IASB Meeting | Agenda reference **10B**

Staff Paper | Date **April, 2009**

Project **Earnings per Share**

Topic **Summary of responses to questions in the ED**

1. The Board received 59 comment letters. We have given full consideration to all comment letters. This agenda paper does not provide a quantitative review of responses or attribute comments to individual respondents. However, an analysis of the comment letters by type of respondent and geographical region is included in Appendix A.

2. We received only one letter from a user group, signed by 16 users from the UK and Germany.

3. The ED invited responses to six questions. This agenda paper contains a summary of:

   a. the general comments on the proposals;

   b. responses to each question in the ED;

   c. additional issues raised;

   d. comments on the timing of the proposals; and

   e. comments on the wording in the ED.

GENERAL COMMENTS ON THE PROPOSALS

4. Some respondents argue that EPS is an analytical measure and that therefore it is inappropriate to have an accounting standard on EPS. Those respondents recommend withdrawing IAS 33 and either not providing any guidelines for the

calculation of EPS or providing non-mandatory guidelines as part of the Board's project on management commentary.

5. However, other respondents either explicitly support or, at least, do not object to the existence of IAS 33. They argue that mandatory requirements in a standard are necessary for comparability.

6. Some respondents support the existence of IAS 33 but recommend stopping the project because:

   a. they are not aware of major application issues with the current requirements; and

   b. the proposed amendments will not result in full convergence of the EPS number according to IAS 33 and SFAS 128 because the amendments will not provide a converged numerator.

7. In contrast, many other respondents agree with the project objectives of convergence and simplification. However, most of those respondents believe that the project should be delayed because:

   a. the Board should focus on more urgent accounting questions and not devote scarce resources to amending IAS 33.

   b. when the Board finishes its projects on liabilities and equity and financial statements presentation, it may need to amend IAS 33 a second time.

8. Many respondents agree with the proposed amendments to the calculation of basic EPS, but question the application of the proposals to particular instruments and ask the Board to provide further application guidance.

9. The ED proposes that an entity should not apply the guidance for participating instruments and two-class ordinary shares in paragraphs A23-A28 of the ED for instruments that are measured at fair value through profit or loss. In addition, an entity should not adjust diluted EPS for the assumed exercise or conversion of those instruments. Many preparers welcome this proposal as a simplification of the current requirements and believe also that the introduction of this

approach should not be accompanied by additional disclosure requirements. Other respondents acknowledge the conceptual arguments in favour of this proposal, but question whether it is consistent with how EPS is used in practice. Those respondents note that diluted EPS would no longer include the potential dilution from instruments that are measured at fair value through profit or loss, and argue that the resulting information would be less relevant to users. As a consequence, they recommend either dropping the proposal or, as a minimum, providing additional disclosures on the potential dilution from those instruments.

10. In addition, many respondents oppose the proposed clarifications to the EPS calculation for cases when an entity has issued more than one class of shares or other participating instruments (two-class method). They believe that this procedure is unnecessary and excessively complicated.

11. Respondents acknowledge that IAS 33 and SFAS 128 currently do not contain identical wording and that the project scope is limited. However, some respondents are concerned that the slightly different wording in the two EDs might result in divergent application of the requirements in practice. A few respondents are also concerned that it is unclear under the proposals whether IFRS preparers have to apply FSP and EITF guidance in US GAAP for matters that are not specifically addressed in IAS 33.

12. Finally many respondents think that the wording of the ED is difficult to understand. Some of these comments relate to the wording of the proposals introduced by the ED. However, some of these complaints are about wording that is already in IAS 33 relating to matters outside the limited scope of the ED. In developing the ED, we did not review wording for these matters.

RESPONSES TO THE QUESTIONS IN THE ED

13. Some users are disappointed that, in their view, the Board did not thoroughly discuss how analysts use EPS. Those respondents argue that a clear understanding of this is critical in evaluating the proposals of the ED. They

summarise their understanding of the use of EPS in the analysis of financial statements as follows:

a. Analysts use EPS as an important input into valuation metrics; in particular the price (P) / earnings (E) ratio. However, it plays little or no role in other metrics (e.g. enterprise value (EV) / earnings before interest and taxes (EBIT)).

b. The objective for analysts is to obtain a 'clean' or 'underlying' EPS calculation with a focus on comparability. Comparability is important both in terms of a time series for a particular company and as an input to valuation metrics which are compared between companies in the same sector and across the market.

c. There is little universal agreement about exactly how to calculate an 'underlying' EPS measure so analysts tend to derive their own. Even within an investment house adjustments might vary widely from sector to sector. Therefore, analysts need good disclosure to construct an 'underlying' EPS measure that suits their needs.

d. Few analysts make complex adjustments to EPS unless the impact is highly material and the information is clear and available.

e. Diluted EPS is usually more important than basic EPS for analysts as they attempt to assess the upside for other participants in equity on a forward looking basis.

Question 1 – Mandatorily convertible instruments and instruments issuable for little or no cash or other consideration Paragraphs 18 and 19 of the exposure draft propose that the weighted average number of ordinary shares should include only instruments that give (or are deemed to give) their holder the right to share currently in profit or loss of the period. If ordinary shares issuable for little or no cash or other consideration or mandatorily convertible instruments do not meet this condition, they will no longer affect basic EPS. (a) Do you agree that the weighted average number of ordinary shares for basic EPS should include only instruments that give (or are deemed to give) their holder the right to share currently in profit or loss of the period? Why or why not? (b) Does the exposure draft apply this principle correctly to mandatorily convertible instruments and ordinary shares issuable for little or no cash or other consideration? Why or why not?

