STAFF PAPER

IFRS Interpretations Committee Meeting

November 2011

Project	**Calculating earnings per share considering non-cumulative preference dividends [Appendix C updated 25 October 2011]**

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Introduction

1. The IFRS Interpretations Committee (the Committee) received a request to address an issue related to the calculation of basic earnings per share ('EPS') under IAS 33 *Earnings per Share.*

2. Specifically, the submitter requested that the Committee clarify *the period in which* a dividend on non-cumulative preference shares, which are classified as equity ('preference dividend'), should result in an adjustment to the EPS calculation.

3. The submitter did not define the type of non-cumulative preference shares referred to in the submission. Following an informal discussion with staff of the submitter, we understand that the non-cumulative preference shares referred to in the submission are assumed to include the following characteristics:

    (a) They are classified as equity within the statement of financial position;

    (b) There is no contractual obligation on the entity to declare a preference dividend in any given period;

    (c) When a dividend is proposed on the ordinary shares, a preference dividend must be declared in the same period and the ratio of the distribution on the preference shares to the ordinary shares is contractually fixed.

(d) The preference dividends are non-cumulative, ie if no preference dividend is declared in the current dividend cycle, there is no accumulation of arrear preference dividends that would need to be paid in a future period.

4. This paper is divided into the following sections:

(a) Explanation of the issue

(b) Staff analysis

(c) Outreach conducted

(d) Staff recommendation

Explanation of the issue

5. For the purposes of calculating EPS, IAS 33 paragraph 14(a) explains that the after-tax amount of preference dividends that is deducted from the net profit or loss, is the after-tax amount of any preference dividends on non-cumulative preference shares ‘declared in respect of the period’.

6. The submitter states that:

> …divergent interpretations have been observed for legal environments in which dividends to holders of equity instruments (both, to holders of ordinary and preference shares) are normally declared after the end of the reporting period and even after the financial statements are authorised for issue.

In other words, the submitter believes that entities are adjusting EPS for non-cumulative preference dividends (‘preference dividends’) in one of two ways:

a) Entities are starting with net profit and then deducting preference dividends to determine EPS based on when the directors *propose* the dividend, even though the dividends might only be approved by the shareholders (and hence recognised) after the year end; or

b) Entities are starting with net profit and then deducting preference dividends to determine EPS based on when the preference dividends are *recognised* in the financial statements, even though the directors' rationale for proposing the preference dividend is based on the previous financial year's profits.

7. To illustrate the issue from the perspective of the submitter, refer to the following example:

> Entity A has the following shares in issue:
>
> 100 ordinary shares; and
>
> 100 non-cumulative preference shares (classified as equity).
>
> At the year ended December 20X1, the profit from continuing operations attributable to the parent entity amounts to CU 1000. The terms of the preference shares state that before any dividend is paid on ordinary shares, the preference shareholders must receive CU 2 per share. Thereafter, the preference shareholders share in any further dividend equally with ordinary shares.
>
> At December 20X1, the directors propose a preference dividend of CU 300 and an ordinary dividend of CU 100.
>
> In the course of the annual shareholders' meeting in March 20X2 the shareholders approve the proposal of the directors and the non-cumulative preference dividend is paid in July 20X2.
>
> The financial statements for the year ended December 20X1 were issued on 30 April 20X2.The notes to these financial statements included disclosure of the directors' proposal and shareholder approval of the dividend of CU 400.
>
> In the 20X1 annual financial statements issued on April 30 20x2, should the basic EPS figure be:
>
> a) CU 10 (CU 1000 / 100 ordinary shares in accordance with the submitter's view 2(a) discussed in paragraph 8);
>
> b) CU 7 (CU 1000 less the preference dividend proposed of 300 / 100 ordinary shares in accordance with the submitter's view 1 discussed in paragraph 8); or
>
> c) Something else?

