Project: **Annual Improvements Project – 2008 - 2010 cycle - Comment letter analysis**

Topic: **IFRS 3 *Business Combinations* – Un-replaced and voluntarily replaced share-based payment transactions**

Introduction

1. In the *Improvements to IFRSs* exposure draft (ED) published in August 2009, the Board addressed an issue relating to un-replaced and voluntarily replaced share-based payment transactions that are part of a business combination.

2. The objective of this paper is:

   (a) To provide background information on the issue,

   (b) To analyse the comment letters we received, and

   (c) To recommend the IFRIC amend the wording from the exposure draft as proposed in Appendices A and B.

Background

3. This issue was discussed at the July 2009 IASB Board meeting; it was set out in agenda paper reference 3D that can be found on the public website[1].

4. IFRS 3 (revised 2008) contains requirements for share-based payment transactions of the acquiree that:

   (a) the acquirer is obliged to replace, or

[1] http://www.iasb.org/Meetings/IASB+Board+Meeting+21+July+2009.htm

This paper has been prepared by the technical staff of the IASCF for discussion at a public meeting of the IFRIC.

The views expressed in this paper are those of the staff preparing the paper. They do not purport to represent the views of any individual members of the IFRIC or the IASB. Comments made in relation to the application of an IFRS do not purport to be acceptable or unacceptable application of that IFRS—only the IFRIC or the IASB can make such a determination.

Decisions made by the IFRIC are reported in IFRIC *Update*.

Interpretations are published only after the IFRIC and the Board have each completed their full due process, including appropriate public consultation and formal voting procedures. The approval of an Interpretation by the Board is reported in IASB *Update*.

(b) expire as a consequence of the business combination.

5. However, IFRS 3 is currently silent on the accounting for unreplaced or voluntarily replaced share-based payment transactions.

6. The Board proposed to clarify in the ED that:

   (a) voluntarily replaced share-based payment transactions that do not expire as a consequence of a business combination, and

   (b) unreplaced share-based payment transactions,

   are accounted for in the same manner as share-based payment transactions of the acquiree that the acquirer is obliged to replace, ie the market-based measure should be allocated between consideration transferred and post-combination costs.

7. In addition, the Board proposed to align the terminology in IFRS 3 with that of IFRS 2 *Share-based Payment*. Therefore, the Board proposed replacing the term 'share-based payment award' in paragraph 30 of IFRS 3 (revised 2008) with 'share-based payment transaction'.

Analysis of comments received

8. The Board received 74 comment letters on the 2009 Annual Improvements of which 46 commented on the subject of this paper.

9. The comment letters breakdown as follows:

Yes:	33
Yes, but expressed concern:	13
No:	0
Total:	46

Staff analysis in response to the comments raised

Reponses to comments on proposal

Restructuring of paragraph B56

10. Some constituents[2] point out that if the final purpose of the amendment is to have the same accounting treatment for all share-based payment transactions of the acquiree that are replaced by the acquirer, then whether replacement is an obligation of the acquirer or is voluntary is irrelevant. They note that the proposed amendment to paragraph B56 still includes the guidance on how to determine when the acquirer is obliged to replace the share-based payment transactions of the acquiree. They then propose amending paragraph B56 of IFRS 3 (revised 2008) to delete this guidance.

11. In line with the analysis above, the staff agrees there is no longer need for guidance as to how to determine whether replacement is voluntary or mandatory, both situations leading to the same accounting treatment. However, the staff also notes that the wording is a joint wording with the wording used in (pre-codification) SFAS 141 *Business Combinations* and the guidance on how to determine whether replacement is voluntary or required may be useful in the context of expired awards. Therefore the staff proposes modifications to the proposed amendment with a view to simplify and clarify paragraph B56.

Paragraphs B62A and B62B address equity-settled transactions only

12. One constituent[3] suggests clarifying that allocation to the non-controlling interests (NCI) in paragraphs B62A and B62B only applies to equity-settled transactions. Cash-settled transactions would give rise to a liability, hence wouldn't be accounted for as a NCI.

