Project **Earnings per Share**

Topic **Overview of the proposed amendments in the ED**

Please note: This agenda paper summarises the proposed amendments in the ED. You do not need to read the agenda paper if you are familiar with the proposals.

1. IAS 33 sets out principles for determining the denominator (the weighted average number of shares of the parent entity outstanding for the period) and the numerator (profit or loss attributable to ordinary equity holders) in EPS calculations.

Basic EPS

2. An entity calculates basic EPS by dividing profit or loss attributable to ordinary equity holders of the parent entity (the numerator) by the weighted average number of ordinary shares outstanding during the period (the denominator).

3. The ED proposes introducing a principle that the denominator of basic EPS includes all instruments that give their holder the right to share currently in profit or loss of the period with ordinary equity holders.

4. As a consequence of this new principle, mandatorily convertible instruments would no longer be included in the denominator of basic EPS.

5. Contingently issuable ordinary shares are ordinary shares issuable for little or no cash or other consideration upon satisfaction of specified conditions in a contingent share agreement. According to IAS 33, those shares are included in the denominator of basic EPS from the date when all necessary conditions are satisfied. The ED proposes that all ordinary shares that are currently issuable for little or no cash or other consideration should be deemed to have the right to

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

The views expressed in this paper are those of the staff preparing the paper and do not purport to represent the views of any individual members of the Board or the IASB.

Decisions made by the Board are reported in IASB *Update*.

Official pronouncements of the IASB are published only after the Board has completed its full due process, including appropriate public consultation and formal voting procedures.

currently share with ordinary equity holders in profit or loss for the period and, therefore, should be included in the denominator of basic EPS.

6. IAS 33 includes in the denominator of basic EPS, among others:

a. ordinary shares that are subject to a gross physically settled contract to repurchase the entity's own shares

b. mandatorily redeemable ordinary shares.

7. The ED proposes treating the instruments described in the previous paragraph as if the entity had already repurchased the shares and, thus, excluding them from the denominator of the EPS calculation. However, the entity would treat the liability relating to the present value of the redemption amount of the contract as a participating instrument (see below for the EPS treatment of participating instruments).

Diluted EPS

8. A potential ordinary share is a financial instrument or other contract that may entitle its holder to ordinary shares. IAS 33 states that, to calculate diluted EPS, an entity adjusts profit or loss attributable to ordinary equity holders of the parent entity and the weighted average number of shares outstanding, for the effects of all dilutive potential ordinary shares.

9. The ED proposes three amendments to the calculation of diluted EPS:

a. An entity does not adjust the denominator of diluted EPS to reflect the dilutive effect of the assumed exercise or conversion of financial instruments that are measured at fair value through profit or loss.

b. Diluted EPS assumes the exercise of all dilutive options, warrants and their equivalents. The ordinary shares arising from the assumed exercise of those instruments are regarded as issued at their **average** market price during the period. The ED contains a similar requirement for options, warrants and their equivalents that are not measured at fair value through profit or loss. However, the ED proposes regarding the ordinary shares as issued at their **end-of-period** market price.

c. IAS 33 does not contain explicit requirements for the EPS treatment of a forward contract to sell an entity's own shares. The ED proposes clarifying that diluted EPS should assume the settlement of those instruments in the same way as options, warrants and their equivalents.

Participating instruments and two-class ordinary shares

10. An entity might have issued more than one class of ordinary shares or issued other instruments that give their holder the right to participate in dividends on ordinary shares according to a predetermined formula (participating instruments). IAS 33 requires that an entity allocates profit or loss of the period to participating equity instruments and two-class ordinary shares and calculates EPS for each class of ordinary shares. The ED amends the scope of this requirement to all participating instruments that are not measured at fair value through profit or loss, including those instruments that are classified as liabilities.

11. To calculate diluted EPS, IAS 33 assumes conversion of all dilutive convertible participating instruments and two-class ordinary shares. The ED proposes introducing a test to determine whether a convertible instrument would have a more dilutive effect if the instrument is assumed to remain outstanding or if it is converted. The entity would assume the more dilutive treatment for diluted EPS.

12. In addition, if the test causes an entity to assume conversion of dilutive convertible instruments, the ED would require that diluted EPS:

    a. should reflect actual dividends for the period.

    b. should not include dividends that might have been payable had conversion occurred at the beginning of the period.

Disclosures

13. IAS 33 requires an entity to disclose:

    a. the amounts used as the numerators in calculating basic and diluted earnings per share, and a reconciliation of those amounts to profit or loss attributable to the parent entity for the period;

    b. the weighted average number of ordinary shares used as the denominator in calculating basic and diluted earnings per share, and a reconciliation of these denominators to each other;

    c. instruments that could potentially dilute basic earnings per share in the future, but were not included in the calculation of diluted earnings per share because they are antidilutive for the period(s) presented; and

    d. a description of transactions that occurred after the reporting period and that would have changed significantly the number of ordinary shares or potential ordinary shares outstanding at the end of the period if they had occurred before the end of the reporting period.

14. The ED does not propose any new disclosure requirements.