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International Accounting Standards Board

INFORMATION FOR OBSERVERS

Board Meeting: **22 March 2007, London**

Project: **Earnings Per Share**

Topic: **Scoping issues**
(Agenda Paper 11A)

PURPOSE OF THIS MEMORANDUM

1. The staff has identified a handful of scoping issues and potential agenda items that it believes need to be addressed by the two Boards to achieve convergence. The majority of these scoping issues and potential agenda items revolve around the use of the two-class method. The staff has separated the two-class issues into separate categories. The first category addresses the definition of a *participating security* and, therefore, the instruments that should apply the two-class method. The second category addresses the computation of EPS using the two-class method (i.e., the "How-To"). The third category addresses whether mandatorily convertible instruments should be included in basic EPS using the two-class method. Apart from the issues surrounding the use of the two-class method, there are two separate EPS issues that the staff has addressed in this memo individually. The first is a question on contingently convertible instruments. The second is a

question on the inclusion of options and warrants with a nominal exercise price in the computation of basic EPS.

TWO-CLASS METHOD ISSUES

Definition of a Participating Security

2. Statement 128 and IAS 33 contain similar language regarding the use of the two-class method (in paragraphs 60–61 of Statement 128 and paragraphs A13–A14 of IAS 33), and U.S. GAAP has several projects (final, in-process, and potential) that more specifically define a participating security and, therefore, the instruments that should apply the two-class method. These projects include Issue 03-6, proposed FSP EITF 03-6-a, and a question clarifying the definition of a participating security to forward contracts.

Issue 2 of Issue 03-6

3. Issue 03-6 was ratified by the FASB at the March 31, 2004 Board meeting and was effective for fiscal periods beginning after the date of Board ratification. Of the eight issues included in that EITF consensus, Issue 2 addresses the definition of a participating security. Issue 2 of Issue 03-6 states that "…a participating security is a security that may participate in undistributed earnings with common stock, whether that participation is conditioned upon the occurrence of a specified event or not." Further, Issues 2(a) and 2(b)(i) address whether the definition of a participating security should be applied to potential common shares (such as options, warrants, or other contracts to issue common stock), convertible instruments, and forward contracts.

Proposed FSP EITF 03-6-a

4. This proposed FSP was issued on October 20, 2006. The comment period on the proposed FSP has closed and the staff is in the process of analyzing the comment letters received from respondents. While Issue 2(a) of Issue 03-6 addresses whether the definition of a participating security should be applied to potential common shares (including options), it fails to address whether the definition of a participating security applied to a share-based payment award prior to vesting.

Therefore, the proposed FSP intends to clarify whether a share-based payment award is considered a participating security prior to vesting.

Clarification of the Definition of Participating Securities to Forward Contracts

5. Lastly, the staff has been asked a question related to the application of the two-class method to forward contracts. In short, the question is whether a forward contract that reduces the contract price for expected—not actual—dividends meets the definition of a participating security and, therefore, should be included in basic EPS using the two-class method. The contract holder also has the ability to terminate the contract (and physically or net-share-settle at the then-fair value) in the event that the actual dividends are higher than expected dividends. The staff's initial thoughts were to include these instruments in the definition of a participating security and, therefore, include these instruments in basic EPS using the two-class method pursuant to Issue 2(b)(i) of Issue 03-6. The staff had reached that conclusion because the forward contract holder appears *dividend protected* from any reduction in value of the forward contract as a result of dividend distributions. However, in the process of developing its thoughts, the staff became aware of the views of the Big Four Firms regarding this contract structure as well as similar structures in which the firms had concluded that the instruments were not participating securities.

6. Having considered these structures, the staff began to debate what constitutes a participation feature and, therefore, requires the application of the two-class method. One view that the staff has considered (View A) would limit the definition of a participating security only to situations in which an instrument holder receives cash if current-period earnings are distributed. Alternatively, a second view (View B) would include any instruments that are dividend protected, whether that protection is in the form of a cash distribution or a reduction in the contract price (e.g., the forward contract price) as participating securities. As of the drafting of this memo, the staff has not reached final agreement on the resolution of this issue other than the recommendation below on whether to include this issue as part of the convergence project.