[2] DTT CL 23, Mazars CL 51, KPMG CL 52
[3] KPMG CL 52

13. The staff agrees with this comment and recommends adding to the heading before paragraphs B62A and B62B the words “equity-settled” to qualify the nature of the share-based payment transactions of the acquiree addressed in these paragraphs.

Ratio used in measuring un-replaced share-based payment transactions that are unvested – consistency with guidance in paragraph B58

14. One constituent[4] notes that un-replaced share-based payment transactions that are unvested are measured, in proposed paragraph B62B, based on a different ratio than the ratio set out in paragraph B58 of IFRS 3 (revised 2008).

15. The difference lies in the denominator which is:

    (a) “the greater of the total vesting period or the original vesting period of the acquiree award” in paragraph B58 of IFRS 3 (revised 2008); compared with

    (b) “the total vesting period of the share-based payment transaction” in proposed paragraph B62B.

16. The staff notes that the total vesting period of un-replaced unvested share-based payment transactions of the acquiree could also be subject to changes as a result of the business combination. The measurement basis should reflect such changes accordingly. In this respect, the staff agrees that aligning the wording in paragraph B62B to that in paragraph B58 addresses the issue and improves consistency within the Application Guidance of IFRS 3 (revised 2008). The staff recommends the proposed amendment be modified accordingly.

Transition provisions

17. Some constituents point out the absence of clear application guidance on transition provisions in proposed paragraph 64A of IFRS 3 (revised 2008):

[4] KPMG CL 52

(a) some[5] would rather have this amendment apply prospectively to business combinations that occurred after the application of the amendment,

(b) others[6] would apply the amendment prospectively from the IFRS 3 (revised 2008) application date. In addition, to prevent entities from using hindsight when determining the market-based measure of NCI backwards, they would restrict restatement to cases where the market-based measure was determined at the time of the transaction.

18. The staff agrees with the latter argument and proposes a change to the amendment to clarify that the transition provisions apply from the date the entity first applied IFRS 3 (revised 2008).

Terminology

19. One constituent[7] suggest suggests ‘fair value’ be replaced with ‘market-based measure’ in proposed paragraph B62A to enhance consistency.

20. Another constituent[8] goes a step further and asks for consistency with the Fair Value Measurement exposure draft that refers to the ‘market-based value’.

21. The staff agrees that the use of the same terminology in both IFRS 2 and IFRS 3 (revised 2008) when referring to the result of the measurement method in IFRS 2 improves consistency across the standards.

22. However, the staff is concerned about including a notion in a standard that only currently appears in the Fair Value Measurement exposure draft before the publication of the final Fair Value Measurement standard.

23. The staff believes consequential amendments from the finalisation of the Fair Value Measurement standard will better address this issue on an exhaustive

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[5] GTI CL 26
[6] EY CL 47
[7] EY CL 47
[8] KPMG CL 52

basis across all IFRSs. The staff therefore does not propose a change to the amendment.

Additional issues raised

Request for guidance for modifications, rather than replacement, made to the share-based payment transactions of the acquiree

24. A constituent[9] suggests that the amendment clarify the treatment of un-replaced but modified share-based payment transactions of the acquiree. This constituent proposes amending paragraph B56 of IFRS 3 (revised 2008) to indicate that replacement and modification should follow the same accounting treatment. They also suggest amending newly proposed paragraph B62A to clarify that it does not apply to outstanding share-based payment transactions of the acquiree that are modified as a result of the business combination.

25. The staff believes that guidance already exists in IFRS 2 as to how to account for modifications of share-based payment transactions. The staff also notes that both IFRS 2 and paragraph B56 of IFRS 3 (revised 2008) are consistent on the accounting for modifications of share-based payment in a business combination.

26. Therefore the staff believes that adding wording to address modifications of share-based payment transactions is not necessary.

[9] PWC CL 32

Need for distinction between the accounting treatment for share-based payment transactions that expire as a result of the business combination and those that don't expire when replacement is voluntary

27. The staff presents below a table that summarises the accounting treatment for replaced share-based payment transactions of the acquiree as set out in the proposed amendment to paragraph B56.