Comments on the principle

14. Most respondents agree that the amended IAS 33 should contain a clear principle to determine which instruments enter into the denominator of basic EPS. Many respondents believe also that the ED identifies this principle correctly when it requires that the denominator of basic EPS must include only those instruments that give their holder the right to share currently in profit or loss of the period. They believe that this principle is consistent with the stated objective of basic EPS, which is to provide a measure of the interests of each ordinary share of a parent entity in the performance of the entity over the reporting period.

15. However, some respondents are concerned that the principle in the ED might not be worded sufficiently clearly and ask the Board to specify when an equity holder has the **current** right to share in profit or loss. Those respondents refer to the FASB Exposure Draft, which states that an instrument shall be included in the denominator of basic EPS only if the holder has the **present right as of the end of the period** to share in current-period earnings with common shareholders. They believe that the IASB ED is not clear on whether the term “current” should be interpreted in the same way.

16. Paragraphs A8 and A9 of the ED carry over a requirement from IAS 33. This states that the date when ordinary shares are outstanding for basic EPS is usually the date when consideration is receivable. Some respondents are concerned that paragraphs A8 and A9 might not be fully aligned with the principle mentioned in paragraph 14.

Application of the principle to particular instruments

17. Respondents also comment on the application of the principle in paragraph 14 to:

    a. mandatorily convertible instruments;

    b. ordinary shares issuable for little or no cash or other consideration; and

    c. other instruments.

Mandatorily convertible instruments

18. According to the proposals in the ED, the denominator of basic EPS does not include mandatorily convertible instruments, unless they meet the definition of a participating instrument. All respondents who commented on this issue believe that the ED correctly applies the above mentioned principle to those instruments.

Ordinary shares issuable for little or no cash or other consideration

19. According to paragraph 19 of the ED, if ordinary shares are currently issuable for little or no cash or other consideration, they are deemed to have the right to share with ordinary equity holders in profit or loss of the period. As a consequence, the denominator of basic EPS does not include these. Many respondents agree with this proposal. However, some respondents are concerned that the proposal might be inconsistent with the principle for including instruments in the denominator of basic EPS because if ordinary shares are currently issuable for little or no cash or other consideration, those shares are only **deemed** to give, but do not actually give, their holder the right to share currently in profit or loss of the period.

20. Some respondents acknowledge that the concept of ordinary shares that are currently issuable for little or no cash or other consideration is not new and was already included in paragraph 5 of IAS 33. However, they believe that the Board should add application guidance to clarify when the "little or no cash or other consideration"-criterion is met.

21. One respondent also expresses concerns that the proposals might create structuring opportunities. This respondent argues that the proposal would permit an entity to choose to issue either (a) ordinary shares issuable for little or no cash or other consideration or (b) a greater number of instruments with a higher exercise price that have the same economic value at the inception of the instrument to the holder. Even though the instruments have the same economic value, only the instruments in alternative (a) would be included in the denominator of basic EPS.

Other instruments

22. Some respondents emphasise that the principle mentioned in paragraph 14 has a much wider scope than those instruments that are explicitly addressed in IAS 33. Those respondents ask the Board, for example, to clarify whether the following instruments give the right to share currently in profit or loss of the period and should therefore be included in the denominator of basic EPS:

    a. a perpetual instrument that gives the holder the right to mandatory interest only if the entity distributes a dividend;

    b. an instrument that gives the holder the right to a residual interest without any right to a dividend; and

    c. treasury shares held in a trust as part of a employee share scheme where the dividends are transferred to employees on the vesting of those shares.

23. Some respondents are concerned that the wider scope of instruments to be included in the denominator of basic EPS will increase compliance costs for preparers and complexity for users of financial statements.

Question 2—Gross physically settled contracts to repurchase an entity's own shares and mandatorily redeemable ordinary shares

Paragraphs A31 and A32 of this exposure draft propose clarifying that an entity treats ordinary shares that are subject to a gross physically settled contract to repurchase its own shares as if the entity had already repurchased the shares. Therefore, the entity excludes those shares from the denominator of the EPS calculation. To calculate EPS, an entity allocates dividends to the financial liability relating to the present value of the redemption amount of the contract. Therefore, the liability is a participating instrument and the guidance in paragraphs A23–A28 applies to this instrument. However, such contracts sometimes require the holder to remit back to the entity any dividends paid on the shares to be repurchased. If that is the case, the liability is not a participating instrument.

The Board proposes that the principles for contracts to repurchase an entity's own shares for cash or other financial assets should also apply to mandatorily redeemable ordinary shares.

Do you agree with the proposed treatment of gross physically settled contracts to repurchase an entity's own shares and mandatorily redeemable shares? Why or why not?

24. Respondents express different views on the proposed treatment of gross physically settled contracts to repurchase an entity's own shares and mandatorily redeemable ordinary shares (described in the paragraphs that follow as "repurchase contracts"). Their comments focus on the following areas:

a. the right to share currently in profit or loss (paragraphs 25 and 26);

b. consistency with IAS 32 (paragraphs 27 and 28);

c. convergence with US GAAP (paragraph 29);

d. volatility of EPS (paragraph 30); and

e. structuring opportunities (paragraph 31).