Staff analysis

8. The submitter sets out three possible views in accounting for the preference dividends (See Appendix D for the submission). In summary, the three views put forward by the submitter are:

   (a) View 1: Preference dividends should be deducted from the calculation of EPS when the dividends are proposed by the directors. In other words, the word 'declared' in paragraph 14(a) of IAS 33 is interpreted to mean proposed for the purposes of calculating EPS.

   (b) View 2(a): Preference dividends should be deducted from the calculation of the EPS when the dividends are 'declared during the (reporting) period'. In other words, the preference dividends are deducted from the EPS calculation in the period in which they are recognised in the financial statements.

   (c) View 2(b): Preference dividends will never be deducted from net profit in determining EPS in a legal environment, in which there is a financial period time lag between the preference dividends being proposed and the dividends being authorised. The reason for this is that paragraph 14(a) is interpreted as 'preference dividends are deducted from net profit in calculating EPS when they are recognised in the same period as the profit from which they were declared'.

9. We do not think that approach 2(b) in the submission requires detailed analysis. That approach suggests that preference dividends never result in an adjustment to EPS. We think that paragraph 12 of IAS 33 is clear that adjustments to EPS are required for the after-tax amounts of preference dividends.

10. The submitter explains that the diversity in practice has arisen as a result of the interpretation of paragraph 14(a) of IAS 33:

    > The after-tax amount of preference dividends that is deducted from profit or loss is:

a) the after-tax amount of any preference dividends on non-cumulative preference shares **declared in respect of the period [emphasis added]**; and

b) …

11. The submitter believes that entities' different interpretations of the words 'declared in respect of the period' are resulting in different measures of EPS being reported by entities when preference dividends are involved.

Interaction of IAS 33 paragraphs 14(a) and A14

12. Paragraphs A13 and A14 of IAS 33 set out the requirements for determining EPS when there is more than one type of equity instrument in issue by the entity.

13. Paragraph A14 provides the methodology for determining the EPS for each type of class of equity instrument. Paragraph A14 requires an entity to calculate the EPS for ordinary shareholders by:

    (a) reducing net profit for all dividends declared in the period;

    (b) notionally allocating the remaining profit to the different classes of equity holders as if all of the profit for the period had been distributed;

    (c) determining the net profit allocable to the ordinary shareholders by adding together the amount allocated to them for ordinary dividends and the amount allocated for the notional amount determined in (b); and

    (d) dividing the amount determined in (c) by the amount of weighted average number of ordinary shares for the period.

14. Therefore we think that regardless of the declaration of any preference dividends, preference shares classified as equity would need to be taken into account in the determination of EPS if they include a participation feature. In other words if:

    (a) The preference shares are classified as equity; and

    (b) The company or shareholder agreements set out a predetermined methodology explaining how the preference shares would participate in the profits assuming all of the net profit for the period was declared as a dividend,

then the preference share participation feature would be taken into account in the determination of EPS by assuming that all of the net profit for the period was declared as a dividend in accordance with paragraph A14(b) of IAS 33 (Paragraphs A13 and A14 of IAS 33 as well as Illustrative Example 11 are reproduced for convenience in Appendix B).

15. We think preference dividends on equity instruments with participation features should always be taken into account in determining EPS, either:

(a) because they are declared in the period and therefore reduce the net profit allocable to ordinary shareholders (IAS 33 paragraph 14(a)); or

(b) because they are notionally assumed to be declared when determining the allocation of net profit between the different classes of equity (IAS 33 paragraph A14(b)).

16. We agree with the submitter that the wording in paragraph 14(a) of IAS 33 might be unclear with respect to when a preference dividend should be deducted from earnings in determining EPS. However, we do not think that this would impact the EPS measurement for the reasons provided in paragraph 15 above. We prepared a simple illustrative example to demonstrate this (refer to Appendix C). The example uses the same fact pattern as that provided in paragraph 7 and demonstrates that, regardless of the interpretation of the word 'declared', the EPS measure in the example for the 20X1 financial statements should be CU 4.