	Expire	**Not expire**
Voluntary	Post-combination costs	Split between consideration paid and post-combination costs
Mandatory	Split between consideration paid and post-combination costs	Split between consideration paid and post-combination costs

28. One constituent[10] calls into question:

    (a) Why different accounting is required for voluntarily replaced awards depending on whether the share-based payment transactions expire or not as a result of the acquisition, and

    (b) Why voluntarily replaced share-based payment transactions that expire as a result of the acquisition are recognised as post-business combination costs only.

29. The staff believes the distinction between situations (a) and (b) is necessary as it addresses two different economic situations as described below.

30. In the staff's opinion voluntary replacement of share-based payments of the acquiree that <u>expire</u> as a result of the business combination is remuneration for future services. In such cases, the business combination triggers an early termination of the acquiree's share-based payment transaction which ends the remuneration for past services. What is observed is that the terms of the

[10] KPMG CL 52

replacement do not usually transfer the acquiree's obligations for past services received to the acquirer. At acquisition date, the market-based measure of the award that had previously been granted by the acquiree is zero because it has expired. As a consequence, the market-based measure of the new share-based payment transactions should be recognised as a post-combination expense only.

31. The staff notes from research performed that situations where the share-based payment transactions of the acquiree merely expire as a result of the acquisition are rare. Such situations would in most jurisdictions raise legal concern. What's commonly observed is that the acquiree would include a clause within the original share-based payment award to the employees to compensate them for any loss incurred in the event of early termination of the plan. Such compensation would then be an identifiable liability of the acquiree, hence part of the consideration transferred.

32. In other situations where share-based payments of the acquiree <u>do not expire</u> as a result of the business combination, some may still be voluntarily replaced. This may arise for example when the acquirer wishes to simplify the structure of share-based payments and to monitor them from the parent company level rather than from the subsidiary level. The staff then believes replacement relates both to:

    (a) past-services as a carry over from the former share-based payment transaction with the acquiree,

    (b) and future services.

33. Therefore, in these situations, the measurement of the voluntarily replaced share-based payments transactions should be split between consideration transferred and post-combinations expense.

34. The staff believes the proposed amendment, together with the modifications suggested in paragraphs 10 and 11 above, appropriately address the situations envisaged, hence recommends no further change be made to the proposed amendment in the standard itself.

35. However, the staff agrees it would be useful that the Basis for Conclusions related to paragraph B56 reflect the rationale for this distinction. The staff is of the opinion that such addition is in the nature of a Basis for Conclusions rather than of application guidance or standard as it merely provides the background for reaching the conclusion exposed in paragraph B56.

Measurement date of share-based payment transactions in a business combination – paragraph 30 of IFRS 3 (revised 2008)

36. One constituent[11] requests paragraph 30 of IFRS 3 (revised 2008) state that measurement of share-based payment transactions is at the acquisition date.

37. The staff agrees with this precision and recommends an addition be made to the proposed amendment.

Subsequent accounting treatment for un-replaced share-based payment transactions

38. One constituent[12] would welcome a clear linkage between measurement of NCI and of un-replaced share-based payment transactions. While they do not agree with the amendment on the measurement of NCI, they consider that in principle replaced and un-replaced share-based payment transactions of the acquiree should be treated in the same manner. They believe the two issues should be addressed together and paragraphs B57-B62 should not apply to un-replaced share-based payment transactions.

39. The staff notes that the amendment on the measurement of NCI was tentatively confirmed by the Board at its meeting in February 2010. Considering that un-replaced share-based payment transactions should follow the same accounting treatment as those that are replaced, the staff recommends no further changes be made to the proposed amendment.

40. The same constituent asks that subsequent measurement of un-replaced share-based payment transactions considered as NCI be addressed explicitly both

[11] DTT CL 23
[12] DTT CL 23

during and after the measurement period. In addition, they question how to account for reversals of expenses accounted for in accordance with IFRS 2. More specifically, could part of the reversal be treated as an adjustment to goodwill during the measurement period? An additional concern is how to account for reversals of expenses that occur beyond the measurement period.

41. The staff believes guidance already exists in this respect and refers to the principle set out in paragraph 45 of IFRS 3 (revised 2008):

> […] During the measurement period, the acquirer shall retrospectively adjust the provisional amounts recognised at the acquisition date *to reflect new information obtained about facts and circumstances that existed as of the acquisition date and, if known, would have affected the measurement of the amounts recognised as of that date.* (emphasis added).