Staff Recommendation

7. The common theme of all of these projects or potential projects is that they attempt to more specifically define a participating security and therefore the instruments that apply the two-class method. With respect to Issue 2 of Issue 03-6 and proposed FSP EITF 03-6-a, the staff considered whether FASB's decision to provide more detailed guidance regarding the definition of a participating security creates a difference between U.S. GAAP and IFRS. The staff believes these projects simply articulate whether certain instruments meet the definition of a participating security and does not believe that these projects create a difference between the principles of applying the two-class method under U.S. GAAP and IFRS. That is, the staff believes the conclusions reached in Issue 2 of Issue 03-6 and proposed FSP EITF 03-6-a are at least one acceptable conclusion under the definition of a participating security in IAS 33. Therefore, the staff recommends making no changes to Statement 128 or IAS 33 for the guidance included in each of these projects regarding the definition of a participating security. The determination of whether the IASB (or IFRIC) would like to respond in some manner, such as adding a project (or projects) to its agenda to provide similar detailed guidance on the definition of a participating security is something that the IASB (or IFRIC) must decide on its own.

8. With respect to the potential project on clarifying the definition of a participating security to a forward contract, the staff does not believe that issue should be resolved as part of the convergence efforts. That is, the staff believes the resolution of that issue could more broadly redefine a participating security and, therefore, the instruments that apply the two-class method. The staff believes a broad redefinition of a participating security is not within the scope of the FASB's and the IASB's convergence efforts, but rather represents a potential improvement to the computation of EPS. The staff does not recommend that the Boards attempt to redefine participating securities as part of the convergence efforts.

Issue 1(a): Do the Boards agree with the staff recommendation that Issue 2 of Issue 03-6 and proposed FSP EITF 03-6-a simply articulate whether certain instruments meet the definition of a participating security under U.S. GAAP and

do not create a difference between the principles of applying the two-class method under U.S. GAAP and IFRS?

Issue 1(b): Do the Boards agree with the staff recommendation that they should not attempt to redefine participating securities as part of the convergence efforts?

Computation of EPS Using the Two-Class Method

9. In addition to the projects and potential projects to define a participating security there are also a number of projects and potential projects that provide or could provide guidance on the computation of EPS using the two-class method (i.e., the "How-To"). Those projects include Issues 3–8 of Issue 03-6, proposed FSP FAS 128-a, and an EITF agenda request on the application of the two-class method to master limited partnerships.

Issues 3–8 of Issue 03-6

10. As discussed earlier, Issues 2, 2(a), and 2(b)(i) of Issue 03-6 address the definition of a participating security and, therefore, the instruments that should apply the two-class method. The remaining issues (Issues 3–8) either have been discontinued (Issue 6) or address the computation of EPS for participating securities. Those issues include (a) how undistributed earnings should be allocated to a participating security, (b) how undistributed earnings should be allocated to participating securities in periods of a net loss, and (c) how a convertible participating security is included in the computation of basic and diluted EPS.

11. Of specific note, some may view the consensus in Issue 7 of Issue 03-6 as amending the requirement in paragraph 61 of Statement 128 and paragraph A14 of IAS 33. That is, absent the guidance in Issue 7 of Issue 03-6 some may view Statement 128 and IAS 33 as requiring the use of the if-converted method for instruments that are convertible into common stock and the two-class method for those instruments that are not convertible into common stock. Paragraph 61 of Statement 128 states that "the if-converted method shall be used for those securities that are convertible into common stock if the effect is dilutive. For those

securities that are not convertible into a class of common stock, the ‘two class’ method of computing earnings per share shall be used.” Paragraph A14 of IAS 33 states that “for those instruments that are not convertible into a class of ordinary shares, profit or loss for the period is allocated to the different classes of shares and participating equity instruments in accordance with their dividend rights or other rights to participate in undistributed earnings.”

Proposed FSP FAS 128-a

12. This proposed FSP was issued on January 26, 2007. The comment period is 60 days and will lapse in late March 2007. The proposed FSP provides computational guidance for diluted EPS when applying the two-class method. Specifically, it provides four scenarios in which an entity’s capital structure includes common stock, participating securities, and potential common stock. Underlying those scenarios is the principle that if the participating security also is a potential common share, then diluted EPS should be computed as the most dilutive of (a) the two-class method or (b) the treasury stock or if-converted methods.

Application of the Two-Class Method to Master Limited Partnerships

13. Publicly traded master limited partnerships often issue multiple classes of securities, each of which may participate in partnership distributions according to a formula specified in the partnership agreement. An investor's participation in the partnership's distributions often does not mirror the partnership's allocation of the entity's income or losses to the investor's capital accounts. In addition, distributions from the partnership often encompass returns on capital and returns of capital, as well as reallocations of capital between the different classes of investors. The staff has been asked how current-period earnings should be allocated to the partnership interests when applying the two-class method.