Right to share currently in profit or loss

25. Many respondents believe that the proposals are consistent with the principle discussed in Question 1 (that the denominator of basic EPS should include only

those instruments that give their holder the right to share currently in profit or loss of the period). Those respondents believe the following:

a. when a repurchase contract does not require the entity to remit dividends back to the entity those instruments have the right to share currently in profit or loss of the period.

b. in contrast, if the contract requires an entity to remit the dividends back to the entity they believe that the dividends should be treated, for EPS, as if they had never been paid. As a consequence, although the entity recognises as a liability the present value of the redemption amount, that redemption feature would not meet the definition of a participating instrument.

26. However, other respondents believe that the proposals in paragraph 25(a) (regarding cases where the repurchase contract does not require the holder to remit dividends back to the entity) are inconsistent with the principle mentioned in question 1. They argue that, the holder of the repurchase contract does not need to hold the ordinary shares subject to the repurchase contract before its exercise or settlement. Until then the right to share currently in profit or loss of the period belongs to the present shareholders, not to the holder of the repurchase contract. Therefore, those respondents would include the ordinary shares in the denominator of basic EPS and not allocate profit or loss to a participating instrument. In addition, they believe that such a requirement would be easier to apply than the proposal in paragraphs A23-A28 of the ED.

Consistency with IAS 32

27. Many respondents agree with the proposal explained in question 2 because they view it as consistent with IAS 32's accounting treatment for repurchase contracts. Therefore, some respondents believe that the proposal is already widely applied in practice.

28. In contrast, other respondents object to the proposal because they disagree with the accounting requirements for those instruments in IAS 32. Those

respondents agree that gross physically settled forward contracts on an entity's own shares should be treated as if the entity had already repurchased the shares because it is clear that given the passage of time such instruments will no longer be outstanding. However, in their view, it is not clear why that presumption should apply to gross physically settled written put options as those instruments will not necessarily be repurchased.

Convergence with US GAAP

29. Some respondents note that the proposal will not achieve convergence with US GAAP because the scope of the US GAAP requirement in SFAS No. 150 *Accounting for Certain Financial Instruments with Characteristics of both Liabilities and Equity* is different from that of IAS 32. As a consequence, forward contracts are excluded from the denominator of basic EPS for US GAAP only if those contracts meet particular criteria. In contrast, the ED would exclude from the denominator of basic EPS all forward contracts and written put options on the entity's own shares.

Volatility of EPS

30. One respondent expresses concerns that the proposal will increase volatility in EPS because a written put option will be treated as reducing the number of ordinary shares, and that reduction will reverse subsequently if the option expires unexercised.

Structuring opportunities

31. Finally, one respondent argue that the proposal might create structuring opportunities. When an entity writes deeply out of the money written put options on its own shares, those shares will reduce the number of ordinary shares to be included in the denominator. At expiration of the option the EPS impact will be simply reversed.

Other issues

32. Some respondents are concerned that the ED might not distinguish sufficiently between mandatorily redeemable shares and shares subject to an embedded put option (puttable shares). In their view, the final standard should clarify that puttable shares are excluded from the denominator of EPS when IAS 32 classifies them as financial liabilities. Other respondents note that, if puttable shares are classified as equity, they will normally be the only class of instrument classified as equity. Hence, they question why those instruments should be treated as participating instruments and not simply as ordinary shares.

33. Respondents also ask the Board to clarify some of the application guidance in the ED. For example, they asked whether:

a. the ED assumes that dividends on ordinary shares should be deducted from earnings if those shares are subject to a repurchase contract;

b. interest on the recognised liability should be treated as profit or loss attributable to the participating instrument;

c. a contract to repurchase an entity's own shares would meet the definition of a participating instrument if the only form of participation is through a reduction in exercise or settlement price; and

d. whether the application guidance should deal with situations where the counterparty to the contract does not hold ordinary shares during the period and, thus, has to remit back a synthetic dividend.

Question 3—Instruments that are measured at fair value through profit or loss

For an instrument (or the derivative component of a compound instrument) that is measured at fair value through profit or loss, paragraphs 26 and A28 propose that an entity should not:

(a) adjust the diluted EPS calculation for the assumed exercise or conversion of that instrument; or

(b) apply the guidance for participating instruments and two-class ordinary shares in paragraphs A23–A28.

Do you agree that the fair value changes sufficiently reflect the effect on ordinary equity holders of instruments measured at fair value through profit or loss and that recognising those changes in profit or loss eliminates the need for further adjustments to the calculation of EPS? Why or why not?

34. Most respondents agree that the proposals discussed in question 3 would simplify the EPS calculation. However, many respondents believe that the proposals are inconsistent with the objective of diluted EPS.

Consistency with the objective of diluted EPS

35. Many respondents believe that the proposals are consistent with the objective of diluted EPS which is to provide a measure of the interest of each ordinary share in the performance of an entity—while giving effect to the dilutive potential ordinary shares outstanding during the period. In other words, the objective of dilutive EPS is to provide a **performance measure** of the entity. Those respondents agree that when instruments are measured at fair value through profit or loss, changes in their fair value reflect the economic effect of those instruments on current equity holders for the period. Therefore, they believe that there is no need to adjust the numerator or denominator of EPS for those instruments.

