30 Cannon Street, London EC4M 6XH, United Kingdom
Tel: +44 (0)20 7246 6410 Fax: +44 (0)20 7246 6411
Email: iasb@iasb.org Website: www.iasb.org

International Accounting Standards Board

This document is provided as a convenience to observers at IASB meetings, to assist them in following the Board's discussion. It does not represent an official position of the IASB. Board positions are set out in Standards.
These notes are based on the staff papers prepared for the IASB. Paragraph numbers correspond to paragraph numbers used in the IASB papers. However, because these notes are less detailed, some paragraph numbers are not used.

INFORMATION FOR OBSERVERS

Board Meeting: **19 June 2007, London**

Project: **Business Combinations II**

Subject: **Sweep Issues – Replacement Awards (Agenda Paper 2B)**

INTRODUCTION

1. Paragraph 60 of the pre-ballot draft of IFRS 3 states:

> An acquirer may exchange its share based payment awards (replacement awards) for awards held by employees of the acquiree. Exchanges of share options or other equity instruments in conjunction with a business combination are accounted for consistently with modifications of share-based payment awards in accordance with IFRS 2. If the acquirer is **obligated** to replace the acquiree awards, either all or a portion of the acquirer's replacement awards shall be included in measuring the consideration transferred in the business combination. Situations in which an acquirer is obligated to replace the acquiree's awards include, but are not limited to, those in which replacement is either specified in the terms of the acquisition agreement or required by the terms of the acquiree awards. [emphasis added]

2. On 21 June 2007 the FASB will redeliberate the following issues related to the accounting for replacement awards:

   a. Issue 1 - How should income tax effects of replacement awards classified as equity be accounted for?

b. Issue 2 - Should the accounting for replacement awards in Statement 141(R) be limited to situations in which the acquirer was "obligated" to issue replacement awards?

3. The FASB deliberation materials are attached as appendix to this agenda paper.

4. The IFRS 3 ballot draft contains a consequential amendment to add a new Example 6 to IAS 12 which illustrates the accounting for deferred tax assets and liabilities related to replacement awards. The staff believes that no further deliberation of Issue 1 is required for IFRSs.

5. However, the staff notes that Issue 2 applies also to IFRSs and refers to the discussion in paragraphs 17 -27 of the FASB memorandum. The IASB staff shares the FASB staff's view that the wording in the pre-ballot draft should not be modified and the accounting for replacement awards should be limited to situations in which the acquirer is obligated to issue replacement awards.

Should the accounting for replacement awards in IFRS 3 be limited to situations in which the acquirer was "obligated" to issue replacement awards?