Staff Recommendation

14. The staff considered whether the FASB’s decision to provide more detailed guidance regarding the computation of EPS using the two-class method creates a difference between U.S. GAAP and IFRS. The staff believes (a) Issues 3–6 and

Issue 8 of Issue 03-6 and (b) the potential project on the application of the two-class method to master limited partnerships simply provide computational guidance for the application of the two-class method and does not believe these projects or potential projects create a difference between the principles of applying the two-class method under U.S. GAAP and IFRS. That is, the staff believes the conclusions reached in these projects are at least one acceptable conclusion for the computation of two-class method under IAS 33. Therefore, the staff recommends making no changes to Statement 128 or IAS 33 for the guidance included in each of these projects regarding the computation of EPS following the two-class method. The determination of whether the IASB (or IFRIC) would like to respond in some manner, such as adding a project (or projects) to its agenda to provide similar detailed guidance on the computation of EPS using the two-class method is something that the IASB (or IFRIC) must decide on its own.

15. With respect to Issue 7 of Issue 03-6, the staff believes one could view the consensus included therein as amending paragraph 61 of Statement 128. Additionally, the staff believes the principle of the two-class method is that it should be applied to all instruments that have the ability to participate in current-period earnings with common shareholders. Therefore, the staff agrees with the consensus reached in Issue 7 of Issue 03-6 that the two-class method is the only acceptable method for computing basic EPS for instruments (whether those instruments are convertible into common shares or not) that participate in earnings with the common shareholders. Therefore, the staff recommends amending paragraph 61 of Statement 128 and paragraph A14 of IAS 33 to essentially codify the consensus in Issue 7 of Issue 03-6. The staff believes this amendment will clarify the computation of basic and diluted EPS related to convertible participating securities and remove any questions that may arise regarding convergence on this matter.

16. Regarding proposed FSP FAS 128-a, the staff believes Statement 128 and IAS 33 are unclear on how to compute diluted EPS under a two-class method. Therefore, the staff believes the proposed FSP provides needed guidance on the computation of diluted EPS under a two-class method. Since the guidance in the proposed FSP is intended to (a) articulate the method for computing diluted EPS under the two-

class method and (b) provide a handful of examples applying the method included therein, the staff would recommend the Boards consider codifying the requirements of the proposed FSP as part of the convergence project. That is, the staff recommends not finalizing the proposed FSP and incorporating the guidance and its examples (included in the appendix of the proposed FSP) in the amendments to Statement 128 and IAS 33 as part of the convergence project. The staff would discuss any comments received on the proposed FSP with the Boards as part of the redeliberations of the convergence project. The staff does not believe that codification would require any more work on the part of the two Boards, but would reduce the amount of EPS guidance on the two-class method for all constituents.

Issue 2(a): Do the Boards agree with the staff recommendation that (a) Issues 3–6 and Issue 8 of Issue 03-6 and (b) the potential project on the application of the two-class method to master limited partnerships do not create (nor would they likely create) a difference between the principles of applying the two-class method under U.S. GAAP and IFRS?

Issue 2(b): Do the Boards agree with the staff recommendation to amend paragraph 61 of Statement 128 and paragraph A14 of IAS 33 to codify the requirement in Issue 7 of Issue 03-6?

Issue 2(c): Do the Boards agree with the staff recommendation to amend Statement 128 and IAS 33 to codify the guidance included in proposed FSP FAS 128-a for the computation of diluted EPS using the two-class method and the examples included therein?

Mandatorily Convertible Instruments

Computation of Basic EPS

17. As a result of the previous convergence efforts, a debate has formed around the inclusion of mandatorily convertible instruments in the computation of basic EPS. Paragraph 23 of IAS 33 currently requires all mandatorily convertible instruments to be included in the computation of basic EPS, though it does not prescribe the method to be used. Statement 128 does not have a current requirement to include mandatorily convertible instruments in basic EPS. However, in the FASB's most recent Exposure Draft on earnings per share, the FASB proposed to include these instruments in basic EPS from the date that future conversion becomes mandatory (the date the instrument first meets the definition of a mandatorily convertible instrument) using the if-converted method. As part of the comment letter analysis and redeliberations of this project, the staff recommended using the two-class method rather than the if-converted method.