36. However, many other respondents disagree with this interpretation of the objective of EPS and, as a consequence, disagree with the proposed amendments. In their view, the objective of diluted EPS is to show the potential dilution to shareholders from all the potential ordinary shares that are

outstanding during the period. In other words, those respondents believe that diluted EPS serves as a **warning signal** of the potential dilution of ordinary shares outstanding. They disagree with the proposal because it is inconsistent with their interpretation of the objective of diluted EPS.

37. This view is adopted by the user group that responded to the ED. Those users believe that the proposals reduce available information about the number of shares that would be issued upon settlement of potential ordinary shares and therefore believe that the ED reduces the decision usefulness of EPS. They are also concerned that some users might be inclined to remove the volatile fair value changes from EPS without a corresponding change to reflect the potential dilution from those instruments.

Additional arguments in favour of the proposals

38. Respondents who agree with the proposals argue also that the proposed amendments:

    a. represent a technical improvement because they assume neither the hypothetical exercise of all dilutive options, warrants and their equivalents nor the subsequent hypothetical repurchase of ordinary shares from the proceeds.

    b. reduce divergence in practice because there are different views on whether IAS 33 requires adjustments to the numerator of diluted EPS for instruments measured at fair value through profit or loss. Applying the proposal, an entity would adjust neither the numerator nor the denominator for instruments that are measured at fair value through profit or loss.

Additional arguments against the proposal

39. Opponents of the proposal discuss in question 3 argue that :

    a. *the proposal provides a measure of the current period impact only of instruments that are measured at fair value through profit or loss*. Those respondents note that an instrument could be significantly in-the-money but if its fair value has not changed during the period, the instrument would have no impact on profit or loss and thus, applying the proposal, no effect on diluted EPS.

b. *the proposal is appropriate for free standing options, warrants and their equivalents, but not for convertible instruments*. Those respondents note that the proposal would treat convertible instruments differently depending on whether they are measured at fair value through profit or loss. They disagree that financial instruments with similar economic characteristics should be treated differently for diluted EPS. In their view, the problem does not arise for options, warrants and their equivalents that are measured at fair value through profit or loss because if the liability recognised for those instruments were included in the proceeds from the assumed exercise of the instruments the instruments would normally be antidilutive.

c. *the proposal is inconsistent with the treatment of equity-settled share based payments according to IFRS 2 Share Based Payments*. Paragraphs BC54-BC57 of IFRS 2 explain that share-based payment transactions affect EPS through two economic events: the entity has issued shares or share options, thereby increasing the number of shares included in EPS, and it has consumed the resources it received for those options, thereby decreasing earnings.

   Some respondents believe that, similarly, for instruments that are measured at fair value through profit or loss there are two economic events: fair value gains or losses due to changes in market conditions and the exercise or conversion of instruments by the holder. In their view, to be consistent, both economic events should be reflected in the calculation of diluted EPS.

Other issues

40. Finally, respondents ask the Board to clarify the treatment of the following instruments:

a. *A liability that requires the issue of a variable number of shares equal to the fair value of the liability at settlement date*. Some respondents believe that the proposal would require an entity to treat those instruments as dilutive convertible instruments; thus when calculating diluted EPS, the entity would assume conversion of the instruments into ordinary shares, if dilutive. They argue that the effect of issuing instruments at their fair value is never dilutive and therefore an entity should not assume conversion of those instruments.

b. *Share options or grants to be satisfied by repurchasing issued shares*. One respondent believes that an entity should consider an instrument to be dilutive only if additional ordinary shares are issued to settle the instrument.

41. Most responses to question 3 focus on the diluted EPS treatment of instruments that are measured at fair value through profit or loss (question 3 (a)). However, we note that many arguments would apply equally to the treatment of participating instruments that are measured at fair value through profit or loss.

Question 4—Options, warrants and their equivalents

For the calculation of diluted EPS, an entity assumes the exercise of dilutive options, warrants and their equivalents that are not measured at fair value through profit or loss. Similarly, paragraph 6 of this exposure draft proposes clarifying that to calculate diluted EPS an entity assumes the settlement of forward contracts to sell its own shares, unless the contract is measured at fair value through profit or loss. In addition, the boards propose that the ordinary shares arising from the assumed exercise or settlement of those potential ordinary shares should be regarded as issued at the end-of-period market price, rather than at their average market price during the period.

(a) Do you agree that to calculate diluted EPS an entity should assume the settlement of forward sale contracts on its own shares in the same way as options, warrants and their equivalents? Why or why not?

(b) Do you agree that ordinary shares arising from the assumed exercise or settlement of options, warrants and their equivalents should be regarded as issued at the end-of-period market price? Why or why not?

Forward sale contracts

42. Most respondents agree that an entity should assume the settlement of forward sale contracts on its own shares in the same way as options, warrants and their equivalents because a forward sale contract is economically similar to a combination of a purchased put option and a written call option. Respondents argue that the written call option component of a forward sale contract should be treated in the same way as a free standing written call option. They believe that the proposal is already widely applied in practice, but welcome the proposed clarification in the wording of the standard.

End-of-period price

43. The ED proposes that an entity should assume the issue of ordinary shares arising from the exercise or settlement of options, warrants and their equivalents at the end-of-period price, rather then at their average market price during the period. Respondents express different views on this proposal.

44. Proponents believe that the proposal would provide more relevant information to users of financial statements while simplifying the EPS calculation. Opponents argue that the proposal is inconsistent with the objective and calculation of diluted EPS and will increase the volatility of the EPS number. Respondents ask the Board also to provide additional application guidance on this proposal.