42. In other words, there shouldn't be any adjustment against goodwill within the measurement period unless subsequent changes relate to specific facts and circumstances existing at acquisition date.

43. The staff is of the opinion that in practice changes to un-replaced share-based payment transactions would typically not give rise to adjustments to goodwill within the measurement period and would be accounted for in accordance with IFRS 2. Therefore the staff does not believe providing additional guidance is necessary.

Cases where the replacement value is lower than the original market-based measure allocated to pre-combination

44. One constituent[13] suggests the amendment address the case when the share-based payment transactions' market-based measure of the replacement award at acquisition date is lower than the value of the portion attributable to pre-combination service as calculated in accordance with paragraph B57 of IFRS 3 (revised 2008). They note that current guidance in IFRS 3 (paragraphs B56 and following) requires allocation of the market-based measure of the acquirer's

[13] EFRAG CL 49

award between consideration paid and post-combination cost. The portion allocated to consideration paid is the portion of the acquiree's awards' market-based measure attributable to pre-combination services while the acquirer attributes the excess of the market-based measure of the acquirer's awards to post-combination costs. However, it is unclear what happens if the market-based measure of the acquirer's awards is lower than the amount calculated in accordance with B57.

45. Outreach activities on this specific issue have lead to the general comment that such situations rarely arise in practice.

46. However, one case has been reported where the replaced share-based payment transactions of the acquiree are cash-settled - the amount of cash being fixed based on the transaction price, but not paid until the plan vests. In this case, some believe that the portion attributable to pre-combination services may be implicitly the lower of the portion calculated in accordance with paragraph B58 of IFRS 3 (revised 2008) and the market-based measure of the replacement plan.

47. The staff is concerned that this view might entail a below zero value for the portion that relates to post-combination services. Therefore, the staff is of the opinion that how to account for such situations - if they exist in practice and are widespread – is not currently addressed and that diversity could arise.

48. The staff understands that this issue was not originally discussed as part of the current proposed amendment. In addition, the staff believes it is an issue beyond the *Improvements to IFRSs*.

49. The staff also points out that the majority of comments received as part of its outreach activities state that situations such as those described above would rarely occur in practice.

50. In the light of the above comments, the staff asks the IFRIC whether they think that this issue be:

    (a) left not addressed because such situation is rare in practice, or

    (b) addressed either through the next *Improvements to IFRSs* or a standalone project.

51. The staff understands that the situation described in paragraph 44 of this paper is rare in practice. Therefore, the staff recommends the IFRIC not proceed with this issue.

52. If the IFRIC considers this issue needs be addressed the staff will provide a paper for the next IFRIC meeting in May investigating it further.

Question 1 – Replacement value lower than original market-based measure
Which of the two paths forward set out in paragraph 50 of this paper does the IFRIC believe should be followed, ie not address this issue, or address it either through the Annual Improvements Project or as a standalone project?

Staff recommendation

53. The staff recommends the proposed amendment be edited as suggested in Appendices A and B to include the following modifications:

    (a) To re-order and simplify the guidance in paragraph B56 of how to determine when an acquirer is obliged to replace share-based payment transactions of the acquiree,

    (b) To clarify in the heading to paragraphs B62A and B62B that their requirements only apply to equity-settled share-based payment transactions,

    (c) To replace ‘fair value’ with ‘market-based measure’,

    (d) To incorporate the same ratio in B62B as the one described in B58,

    (e) To clarify application of the transition provisions, and

(f) To reflect in the Basis for Conclusions the rationale for the distinction in accounting for replaced share-based payment transactions of the acquiree depending on whether they expire or not as a result of the business combination.

Questions to the IFRIC

Question 2 – Proposed changes
Does the IFRIC agree with the staff recommendation in paragraph 52?

Question 3 – Proposed wording
Does the IFRIC agree with the proposed changes set out in Appendices A and B? If not, what wording would the IFRIC suggest?

Appendix A – Proposed drafting of final amendment

A1. This appendix includes the proposed drafting of the final amendment. It is based on the text included in the Bound Volume as of 1 January 2009. New text is underlined and deleted text is struck through.