18. The staff recommendation (discussed as part of the redeliberations process) to include mandatorily convertible instruments in basic EPS using the two-class method was based on the notion that the staff believed allocating (a) interest or dividends received by the holders of the mandatorily convertible instrument solely to those instrument holders and (b) the undistributed earnings to the mandatorily convertible instrument holders and the common shareholders based on their stated participation rights is a more faithful representation of basic EPS than assuming that a mandatorily convertible instrument will participate in undistributed earnings on the same basis as a common shareholder. Said differently, the staff believed the passage of time mattered and a mandatorily convertible instrument only should be included in basic EPS if it was currently convertible into common shares or participated in current-period earnings with common shareholders.

19. However, based on discussions with constituents and in the process of preparing example calculations of this recommendation, the staff reconsidered, in part, its prior recommendation. The staff realized that allocating the interest or dividends received by the holder of the mandatorily convertible instruments solely to those instruments holders' (a) requires the starting point for the computation of basic

EPS (using the two-class method) to be net income before interest expense or preferential dividends to mandatorily convertible instruments and (b) would implicitly conclude that all instruments (not just mandatorily convertible instruments) with a contractual return (e.g., debt instruments or preferred equity) are participating securities. That is, if the Boards were to conclude that the contractual returns to be received on an instrument are themselves a participation feature, that would include significantly more instruments into the definition of a participating security (and therefore the computation of the two-class method) than are included today.

20. As a result, the staff has revised its prior recommendation about mandatorily convertible instruments. If the mandatorily convertible instrument holders would receive additional consideration (above their otherwise contractual return) solely as a result of distributions made to common shareholders, then and only then would the instrument be considered a participating security and, therefore, included in basic EPS using the two-class method. In contrast, if the mandatorily convertible instrument would not receive additional consideration as a result of distributions made to common shareholders, then the mandatorily convertible instrument is NOT considered a participating security and would NOT be included in basic EPS using the two-class method.

21. Alternatively, if the mandatorily convertible instruments are currently convertible and could become common shares at little or not cost to the holder, the staff would include in basic EPS the gross shares that would be issued upon conversion as though the instrument represents, in substance, current common shares. If the mandatorily convertible instrument is NOT currently convertible and does not participate in current-period earnings (as discussed in paragraph 20 above), then the mandatorily convertible instrument would not be included in basic EPS as in-substance common shares or as a participating security. The staff believes this revised recommendation is consistent with its perception of the objective of basic EPS to reflect the allocation of current-period earnings to those instrument holders who have a present substantive claim to those earnings. That objective only would include the following instruments in the computation of basic EPS: (a) current common shares, (b) instruments that are currently exercisable or

convertible into common share for little or no cost to the holder of the instrument, and (c) instruments that can presently participate in earnings with common shareholders (included in basic EPS using the two-class method.) The staff elaborates on this objective in paragraphs 27–32 of this memo in the discussion of options or warrants with a nominal exercise price.

Computation of Diluted EPS

22. In computing diluted EPS, if the mandatorily convertible instrument is considered a participating security, the staff believes an entity would determine the more dilutive effect of applying the two-class method or the if-converted method (consistent with the guidance in proposed FSP FAS 128-a). If the mandatorily convertible instrument is not considered a participating security, then the entity would use the if-converted method in arriving at diluted EPS.

23. To illustrate, consider a simple example in which an entity has 100 mandatorily convertible instruments outstanding (convertible into 100 common shares) that received $50 of interest for the period (tax effects have been ignored). The mandatorily convertible instrument holders receive special interest payments in the event the common shareholders receive a dividend. For each $.75 distributed to the common shareholders in the form of a dividend, the mandatorily convertible instrument holders receive $.25 as a special interest distribution. Assume the entity has 400 weighted-average common shares outstanding and earnings available of $1,000 for the period. Under the if-converted method, the entity would report basic EPS of $2.10 per share [($1,000 earnings + $50 interest) ÷ (100 shares issuable upon conversion + 400 weighted-average shares)] implying that the mandatorily convertible instrument holders share in undistributed earnings dollar-for-dollar with the common shareholders. Under the two-class method basic EPS would be reported as follows:

Example

Basic Earnings per Share:

Net income		$1,000
Less: Dividends paid		
Common	$0	
Mandatorily convertible	0	
		0
Undistributed earnings		$1,000

Allocation of undistributed earnings:

To mandatorily convertible:
.25(100) ÷ [.25(100) + .75(400)] × $1,000 = $77
$77 ÷ 100 instruments = $.77 per instrument

To common:
.75(400) ÷ [.25(100) + .75(400)] × $1,000 = $923
$923 ÷ 400 shares = $2.31 per share

Basic EPS amounts:

	Mandatorily Convertible	Common
Distributed earnings	$0.00	$0.00
Undistributed earnings	0.77	2.31
Totals	$0.77	$2.31

In the computation of diluted EPS, the entity would determine the more dilutive effect of the two-class or if-converted method, factoring in a potential reallocation of earnings under the diluted two-class method for the assumed conversion or exercise of other potential common shares.