Outreach conducted

17. The staff sent out a request for information to the National Standard Setters Group in order to help assess the Committee's agenda criteria. Specifically, we asked:

a) What is the prevalence of this issue in practice in your experience? This is, how common or widespread are dividends on non-cumulative preference shares within your organisation's jurisdiction of influence?

b) *What diversity in accounting for such transactions do you see in practice, specifically relating to the issue described by the submitter?*

18. An additional question was asked to the National Standard Setters Group where the issue was identified as not being prevalent in their relevant territory:

This issue is expected to be more prevalent in areas where there is a legal requirement for the shareholders to ratify or approve the non-cumulative preference dividend proposed by the directors before it is legally considered to be declared. This is because the issue described by the submitter only occurs when the preference dividend is declared in a period that differs from that in which the related profits were earned. If you indicated that there is no significant diversity in practice, is the reason for this because the directors are not required to obtain shareholder approval or ratification to legally declare non-cumulative preference dividends?

19. The views expressed below are informal feedback from the National Standard Setters. They do not reflect the formal views of the Boards of those organisations The geographic breakdown for the responses is as follows:

Geographic area	**Number of respondents**
Central/South America	1
Asia/Oceania	5
Europe	1
North America	1
Total respondents	**7**

20. The majority of respondents stated that the issue was not prevalent in their jurisdictions, either because preference dividends were uncommon or because there was no legal distinction between the proposal and the authorisation of preference dividends.

21. Several of the respondents did however comment on the accounting treatment and their responses were not consistent. We think that the reason for this may be due to the apparent confusion in complying with paragraph 14(a) and paragraph A14 as explained in the Staff Analysis above.

Staff recommendation

22. In response to the questions raised by the submitter and the results of the Outreach, we acknowledge that the wording in paragraph 14(a) might not be clear as to whether declared, for the purposes of IAS 33, means ‘proposed by the directors’ or ‘recognised in the financial statements’. However, we think that the requirements of IAS 33 are sufficient (specifically paragraph A14) to determine EPS when an entity has non-cumulative preference shares with a participation feature that are classified as equity instruments. Therefore, we recommend that the Committee not take this item onto its agenda.. In addition we have included the proposed tentative agenda decision in Appendix B.

Questions for the Committee
1. Does the Committee agree with the staff analysis that, regardless of the meaning of the word declared in IAS 33 paragraph 14(a), preference dividends on equity instruments should always be taken into account based on paragraph A14 of IAS 33? 2. If the Committee agrees with the staff analysis, does the Committee agree with the staff recommendation not to add this issue to the Committee’s agenda? 3. If the Committee agrees with the staff recommendation, does the Committee agree with the proposed wording in Appendix B?

Appendix A – Extract of IAS 33 *Earnings per share*

Participating equity instruments and two-class ordinary shares

A13 The equity of some entities includes:

a) instruments that participate in dividends with ordinary shares according to a predetermined formula (for example, two for one) with, at times, an upper limit on the extent of participation (for example, up to, but not beyond, a specified amount per share).

b) a class of ordinary shares with a different dividend rate from that of another class of ordinary shares but without prior or senior rights.

A14 For the purpose of calculating diluted earnings per share, conversion is assumed for those instruments described in paragraph A13 that are convertible into ordinary shares if the effect is dilutive. 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. To calculate basic and diluted earnings per share:

(a) profit or loss attributable to ordinary equity holders of the parent entity is adjusted (a profit reduced and a loss increased) by the amount of dividends declared in the period for each class of shares and by the contractual amount of dividends (or interest on participating bonds) that must be paid for the period (for example, unpaid cumulative dividends).

(b) **the remaining profit or loss is allocated to ordinary shares and participating equity instruments to the extent that each instrument shares in earnings as if all of the profit or loss for the period had been distributed. The total profit or loss allocated to each class of equity instrument is determined by adding together the amount allocated for dividends and the amount allocated for a participation feature. [emphasis added]**

(c) the total amount of profit or loss allocated to each class of equity instrument is divided by the number of outstanding instruments to which the earnings are allocated to determine the earnings per share for the instrument.