Amendments to IFRS 3 *Business Combinations* (as revised in 2008)

Paragraph 30 is amended and paragraph 64A is added.

The acquisition method

Exceptions to the recognition or measurement principles

Exceptions to the measurement principle

Share-based payment ~~awards~~ transactions

30 The acquirer shall measure a liability or an equity instrument related to share-based payment transactions of the acquiree or the replacement of an acquiree's share-based payment ~~awards~~ transactions with share-based payment ~~awards~~ transactions of the acquirer in accordance with the method in IFRS 2 *Share-based Payment* at the acquisition date. (This IFRS refers to the result of that method as the 'market-based measure' of the ~~award~~ share-based payment transaction.)

Effective date and transition

Effective date

64A *Improvements to IFRSs* issued in April 2010 amended paragraph 19, the heading before paragraph 30 and paragraphs 30 and B56 and added a new heading after paragraph B62 and paragraphs B62A, B62B. An entity shall apply those amendments for annual periods beginning on or after 1 July 2010. Earlier application is permitted. If an entity applies the amendments for an earlier period it shall disclose that fact. Application should be prospective from the date the entity first applied IFRS 3 (revised 2008).

Application guidance

In Appendix B, paragraph B56 is amended and a footnote to paragraph B56, a heading after paragraph B62 and paragraphs B62A and B62B are added.

Determining what is part of the business combination transaction (application of paragraphs 51 and 52)

Acquirer share-based payment awards exchanged for awards held by the acquiree's employees (application of paragraph 52(b))

B56 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 share-based payment awards in conjunction with a business combination are accounted for as modifications of share-based payment awards in accordance with IFRS 2 *Share-based Payment*. If the acquirer~~ is obliged to ~~replaces the acquiree awards, either all or a portion of the market-based measure of the acquirer's replacement awards shall be included in measuring the consideration transferred in the business combination~~.~~ Paragraphs B57-B62 of this Standard provide guidance as to how to allocate the market-based measure. ~~The acquirer is obliged to replace the acquiree awards if the acquiree or its employees have the ability to enforce replacement. For example, for the purposes of applying this requirement, the acquirer is obliged to replace the acquiree's awards if replacement is required by:~~

~~(a) the terms of the acquisition agreement;~~

~~(b) the terms of the acquiree's awards; or~~

~~(c) applicable laws or regulations.~~

However, i~~I~~n ~~some~~ situations~~,~~ in which acquiree awards ~~may~~ would expire as a consequence of a business combination and~~. I~~if the acquirer replaces those awards when ~~even though~~ it is not obliged to do so, all of the market-based measure of the replacement awards shall be recognised as remuneration cost in the post-combination financial statements in accordance with IFRS 2. That is to say, none of the market-based measure of those awards shall be included in measuring the consideration transferred in the business combination. The acquirer is obliged to replace the acquiree awards if the acquiree or its employees have the ability to enforce replacement. For example, for the purposes of applying this guidance, the acquirer is obliged to replace the acquiree's awards if replacement is required by:

(a) the terms of the acquisition agreement;

(b) the terms of the acquiree's awards; or

(c) applicable laws or regulations.

Equity-settled share-based payment transactions of the acquiree

B62A The acquiree may have outstanding share-based payment transactions that the acquirer does not exchange for its share-based payment transactions. If vested, those acquiree share-based payment transactions are part of the non-controlling interest in the acquiree and are measured at their market-based measure. If unvested, they are measured at their market-based measure as if the acquisition date were the grant date in accordance with paragraphs 19 and 30.

[*] In paragraphs B56–B62 the term 'share-based payment awards' refers to vested or unvested share-based payment transactions.

B62B The market-based measure of unvested share-based payment transactions is allocated to the non-controlling interest on the basis of the ratio of the portion of the vesting period completed to the greater of the total vesting period or the original vesting period of the share-based payment transaction. The balance is allocated to post-combination service.

Basis for Conclusions on amendments to IFRS 3 *Business Combinations* (as revised in 2008)

This Basis for Conclusions accompanies, but is not part of, the amendments.

