly indicated in the Notes to the financial statements.

Also, if the restructuring is not concluded yet at the balance sheet date, where the failure to realize the operation should be less to the satisfaction of the requirements for compliance with the business continuity, the notes should illustrate the reasons why the budget was composed with a going concern view.

Information on financial difficulty and on debt restructuring, the Notes should summarize information about the state of financial difficulty and / or economic, as well underlying causes of these difficulties.

The Note should disclose in table form the outstanding debt at the time of restructuring, as well as the amount of debt included and excluded from the restructuring. If relevant, must also be provided on the amount of secured debt, the percentage of bad debts (if more than 90 or 180 days) and any enforcement actions made by creditors.

The main restructuring features that should be given in the Note are:

TABLE 5 - FEATURES OF RESTRUCTURING DEBT

type of restructuring
date of restructuring
brief description of the phases was carried out
the debts covered by the restructuring
the presence of conditions precedent or subsequent
the presence of covenants
information on the provision of new finance
the main features of the derivatives

Source: Author

As regard the Net financial position, the standard requires to provide enough information to help stakeholders to understand the effects of restructuring on the financial position.

In the net financial position includes liabilities for finance leases (determined on the basis of the financial method)

TABLE 6 - NET FINANCIAL POSITION

	Book value before restructuring	***Book value after restructuring***	***Book value at 200x***	***Variations***
Cash				
Current financial asset				
Current financial receivables				
Short term borrowings				
Current portion of non-current				
Other current financial liabilities				
Finance lease payables current				
Net current financial indebtedness (A)				
Long-term borrowing				
Bonds issued				
Other non current financial liabilities				
Non-current debt (B)				
Net financial debt or financial position (C=A+B)				

Source: Author

For each homogeneous group of restructured debt (including finance lease payables) the Note should include the following information :

- detailed rules for restructuring followed, with particular reference to the major changes in the original terms of the debt;
- the carrying amount of the debt at the time of restructuring and the date of the balance sheet;
- the economic value of the debt at the time of restructuring and the date of the balance sheet;
- the benefit from restructuring; the remainder of the debt before and after the restructuring;
- the contractual rate before and after restructuring, the effective interest rate before and after restructuring;
- the Progress of the Plan.

The last part of the OIC n. 6 is devoted to the “renegotiations of the debt” defined as editing the original terms of the debt (ie a revision of the original contractual conditions) that occurred between the debtor and the creditor. The renegotiations of the debt differ from the debt restructuring for the lack of contemporary following elements:

- the existence of a financial difficulty of the debtor;
- a benefit to the debtor resulting from the new agreement.

Therefore, the renegotiation may fall in the following categories:

- transactions with a debtor in financial difficulty involving a benefit to be invalid or a higher cost for the same debtor;
- transactions with a debtor who is not in a situation of financial distress, as he presents a substantial regularity of the original terms of the debt payment on account of principal and / or interest.

In analogy with the provisions for the restructuring of debts, the economic effects are analyzed according to the following principles:

1. whether the renegotiation involves a change in the value of debt capital, the economic effects are recognized immediately in the income statement;
2. in other cases the economic effects of the operation derive based on the passage of time (pro rata) from the moment of the agreement effectiveness;
3. any costs directly associated with the transaction are traced in the Income Statement for the year they are incurred and / or maturation;
4. In the Notes should be highlighted the economic effects of the operation.

V. ACCOUNTING STANDARDS TO SUPPORT THE CORRECT ACCOUNTING OF THE CRISIS' EFFECTS IN THE FINANCIAL STATEMENTS FOR THE COMPANIES PRESERVATION

The accounting rules for the debt restructuring accounting guarantee compliance with the principle of prudence and transparency. To this end, in fact the OIC n. 6 provides:

- the effects of restructuring are registered only from the moment when the transaction becomes effective between the parties, it is not allowed to operate policies of window dressing leveraging effect that announcement before the conclusion of the transaction;
- the expected benefits may be registered immediately in the income statement only when fulfilled in the other cases are recognized pro-rata temporis in the form of lower funding costs;
- restructuring costs are registered immediately in the income statement without the possibility of capitalization.