For the calculation of diluted earnings per share, all potential ordinary shares assumed to have been issued are included in outstanding ordinary shares.

Example 11 Participating equity instruments and two-class ordinary shares

Reference: IAS 33, paragraphs A13 and A14

Profit attributable to equity holders of the parent entity	CU100,000
Ordinary shares outstanding	10,000
Non-convertible preference shares	6,000
Non-cumulative annual dividend on preference shares (before any dividend is paid on ordinary shares)	CU5.50per share

After ordinary shares have been paid a dividend of CU2.10 per share, the preference shares participate in any additional dividends on a 20:80 ratio with ordinary shares (ie after preference and ordinary shares have been paid dividends of CU5.50 and CU2.10 per share, respectively, preference shares participate in any additional dividends at a rate of one-fourth of the amount paid to ordinary shares on a per-share basis).

Dividends on preference shares paid	CU33,000 (CU5.50per share)
Dividends on ordinary shares paid	CU21,000 (CU2.10per share)

Basic earnings per share is calculated as follows:

	CU	CU
Profit attributable to equity holders of the parent entity		100,000
Less dividends paid:		
Preference	33,000	

Ordinary	21,000	
		(54,000)
Undistributed earnings		46,000

Allocation of undistributed earnings:

Allocation per ordinary share = A

Allocation per preference share = B; B = $^1/_4$ A

$(A \times 10{,}000) + (^1/_4 \times A \times 6{,}000) =$ CU46,000

$A = \text{CU}46{,}000 \div (10{,}000 + 1{,}500)$

A = CU4.00

B = $^1/_4$ A

B = CU1.00

Basic per share amounts:

	Preference shares	*Ordinary shares*
Distributed earnings	CU5.50	CU2.10
Undistributed earnings	CU1.00	CU4.00
Totals	CU6.50	CU6.10

Appendix B—Proposed wording for tentative agenda decision

IAS 33 *Earnings per Share*—calculating earnings per share considering non-cumulative preference dividends

The Interpretations Committee received a request to address an issue related to the calculation of basic earnings per share (‘EPS’) under IAS 33 *Earnings per Share.* Specifically, the submitter requested that the Committee clarify *the period in which* a dividend on non-cumulative preference shares, which are classified as equity (‘preference dividend’), should result in an adjustment to the EPS calculation. The request explained that the word ‘declared’ in paragraph 14(a) of IAS 33 is not clear as to whether declared should be interpreted as ‘proposed by the directors’ or ‘recognised in the financial statements’ for the purposes of calculating EPS.

The Committee noted that, for non-cumulative preference shares with participation features and classified as equity instruments, it is not relevant whether the dividends declared on the preference shares have been recognised in the financial statements for the for purposes of calculating EPS. The Committee noted that paragraph A14 of IAS 33 would require the preference dividends considered to be taken into account in the calculation of EPS on the notional basis that all of the net profit or loss for the period was distributed to each class of equity instrument. In other words, the Committee noted that the declaration of the preference dividends should not affect the calculation of EPS.

Consequently, the Committee [decided] not to add this issue to its agenda because it thinks that sufficient guidance is already included in IAS 33.

Appendix C— Staff Illustrative example

Example 1: Assume the word declared is intended to mean 'proposed by the directors'

Entity A has the following shares in issue:
100 ordinary shares; and
100 non-cumulative preference shares (classified as equity).

At the year ended December 20X1, the profit from continuing operations attributable to the parent entity amounts to CU 1000.
The terms of the preference shares state that before any dividend is paid on ordinary shares, the preference shareholders must receive CU 2 per share. Thereafter, the preference shareholders share in any further dividend equally with ordinary shares
At December 20X1, the directors propose a preference dividend of CU 300 and an ordinary dividend of CU 100.