Staff Recommendation

24. The staff believes the use of the two-class method more faithfully represents a mandatorily convertible instrument holder's claim on current-period earnings during the period from the date of issuance through the date of mandatory conversion. The staff believes using the if-converted method gives an inaccurate depiction that in all cases a mandatorily convertible instrument holder has the same claim to current-period earnings as a common shareholder even if the instrument holder has clearly stated rights that differ from common shareholders.

Therefore, the staff recommends amending Statement 128 and IAS 33 to explicitly require the use of the two-class method in computing basic EPS for mandatorily convertible instruments that are participating securities (that is, for those instruments that have a right to receive additional consideration solely as a result of distributions to common shareholders). For those mandatorily convertible instruments that are not participating securities, the staff recommends NOT including those instruments in the computation of basic EPS unless they are currently convertible and could become common shares at little or no cost to the holder of the instrument (see paragraphs 27–32 of this memo for further discussion). The staff notes that the requirement to use the two-class method for mandatorily convertible instruments with stated participation rights may not be a change in current practice. That is, based on discussions with a handful of constituents, the staff believes entities may have concluded to use the two-class method for mandatorily convertible securities with a stated participation right based on the consensuses in Issue 03-6.

Issue 3: Do the Boards agree that Statement 128 and IAS 33 should be amended to explicitly require the use of the two-class method in computing basic EPS for mandatorily convertible instruments that have a stated participation right and to exclude those instruments from the computation of basic EPS that do not have a stated participation right?

CONTINGENTLY CONVERTIBLE INSTRUMENTS

25. Issue 04-8 was ratified by the FASB at the October 13, 2004 Board meeting and was effective for reporting periods ending after December 15, 2004. The Issue addresses when contingently convertible instruments (i.e., instruments with a market price feature that triggers the ability of the instrument to be converted) should be included in diluted EPS. The Task Force reached a consensus that contingently convertible instruments should be included in diluted EPS for all periods in which the instrument is outstanding, in the same manner as a conventional convertible instrument (i.e., using the if-converted method) regardless of whether the market price trigger has been met. The staff notes that IFRS contains no guidance that specifically addresses the issue of contingently convertible instruments in the computation of diluted EPS.

Staff Recommendation

26. The staff has considered whether the EITF's consensus that contingently convertible instruments should be included in the computation of diluted EPS using the if-converted method (i.e., following the same method as a conventional convertible instrument) creates a difference between U.S. GAAP and IFRS. The staff does not believe this EITF consensus changed the principle of including convertible instruments in the computation of diluted EPS. Rather, the staff believes the consensus clarifies that the EPS guidance related to convertible instruments should be followed for contingently convertible instruments as opposed to the guidance related to contingently issuable shares. The staff believes the conclusion reached in this EITF consensus is at least one acceptable conclusion for the computation of diluted EPS under IAS 33. Therefore, the staff does not believe any changes are required to Statement 128 or IAS 33 to achieve convergence. The determination of whether the IASB (or IFRIC) would like to respond in some manner, such as adding a project to its agenda to provide similar guidance on contingently convertible instruments is something that the IASB (or IFRIC) must decide on its own.

Issue 4(a): Do the Boards agree that Issue 04-8 does not create a conflict between U.S. GAAP and IFRS for contingently convertible instruments in the computation of diluted EPS?

Issue 4(b): Do the Boards agree that no changes are required to Statement 128 or IAS 33 to achieve convergence on the inclusion of contingently convertible instruments in the computation of diluted EPS?

STOCK OPTIONS AND WARRANTS WITH NOMINAL EXERCISE PRICE

27. Companies issue stock options and warrants with very low exercise prices (i.e., nominal exercise prices) for a variety of reasons. Companies may issue options or warrants that are significantly *in-the-money* as a way of rewarding employees or as a method of payment to third parties for services or products. Deep in-the-money warrants may be issued instead of shares for tax purposes or to impact the voting rights of the holders.