In the Basis for Conclusions, a heading after paragraph BC311 and paragraphs BC311A and BC311B are added.

Un-replaced and voluntarily replaced share-based payment transactions

BC311A After the revised IFRS was issued, some constituents raised concerns about the lack of explicit guidance with respect to share-based payment transactions of the acquiree that the acquirer chooses to replace, even though they either are unaffected by the business combination or for which vesting is accelerated as a consequence of the business combination. In addition, some constituents were concerned that the measurement guidance for share-based payment transactions applies only to replacement awards but not to acquiree awards that the acquirer chooses not to replace. In response to those concerns, the Board added explicit guidance in paragraphs B56 and B62A to clarify that those awards should be accounted for in the same way as acquiree awards that the acquirer is obliged to replace.

BC311B Employee share-based payment awards might expire in the event of a business combination. When this occurs, the acquirer may choose to voluntarily grant a new award to those employees. The new award granted in such circumstances can only be for future services, because the acquirer has no obligation to the employee in respect of past services that they provided to the acquiree. Accordingly paragraph B56 of the standard requires that the whole of the market-based value of the new award is accounted for as a post-combination expense, which is recognised in accordance with IFRS 2. This accounting treatment is different from that required in circumstances when the employee share-based payment award does not expire in the event of a business combination. When an unexpired award is replaced by the acquirer, part of the market-based value of the replacement award reflects the acquiree's obligation that remains outstanding at the date of the business combination, and is accounted for as part of the consideration transferred in the business combination. The balance of the market-based value of the replacement award is accounted for as a post-combination expense for the services to be received over the period to when the replacement award vests, in accordance with IFRS 2. The accounting for the replacement of unexpired awards is the same for awards that are replaced voluntarily by the acquirer and those that the acquirer is obliged to replace because the substance is the same in both circumstances.

Appendix B – Proposed drafting edits from Exposure Draft

B1. This appendix includes the proposed drafting edits from the proposed amendment included in the exposure draft of proposed Improvements to IFRSs published in August 2009. This appendix presumes all changes proposed in the exposure draft were accepted and only shows incremental changes newly recommended by the staff based on an analysis of the comment letters received. Incremental new text is double underlined and incremental deleted text is double struck through.

Amendments to IFRS 3 *Business Combinations* (as revised in 2008)

Paragraph 30 is amended and paragraph 64A is added.

The acquisition method

Exceptions to the recognition or measurement principles

Exceptions to the measurement principle

Share-based payment transactions

30 The acquirer shall measure a liability or an equity instrument related to share-based payment transactions of the acquiree or the replacement of an acquiree's share-based payment transactions with share-based payment transactions of the acquirer in accordance with the method in IFRS 2 *Share-based Payment* at the acquisition date. (This IFRS refers to the result of that method as the 'market-based measure' of the share-based payment transaction.)

Effective date and transition

Effective date

64A *Improvements to IFRSs* issued in April 2010 amended paragraph 19, ~~the heading before paragraph 30 and~~ paragraphs 30, ~~and~~ B56, B62A, and B62B ~~and added a new heading after paragraph B62 and paragraphs B62A, B62B, C3A, C7A and C13A~~. An entity shall apply those amendments for annual periods beginning on or after 1 July 2010. Earlier application is permitted. If an entity applies the amendments for an earlier period it shall disclose that fact. Application should be prospective from the date the entity first applied IFRS 3 (revised 2008).

Application guidance

In Appendix B, paragraph B56 is amended and a footnote to paragraph B56, a heading after paragraph B62 and paragraphs B62A and B62B are added.