Based on IAS 33 A14, the basic EPS attributable to the ordinary shareholders would be CU 4. This is determined as follows:

Net profit:	1000	
Less dividends proposed	400	Assume proposed = declared for IAS 33 purposes
Remaining net profit for allocation	600	
Allocated as if fully declared:		
Preference shareholders	300	(CU 200 included in CU 400 dividend above so just 50%)
Ordinary shareholders	300	
Basic EPS attributable to ordinary shareholders:		
Dividends proposed to ordinary shareholders	100	Refer IAS 33 Illustrative Example IE11
Profit allocated to ordinary shareholders	300	
Number of ordinary shares in issue	100	
Basic EPS attributable to ordinary shareholders:	4	

In the course of the annual shareholders' meeting in March 20X2 the shareholders approve the proposal of the directors and the non-cumulative preference dividend is paid in July 20X2.
At December 20X2, the profit from continuing operations attributable to the parent entity amounts to CU 2000. A dividend is proposed for the year ended December 20X2 of CU 800.

Based on IAS 33 A14, the basic EPS attributable to the ordinary shareholders would be CU 4. This is determined as follows:

Net profit:	2000	
Less dividends proposed	800	20X2 proposal not yet approved by shareholders
Remaining net profit for allocation	1200	
Allocated as if fully declared:		
Preference shareholders	600	(CU 200 included in CU 800 dividend above so just 50%)

Ordinary shareholders	600	
Basic EPS attributable to ordinary shareholders:		
Dividends proposed to ordinary shareholders	300	Refer IAS 33 Illustrative Example IE11
Profit allocated to ordinary shareholders	600	
Number of ordinary shares in issue	100	
Basic EPS attributable to ordinary shareholders:	9	

Example 2: Assume the word declared is intended to mean 'recognised in the financial statements'

Entity A has the following shares in issue:
100 ordinary shares; and
100 non-cumulative preference shares (classified as equity).

At the year ended December 20X1, the profit from continuing operations attributable to the parent entity amounts to CU 1000.
The terms of the preference shares state that before any dividend is paid on ordinary shares, the preference shareholders must receive CU 2 per share. Thereafter, the preference shareholders share in any further dividend equally with ordinary shares.
At December 20X1, the directors propose a preference dividend of CU 300 and an ordinary dividend of CU 100.

Based on IAS 33 A14, the basic EPS attributable to the ordinary shareholders would be CU 4.
This is determined as follows:

Net profit:	1000	
Less dividends declared	0	since this was not recognised at year end
Remaining net profit for allocation	1000	
Allocated as if fully declared (based on IAS 33 A14(b)):		
Preference shareholders	600	(CU 200 + 50% of any remaining profit)
Ordinary shareholders	400	
Number of ordinary shares in issue	100	
Basic EPS attributable to ordinary shareholders:	4	

In the course of the annual shareholders' meeting in March 20X2 the shareholders approve the proposal of the directors and the non-cumulative preference dividend is paid in July 20X2.
At December 20X2, the profit from continuing operations attributable to the parent entity amounts to CU 2000. A dividend is proposed for the year ended December 20X2 of CU 800.

Based on IAS 33 A14, the basic EPS attributable to the ordinary shareholders would be CU 4.
This is determined as follows:

Net profit:	2000	
Less dividends declared	400	20X1 proposed dividend recognised in 20X2 (Refer IAS 33 para 14(a))
Remaining net profit for allocation	1600	
Allocated as if fully declared:		

Preference shareholders	800	(CU 200 included in CU 400 dividend above so just 50%)
Ordinary shareholders	800	
Basic EPS attributable to ordinary shareholders:		
Dividends declared to ordinary shareholders	100	Refer IAS 33 Illustrative Example IE11
Profit allocated to ordinary shareholders	800	
Number of ordinary shares in issue	100	
Basic EPS attributable to ordinary shareholders:	9	

Appendix D— Submission

Calculating basic earnings per share

considering preference dividends on non-cumulative preference shares (IAS 33.14 (a))

The objective of IAS 33, 'Earnings per share', (revised in 2003) is to prescribe principles for determining and presenting earnings per share (EPS) to improve comparison between different entities in the same period and between different accounting periods for the same entity.