As has been explained, the debt restructuring represents the moment in which the ranking of liabilities between debt and equity is re-discussed with the aim of restoring the financial balance conditions. This often involves interventions on corporate governance and accounting standards may also be supportive. In fact, both the creditor that the debtor calculate also the convenience with reference to the effects on the financial statements. This is because the accounting concern to some important aspects of corporate governance, for example the distribution of profits, taxation, etc. Therefore an efficient solution of the business crisis can be made only after a careful evaluation of the accounting treatment of items relating to the debt restructuring both for the debtor and for the creditor. From the perspective of the debtor the reducing of the debt nominal value generates immediate recognition of an extraordinary income instead the reduction of the interest rate produces a deferred benefits. Although from an economic standpoint, the two solutions may be equivalent, they generate two different accounting treatments that encourage the use of different contractual arrangements for the conclusion of the debt restructuring. To the creditor esteemed with the principle of prudence requires that the loans that are subject to restructuring are immediately depreciate to their estimated realizable value. This value should consider the time value and therefore the losses on interest. So to the creditor there aren't different accounting treatments. For this reason the OIC no. 6 regulates the accounting of debt restructuring addressing the issue of corporate crisis from the debtor prespective. The philosophy that guides the OIC no. 6 is oriented to the fundamental objective taken by the bankruptcy law to avoid any behavior of the entrepreneur who, at the time of business crisis, can involve further damage to the creditors. In the companies' crises the private interests of the entrepreneur and his customers are not the only interests involved in: the public interest must be safeguarded in preserving the firm as an economic value to the community.

For this reason the Bankruptcy Law requires different intervention form by the Court during the delicate phase in which the debtor company revises the debt baseline conditions of with its creditors. The Court intervention is aimed to ensure accountability and transparency of assessments at the basis of the restructuring plan, the overall behavior accuracy of those involved.

VI. REFERENCES

Baker L., Fasb Updates Accounting for Debt Restructuring Tax-News.com, New York, 13 October 2010

Calandrini C., Ristrutturazione del debito e crisi dell'impresa, [Debt restructuring and enterprise crisis] brief considerations on OIC 6, in Il Fallimentarista, Giuffrè Editore, March 2013

Consob Communication No. 9012559, 2009

Document of the National Union of Young Chartered Accountants of 25 May 2010.

Document of the Bank of Italy, Consob and Isvap No. 2, 6 February 2009

Goodman B., Braunstein D.N., Reinstein A., Gregory G. W., Explaining Auditors' Going Concern Decisions: Assessing Management Capability, in Journal of Applied Business Research Vol. 11, n.3, 1995.

Kleinman G.,Anandarajan A. , The Usefulness of off-balance sheet variables as predictors of auditors' going concern opinions: an empirical analysis in Managerial Auditing Journal, Vol. 14, issue 6, 1999.

Koh D. H. C. , Low C. , Going Concern Prediction using data mining techniques, in Managerial Auditing Journal, Vol. 19, issue n.3, 2004

Martens L. Bruynseels, Baesens B., Willekens M. , Vanthienen J. , Predicting going concern opinion with data mining, in Decision Support Systems, Vol 45, Issue 4, November 2008

Martin R. D. , Going-concern Uncertainty Disclosures and Conditions: Comparison of French, German and US Practices, in Journal of International Accounting, Auditing and Taxation, Vol. 9, Issue 2, June 2000

OIC n. 6, Debt Restructuring and Disclosures , July 2011

OIC n. 5, Liquidation Balance Sheet, published June 25, 2008

OIC n. 19, Fondi per rischi ed oneri e TFR, [Risk and severance fund] issued on May 5, 2005

PROVASI R., Le strategie time based nella corporate governance, [Time based strategy in the corporate governance], Giuffrè, 2009.

ISA 570 (Redrafted) , Going Concern, 2007

RIVA P., Informazioni non finanziarie nel sistema di bilancio. Comunicare le misure di performance, [Nonfinancial Information in (Italian) Annual Reports: Disclosure of Performance Measures: An Empirical Survey], EGEA, 2001.

RIVA P., L'attestazione dei piani delle aziende in crisi. Principi e documenti di riferimento a confronto. Analisi empirica, [Auditing and Assurance for Recovery and Resolution Planning, Restructuring Agreement and Pre-Insolvency Agreement: Standards and Other Reference Documents: An Empirical Survey], Giuffrè, 2009.

Research Paper Assirevi No. 138, 2009