More relevant information

45. Proponents argue that the end-of-period price provides more relevant information to users of financial statements because it represents a more up-to-date input for users to assess the probability that the instruments will be exercised. In their view, any other approach would ignore the fact that the instrument remained outstanding at the end of the period.

46. Some respondents believe that the proposed end-of-period view should be extended to other requirements in IAS 33. For example, respondents question why the denominator of EPS should include the average number of ordinary

shares outstanding during the period and not the number of ordinary shares outstanding at the end of the period.

Simplification

47. Respondents note that the use of end-of-period prices is a simplification compared to the use of average prices. However, many respondents also comment that the simplification would not be substantial.

Inconsistency with the objective of diluted EPS

48. IAS 33 states that the objective of diluted EPS is to provide a measure of the performance of an entity rather than to act as a warning signal of the potential dilution of ordinary shareholders. Some respondents believe that the use of an average price would be more consistent with a performance measurement objective than an end-of-period price. One respondent also argues that if the options, warrants and their equivalents had been exercised they would have most likely been exercised throughout the year and not simply at the end of the period. Therefore, the respondent believes that an average price would provide a more realistic picture of the exercise or conversion of the instruments than an end-of-period price.

Inconsistency within the calculation of dilutive options, warrant and their equivalents

49. Most respondents disagree with the rationale for the amendment given in the ED. Paragraph BC23 of the ED states that IAS 33 is currently inconsistent because it assumes that options, warrants and their equivalents are exercised at the beginning of the period. But, the standard assumes that the repurchase of the treasury shares occurs over the entire period. Respondents argue that the proposed use of end-of-period prices does not remove that inconsistency, but replaces it by combining an assumed exercise at the beginning of the period with the end-of-period price.

Increased volatility of EPS

50. Many respondents note that a point-in-time measure is likely to be more sensitive to share price volatility than an average measure. Therefore one respondent recommends disclosing two diluted EPS measures, one that reflects an end-of-period price and the other that reflects an average price. The respondent believes that the disclosure of both measures would assist users of financial statements in analysing the variability associated with EPS.

Further application guidance

51. Finally, some respondents ask the Board to clarify the wording of the exposure draft. For example, they recommend specifying whether an end-of-period price is a bid, ask or mid-market price. Other respondents suggest clarifying that an end-of-period price could include consideration of a reasonable trading window to address unusual trading activity around the end of the period.

Question 5—Participating instruments and two-class ordinary shares

Paragraph A23 proposes to extend the scope of the application guidance for participating instruments to include participating instruments that are classified as liabilities. In addition, the Board proposes to amend the application guidance for participating instruments and two-class ordinary shares. The proposed application guidance would introduce a test to determine whether a convertible financial instrument would have a more dilutive effect if the application guidance in paragraph A26 and A27 for participating instruments and two-class ordinary shares is applied or if conversion is assumed. The entity would assume the more dilutive treatment for diluted EPS. Also, the amended application guidance would require that, if the test causes an entity to assume conversion of dilutive convertible instruments, diluted EPS should reflect actual dividends for the period. In contrast, diluted EPS would not include dividends that might have been payable had conversion occurred at the beginning of the period.

Do you agree with the proposed amendments to the application guidance for participating instruments and two-class ordinary shares? Why or why not?

52. The following paragraphs summarise respondents' comments on the proposals:

a. to extend the definition of a participating instrument to include instruments that are classified as liabilities;

b. to amend the diluted EPS calculation for two-class ordinary shares and participating instruments; and

c. to clarify that the diluted EPS calculation for those instruments should reflect only actual dividends for the period.

The definition of participating instruments should include liabilities

53. Most respondents agree with the proposal to extend the scope of the application guidance for participating instruments to include participating instruments that are classified as liabilities. The proposal reflects a current requirement in US GAAP. Therefore respondents argue that the proposed amendment will align the EPS treatment of those instruments in IFRSs and US GAAP and improve consistency in application of EPS.

54. In contrast, some respondents disagree with the proposal because the numerator of basic EPS is already reported after deduction of financing expenses relating to those instruments. Respondents argue that the ED does not explain why any further allocation or adjustment is necessary or contributes to more meaningful EPS. In their view, the broader definition of participating instruments adds unnecessary complexity to the EPS calculation.

Calculation of diluted EPS for two-class ordinary shares and participating instruments

55. Many respondents agree with the proposed amendments to the calculation of diluted EPS. In particular, respondents who believe that EPS is a measure of the potential dilution to shareholders from all potential ordinary shares outstanding during the period agreed with the proposals. This is because the proposed amendments would ensure that diluted EPS reflects the highest dilutive effect from two-class ordinary shares and participating instruments. Other respondents support the proposals because they think that the proposed requirements are clearer and are aligned with US GAAP.

56. However, many other respondents argue that there is no problem with the current requirements in IAS 33. In their view, the proposed amendments to the calculation of diluted EPS are unnecessarily complex and not cost-beneficial.

Diluted EPS should only reflect actual dividends

57. All respondents agree that if the proposed amendments to diluted EPS for two-class ordinary shares and participating instruments are implemented, the calculation should:

    a. include only actual dividends; and

    b. exclude dividends that might have been payable had those instruments been converted into ordinary shares at the beginning of the period.