Determining what is part of the business combination transaction (application of paragraphs 51 and 52)

Acquirer share-based payment awards exchanged for awards held by the acquiree's employees (application of paragraph 52(b))

B56 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 share-based payment awards in conjunction with a business combination are accounted for as modifications of share-based payment awards in accordance with IFRS 2 *Share-based Payment*. If the acquirer ~~is obliged to~~ replaces the acquiree awards, either all or a portion of the market-based measure of the acquirer's replacement awards shall be included in measuring the consideration transferred in the business combination. Paragraphs B57-B62 of this Standard provide guidance as to how to allocate the market-based measure. ~~The acquirer is obliged to replace the acquiree awards if the acquiree or its employees have the ability to enforce replacement. For example, for the purposes of applying this requirement, the acquirer is obliged to replace the acquiree's awards if replacement is required by:~~

~~(a) the terms of the acquisition agreement;~~

~~(b) the terms of the acquiree's awards; or~~

~~(c) applicable laws or regulations.~~

~~The acquirer shall apply the principles in paragraphs B57–B62 in accounting for acquiree awards it chooses to replace in a business combination as well as those it is obliged to replace.~~ However, in ~~some~~ situations~~,~~ in which acquiree awards ~~may~~ would expire as a consequence of a business combination and~~. I~~if the acquirer replaces those awards when ~~even though~~ it is not obliged to do so, all of the market-based measure of the replacement awards shall be recognised as remuneration cost in the post-combination financial statements in accordance with IFRS 2. That is to say, none of the market-based measure of those awards shall be included in measuring the consideration transferred in the business combination. The acquirer is obliged to replace the acquiree awards if the acquiree or its employees have the ability to enforce replacement. For example, for the purposes of applying this guidance, the acquirer is obliged to replace the acquiree's awards if replacement is required by:

(a) the terms of the acquisition agreement;

(b) the terms of the acquiree's awards; or

(c) applicable laws or regulations.

Equity-settled s~~S~~hare-based payment transactions of the acquiree

B62A The acquiree may have outstanding share-based payment transactions that the acquirer does not exchange for its share-based payment transactions. If vested, those acquiree share-based payment transactions are part of the non-controlling interest in the acquiree and are measured at their ~~fair~~

* In paragraphs B56–B62~~B~~ the term 'share-based payment awards' refers to vested or unvested share-based payment transactions.

~~value~~ market-based measure. If unvested, they are measured at their market-based measure as if the acquisition date were the grant date in accordance with paragraphs 19 and 30.

B62B The market-based measure of unvested share-based payment transactions is allocated to the non-controlling interest on the basis of the ratio of the portion of the vesting period completed to the greater of the total vesting period or the original vesting period of the share-based payment transaction. The balance is allocated to post-combination service.

Basis for Conclusions on ~~proposed~~ amendments to IFRS 3 Business Combinations (as revised in 2008)

This Basis for Conclusions accompanies, but is not part of, the ~~proposed~~ amendments.

Un-replaced and voluntarily replaced share-based payment ~~awards~~ transactions

BC311A After the revised IFRS was issued, some constituents raised concerns about the lack of explicit guidance with respect to share-based payment ~~awards~~ transactions of the acquiree that the acquirer chooses to replace, even though they either are unaffected by the business combination or for which vesting is accelerated as a consequence of the business combination. In addition, some constituents were concerned that the measurement guidance for share-based payment ~~awards~~ transactions applies only to replacement awards but not to acquiree awards that the acquirer chooses not to replace. In response to those concerns, the Board ~~proposes to~~ added explicit guidance in paragraphs B56 and B62A to clarify that those awards should be accounted for in the same way as acquiree awards that the acquirer is obliged to replace.

BC311B Employee share-based payment awards might expire in the event of a business combination. When this occurs, the acquirer may choose to voluntarily grant a new award to those employees. The new award granted in such circumstances can only be for future services, because the acquirer has no obligation to the employee in respect of past services that they provided to the acquiree. Accordingly paragraph B56 of the standard requires that the whole of the market-based value of the new award is accounted for as a post-combination expense, which is recognised in accordance with IFRS 2. This accounting treatment is different from that required in circumstances when the employee share-based payment award does not expire in the event of a business combination. When an unexpired award is replaced by the acquirer, part of the market-based value of the replacement award reflects the acquiree's obligation that remains outstanding at the date of the business combination, and is accounted for as part of the consideration transferred in the business combination. The balance of the market-based value of the replacement award is accounted for as a post-combination expense for the services to be received over the period to when the replacement award vests, in accordance with IFRS 2. The accounting for the replacement of unexpired awards is the same for awards that are replaced voluntarily by the acquirer and those that the acquirer is obliged to replace because the substance is the same in both circumstances.