28. Regardless of the reasons for issuing options or warrants with a nominal exercise price, a question has arisen about the application of paragraph 10 of Statement 128 in the determination of basic EPS when an entity has stock options and warrants with nominal exercise prices. That is, should an option or warrant with a nominal exercise price be included in the computation of basic EPS as though it was an outstanding share? Paragraph 10 of Statement 128 states that "shares issuable for little or no cash consideration upon the satisfaction of certain conditions (contingently issuable shares) shall be considered outstanding common shares and included in the computation of basic EPS as of the date that all necessary conditions have been satisfied (in essence, when issuance of the shares is no longer contingent)." Further, illustration 3 of Statement 128 provides an example computation of basic and diluted EPS for contingently issuable shares.

29. Additionally, paragraph 52 of IAS 33 states that "**as in the calculation of basic earnings per share, contingently issuable ordinary shares are treated as outstanding** and included in the calculation of diluted earnings per share if the

conditions are satisfied (ie the events have occurred)" (emphasis added). Further, the staff notes that Statement 128 (in Appendix E) and IAS 33 (in paragraph 5) provide similar definitions of contingently issuable shares.

30. The staff believes this issue is similar to the issue for including mandatorily convertible instruments in basic EPS. That is, the staff believes this is a question of whether the mere passage of time matters in the computation of basic EPS. The staff believes it does, in that the staff believes the only instruments that should be included in basic EPS are (a) current common shares, (b) instruments that are currently exercisable or convertible into common shares for little or no cost to the holder of the instrument, and (c) instruments that can presently participate in earnings with common shareholders (included in basic EPS using the two-class method.) The staff believes that including instruments in basic EPS that are not current shares or have the present ability to become current shares (i.e., currently exercisable or convertible) gives an inaccurate depiction that in all cases these instruments have the same claim to current-period earnings as a common shareholder even if the instrument holder has clearly stated participation rights (e.g., dividend or interest rights) that differ from common shareholders.

31. Consider, for example, an option or warrant that is issued with a little or no exercise price that will be earned upon the achievement of a certain performance target. The option or warrant will not become exercisable until the end of the year, but the contingency can be met (and therefore the award can be earned) any time during the year. If the contingency is met in the first quarter of the year, should those shares be included in basic EPS in the subsequent quarters (assuming the entity files quarterly information) as though they are currently outstanding shares? The staff believes the answer to that question is no because those instruments do not have the present ability to (a) become common shares (because they are not exercisable until the end of the year) or (b) participate in current-period earnings with common shareholders.

Staff Recommendation

32. While the staff believes the objective set forth in paragraph 31 above (i.e., the mere passage of time does matter in the computation of basic EPS) is a change to the currently converged guidance in Statement 128 and IAS 33, the staff believes this change needs to be made to achieve consistency with the conclusion on mandatorily convertible instruments. Therefore, the staff recommends amending Statement 128 (including Illustration 3) and IAS 33 to include options and warrants with nominal exercise prices in the computation of basic EPS if either of the following conditions are met: (a) the instruments are currently exercisable or convertible into common shares for little or no cost to the holder of the instrument or (b) the instruments can presently participate in earnings with common shareholders (included in basic EPS using the two-class method).

Issue 5(a): Do the Boards agree with the staff recommendation that an instrument holder's ability to become a common shareholder currently (i.e., the passage of time) matters in the computation of basic EPS?

Issue 5(b): Do the Boards agree with the staff recommendation that this change to Statement 128 and IAS 33 is needed to achieve consistency with the conclusion on mandatorily convertible instruments?

Issue 5(b): Do the Boards agree that Statement 128 and IAS 33 should be amended to articulate the objective of basic EPS to include (a) current common shares, (b) instruments that are currently exercisable or convertible into common shares for little or no cost to the holder of the instrument, and (c) instruments that can presently participate in earnings with common shareholders (included in basic EPS using the two-class method) so as to reflect the allocation of current-period earnings to those instrument holders who have a present substantive claim to those earnings? Therefore, options or warrants with nominal exercise prices should be included in the computation of basic EPS if either of the following conditions are met: (a) the instruments are currently exercisable or convertible into common shares for little or no cost to the holder of the instrument, or (c) the instruments can presently participate in earnings with common shareholders (included in basic EPS using the two-class method).