Other issues

58. Respondents ask the Board to clarify in the final standard the treatment of:

    a. partly paid, but fully participating instruments;

    b. unvested share-based payment awards that provide holders with the right to participate in dividends; and

    c. instruments that have a different participation amount from that of ordinary shares but for which the amount is not pre-determined

59. Finally, some respondents suggest clarifying that the calculation of diluted EPS of participating instruments is only necessary to derive diluted EPS for ordinary shares outstanding and should not be presented in the statement of comprehensive income.

> **Question 6—Disclosure requirements**
>
> The Board does not propose additional disclosures beyond those disclosures already required in IAS 33.
>
> Are additional disclosures needed? If so, what additional disclosures should be provided and why?

60. Many respondents believe that the disclosures in IAS 33 are sufficient and do not see the need to require additional disclosures. Some respondents note also that the proposals would not prohibit additional voluntary disclosures.

Disclosures for instruments that are measured at fair value through profit or loss

61. Other respondents argue for additional disclosures for instruments that are measured at fair value through profit or loss. They note that because of the proposal users would no longer be able to see potential dilution from instruments that are outstanding and might be settled through the issue of ordinary shares. Those respondents believe that this problem is exacerbated when the fair value of an instrument does not change during the period and therefore does not affect the numerator of EPS even though the instrument is in-the-money. In their view, the final standard should require an entity to disclose sufficient information to enable users to assess the dilutive effect of all potential ordinary shares, including instruments that are measured at fair value through profit or loss.

62. However, respondents recommend different disclosures to address this issue. Some recommend disclosing the end-of-period number of ordinary shares that would be issued on settlement of each class of potential ordinary shares, regardless of their effect on diluted EPS. Others recommend disclosing (a) the number of incremental ordinary shares that would arise from the settlement of dilutive instruments that are measured at fair value through profit or loss and (b) the change in fair value of those instruments for the period.

63. Respondents believe that the disclosure could either be a special disclosure requirement in IAS 33 or an amendment to IFRS 7 *Financial Instruments: Disclosures*. Respondents note that the recommended disclosure is already provided by US GAAP preparers because of the requirements in SFAS 129 *Disclosure of Information about Capital Structure*. In addition, they argue that the recommended disclosure would not impose incremental costs on preparers,

because entities already need the information today to apply the EPS calculation in IAS 33.

64. However, some respondents disagree with those suggested disclosures. They argue that the proposed treatment of instruments that are measured at fair value through profit or loss is consistent with the objective of EPS and thus no additional disclosures are required. They believe that if, because of the proposals, users need additional information on the dilutive effect of instruments that are measured at fair value through profit or loss, the Board should consider retaining the current requirements instead of addressing those information needs through disclosures.

Other disclosures

65. A few respondents raise additional disclosure issues. Some respondents note that the disclosure requirements in IAS 33 focus on disclosures on the weighted average number of ordinary shares outstanding. Those respondents recommend adding supplementary disclosures based on the end-of-period number of ordinary shares outstanding. They believe that information about the end-of-period full diluted share count would assist users in analysing financial statements.

66. One respondent suggests a disclosure that would explain the EPS treatment of the consolidation of ordinary shares (a reverse share split) according to paragraph 21 of the ED

67. The user group suggest a comprehensive revision of the EPS disclosures. The suggested new format is attached to this agenda paper as Appendix B.

ADDITIONAL ISSUES RAISED BY RESPONDENTS

68. Respondents raise the following additional issues:

    a. alternative per share measures;

    b. meaning of additional FSP and EITF guidance for IFRSs; and

c. other issues.

Alternative per share measures

69. Paragraph 67 of the ED proposes that if an entity provides other per share measures in addition to basic and diluted EPS, the entity should disclose those measures in the notes only and must not present those measures in the statement of comprehensive income. The ED does not include a question on the proposed amendment. However, the Board received a number of comments on the proposal.

70. Some respondents believe that the proposal would reduce divergence in practice among IFRS preparers and align the EPS presentation requirements with those in US GAAP. One respondent also suggests requiring reconciliation between the alternative per share measures and basic and diluted EPS. In addition, one respondent recommends adding a similar requirement to IAS 34 *Interim Financial Reporting*. Other respondents disagree with the proposal because they believe that such alternative per share measures can provide useful information to users and they believe it is important for them to be presented together with basic and diluted EPS to allow comparison between those numbers.

71. One respondent notes that users of financial statements use widely a number of other financial ratios and metrics that are not presented in the financial statements. Therefore, the respondent suggests that as part of the projects on management commentary and financial statements presentation the Board should investigate whether an entity should include EPS and other per share measures in the financial statements or whether it should present those measures in the management commentary.

Additional FSP and EITF guidance

72. Paragraph BC8 of the basis for conclusions on the ED states that the guidance in EITF Issues No. 03-6, 04-8, 07-4, FASB Staff Position No. EITF 03-6-1 and EITF Topic No. D-98 goes beyond the level of detail in IAS 33. Some respondents argue that it is unclear whether by making this statement the Board

has implicitly endorsed those proposals and therefore IFRS preparers should apply that guidance for matters that are not specifically addressed in IAS 33. They recommend that the Board either explicitly incorporate the requirements in IAS 33 or make it clear that IFRS preparers need not apply those requirements. Respondents note that the latter approach would mean that the boards are unlikely to meet their convergence objective.

Other issues

73. Respondents also ask the Board to address the following issues:

   a. Paragraph 4 of the ED addresses the presentation of EPS if an entity prepares consolidated and separate financial statements. One respondent requests additional guidance for situations in which an entity that has only associates or joint ventures and produces financial statements in which it applies the equity method or proportionate consolidation as well as separate financial statements.

   b. Paragraph 6 of the ED defines dilution as a reduction in earnings per share or an increase in loss per share resulting from the assumption that convertible instruments are converted, options or warrants are exercised and forward contracts are settled or ordinary shares are issued upon the satisfaction of specified conditions. One respondent suggests that the Board should review that definition and consider whether the definition should refer to the wealth of current holders of ordinary shares.

   c. The ED does not define the term preference shares. However, the legal definition of the term varies among jurisdictions. Therefore, some respondents ask the Board to add a definition to the final standard to clarify the classification of particular instruments as ordinary shares or preference shares.

   d. The ED contains different calculation methods for options, warrants and their equivalents and convertible instruments that are not measured at fair value through profit or loss. Some respondents note that the ED requires an entity to assume conversion of a convertible instrument, even though

IAS 32 might require bifurcation of a convertible instrument into a financial liability and a conversion option. They ask the Board to investigate whether the same principles should apply to the conversion option of a convertible instrument and to other options, warrants and their equivalents.

e. The ED requires that an entity adjusts the denominator of EPS for ordinary shares that are held by a subsidiary. A few respondents note that if those shares are held by a partially owned subsidiary, the entity would still be required to adjust the denominator for the full number of treasury shares. Those respondents believe that the deduction of all treasury shares is misleading and ask the Board to consider whether the treasury shares should only be deducted from the denominator to the extent that they represent the ownership interest of the parent.

f. Paragraph 54 of the ED states that an entity treats contingently issuable ordinary shares as outstanding and includes them when calculating diluted EPS if the conditions in the contingent share agreement are satisfied at the end of the period. One respondent believes that more useful information would be provided if IAS 33 had a requirement similar to that in IFRS 2, according to which the entity must estimate how probable it is that those conditions will be satisfied.

g. Paragraph 56 of the ED requires an entity to make retrospective adjustments for a capitalisation, bonus issue, share split or reverse share split that occurs after the reporting period but before the financial statements are authorised for issue. One respondent disagrees with the requirement and argues that more comparability would be achieved if no adjustments to EPS were required for transactions that occurred after the end of the period.

h. Paragraphs A33 and A34 of the ED contain application guidance for potential ordinary shares of a subsidiary, joint venture or associate that are convertible into either shares of the subsidiary, joint venture or associate or shares of the parent, venturer or investor. One respondent questions the relevance of the guidance for joint ventures and associates. That respondent notes that a conversion feature that converts into ordinary shares of a joint venture or associate would be measured at fair value through profit or loss. As a consequence, the proposals would not require an adjustment of the denominator of EPS.

74. Some respondents believe that the number of additional issues raised highlights the need to conduct a more comprehensive review of the EPS calculation.

COMMENTS ON THE TIMING OF THE PROPOSALS

75. Most respondents question the timing of the project and are concerned that the Board's decisions in the projects on financial instruments with characteristics of equity and financial statement presentation might:

    a. significantly extend the number of instruments measured at fair value through profit or loss – and hence extend significantly the scope of the proposal discussed in question 3; and

    b. require further amendments to IAS 33 in the near future.

    Therefore, those respondents recommend delaying the EPS project until those projects have been completed.

COMMENTS ON THE WORDING IN THE ED

76. Most respondents think that the wording of the ED is difficult to understand. Those comments refer to both wording that has been carried over from the current version of IAS 33 and the proposed amendments. Therefore, many respondents ask the Board to consider fundamentally redrafting the requirements in the ED.

77. Some respondents note also that, while the exposure drafts to amend IAS 33 and SFAS 128 contain essentially the same amendments, they do not use identical wording. Those respondents are concerned that the slightly different wording might result in divergent application of the requirements in practice. Therefore,

they ask the boards to consider using identical wording in the final versions of IAS 33 and SFAS 128.

APPENDIX A – SUMMARY ANALYSIS OF RESPONSES

Table 1 contains *a full list of the respondents* to the Invitation to Comment

Table 2 categorises the respondents by *geography*

Table 3 categorises respondents by *classification*

Table 1 – List of Respondents who commented on the Exposure Draft

CL#	Respondent	Classification	Region
1	Isabel Cristina Sartorelli	Others	Brazil
2	Accounting Standards Board (ASB)	Standard Setters	UK
3	CPA Australia, Institute of Chartered Accountants, National Institute of Accountants (joint submission)	Professional Bodies	Australia
4	The Financial Reporting Standards Board of the New Zealand Institute of Chartered Accountants (NZICA)	Standard Setters	New Zealand
5	Dutch Accounting Standards Board (DASB)	Standard Setters	Netherlands
6	German Accounting Standards Committee (DRSC)	Standard Setters	Germany
7	Canadian Accounting Standards Board - staff	Standard Setters	Canada
8	Telstra	Preparers	Australia
9	Organismo Italiano di Contabilita	Standard Setters	Italy
10	Muhammad Bilal Haris	Others	UAE
11	Institute of Chartered Accountants in England & Wales (ICAEW)	Professional Bodies	UK
12	Group of 100	Preparers	Australia
13	Liberty Group Ltd	Preparers	South Africa
14	Polish Accounting Standards Committee	Standard Setters	Poland
15	International Organization of Securities Commissions (IOSCO) Standing Committee No. 1 on Multinational Disclosure and Accounting	Regulators	International
16	Association pour la participation des entreprises françaises à l'harmonisation comptable internationale (ACTEO) and Mouvement des Entreprises de France (MEDEF) and Association Française des Entreprises Privées (AFEP)	Preparers	France
17	Holcim Group Support	Preparers	Switzerland
18	PricewaterhouseCoopers	Accounting Firms	International
19	Föreningen Auktoriserade Revisorer FAR	Professional Bodies	Sweden
20	Korea Accounting Standards Board (KASB)	Standard Setters	Korea
21	FirstRand Banking Group	Banks	South Africa
22	Allied Irish Bank	Banks	Ireland
23	Accounting Standards Board of Japan (ASBJ)	Standard Setters	Japan
24	South African Institute of Chartered Accountants (SAICA)	Professional Bodies	South Africa
25	Institute of Chartered Accountants of Pakistan (ICAP)	Professional Bodies	Pakistan
26	Norsk RegnskapsStiftelse - Norwegian Accounting Standards Board	Standard Setters	Norway
27	Hannu Juhani	Academics	Finland
28	Stagecoach Group	Preparers	UK
29	Association of Chartered Certified Accountants (ACCA)	Professional Bodies	UK
30	Ernst & Young	Accounting Firms	International
31	United Technologies Corporation	Preparers	USA
32	Grant Thornton International	Accounting Firms	International
33	Nortel	Preparers	Canada

CL#	Respondent	Classification	Region
34	KPMG	Accounting Firms	International
35	TransAlta	Preparers	Canada
36	Financial Executives International Canada (FEICanada)	Preparers	Canada
37	Accounting Standards Council of Singapore	Standard Setters	Singapore
38	Deloitte Touche Tohmatsu	Accounting Firms	International
39	Zambia Institute of Chartered Accountants	Professional Bodies	Zambia
40	London Society of Chartered Accountants (LSCA)	Professional Bodies	UK
41	Conseil National de la Comptabilité (CNC)	Standard Setters	France
42	UBS	Banks	Switzerland
43	Altaf Noor Ali	Others	Pakistan
44	SwissHoldings	Preparers	Switzerland
45	Malaysian Accounting Standards Board (MASB)	Standard Setters	Malaysia
46	The Chartered Institute of Management Accountants (CIMA)	Professional Bodies	UK
47	BDO	Accounting Firms	International
48	Goldman Sachs	Banks	USA
49	Corporate Reporting Users' Forum (CRUF)	Users	UK
50	Institute of Chartered Accountants of Scotland (ICAS)	Professional Bodies	UK
51	Institute of Chartered Accountants in Ireland (ICAI)	Professional Bodies	Ireland
52	Australian Accounting Standards Board	Standard Setters	Australia
53	Standard Bank of South Africa	Banks	South Africa
54	Mazars	Accounting Firms	
55	Canadian Bankers Association	Preparers	Canada
56	Fédération des Experts Comptables Européens (FEE)	Professional Bodies	Europe
57	European Financial Reporting Advisory Group (EFRAG)	Regulators	Europe
58	Federation of Accounting Professions of Thailand (FAP)	Standard Setters	Thailand
59	Paul Song	Others	Hong Kong

Table 2 - Analysis of Respondents by Geographic Region

Geographic region	Number of respondents	Percentage
Africa	5	8%
Asia-Pacific	14	24%
Europe	22	37%
North America	7	12%
Central/South America	1	2%
International	10	17%
Total	59	100%

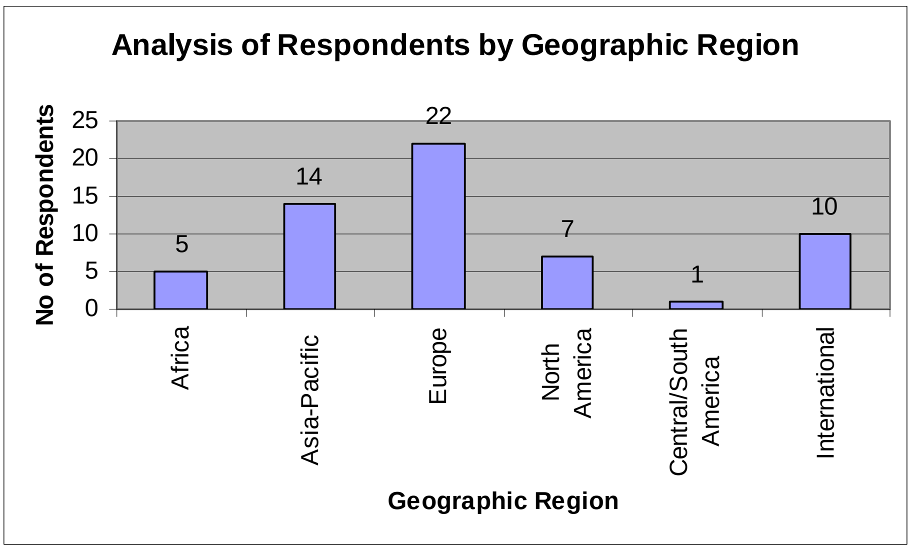

Table 3 - Analysis of Respondents by Classification

Respondent Type	Number of respondents	Percentage
Academics	1	2%
Banks	5	8%
Preparers	12	20%
Accounting firms	7	12%
Professional bodies	12	20%
National standard-setters	15	25%
Regulators	2	3%
Users	1	2%
Others	4	7%
Total	59	100%