However, due to non-uniform understanding and – therefore – heterogeneous application of some of the guidance of the Standard as described below, the objective may not be accomplished.

For the purpose of calculating basic earnings per share, according to IAS 33.14 (a) the after-tax amount of preference dividends that is deducted from the profit of loss is 'the after tax-amount of any preference dividends on non-cumulative preference shares declared in respect to the period'.

With respect to this guidance divergent interpretations have been observed for legal environments in which dividends to holders of equity instruments (both, to holders of ordinary and preference shares) are normally declared after the end of the reporting period and even after the financial statements are authorised for issue. In order to illustrate the main different interpretations identified, the following (simplified) example will be used:

Example: Entity A has the following shares in issue:

- 100 ordinary shares and
- 100 non-cumulative preference shares (in the meaning of IAS 33);

in year 1, the profit from continuing operations attributable to the parent entity amounts to CU 100;

in year 2, the profit or loss from continuing operations attributable to the parent entity amounts to CU 0;

in the course of the annual shareholders' meeting in July of year 2 a dividend of CU 1 per non-cumulative preference share is declared;

the financial statements for year 1, which have been authorised for issue on 31 May of year 2, include a note, according to which a dividend of CU 1 per non-cumulative preference share is proposed to the annual shareholders' meeting.

The following **main different approaches** (interpretations) have been **identified**:

(1) The after-tax amount of preference dividends that is deducted from Year 1's profit or loss is the after-tax amount of the preference dividends on the non-cumulative preference shares proposed to the shareholders' general meeting scheduled to take place after the reporting period and even after the financial statements are authorised for issue. As a result of the shareholders' general meeting the dividend will be declared.

Reasoning: This alternative is supported by the view, that the basic EPS calculated based on this approach provides economically meaningful information (if the amounts attributable to ordinary equity holders will – according to proposed (but not yet declared) dividends to the non-cumulative preference share-holders – be reduced, this should be taken into consideration when calculating basic EPS). On the other hand, this approach seems not to be in line with the guidance as provided in IAS 33.14 (a), which requires 'declaration' of the dividend, not simply its 'proposal'.

Approach 1: According to this approach, the basic EPS would calculate as follows:

Year 1: (profit of CU 100 minus preference dividend (proposed) on non-cumulative preference shares of CU 100)
/ 100 ordinary shares
= **CU 0 EPS**

Year 2: (profit of CU 0 minus preference dividend (proposed) on non-cumulative preference shares of CU 0)
/ 100 ordinary shares
= **CU 0 EPS**

(2) No after-tax amount of preference dividends are deducted from Year 1's profit or loss since at the time of preparation of the financial statements (the period ends with the authorisation for issue) no dividends have been 'declared in respect of the period'.

(a) Rather, the after-tax amount of the preference dividends on non-cumulative preference shares are deducted from profit or loss in the period, in which the dividends are declared. Thus, the term 'declared in respect of the period' as used in IAS 33.14 (a) is meant to read as 'declared during the (reporting) period'.

Reasoning: This approach follows the guidance of IAS 33.14 (a) in the meaning as described above and based on the understanding that this was the intention of the IASB when drafting this paragraph. However, this approach would lead to basic EPS which may provide information which is not economically meaningful in all instances. If preference dividends on non-cumulative preference shares are considered for basic EPS purposes on a 'delayed basis' of one year due to dividends being declared on non-cumulative preference shares in the period following the reporting period, basic EPS tend to (1) be overstated for the reporting period and (2) be understated for the period following the reporting period in which the dividends are declared.

Approach 2 (a): According to this approach, the basic EPS would calculate as follows:

Year 1: (profit of CU 100 minus preference dividend (declared) on non-cumulative preference shares of CU 0)
/ 100 ordinary shares
= **CU +1 EPS**

Year 2: (profit of CU 0 minus preference dividend (declared) on non-cumulative preference shares of CU 100)
/ 100 ordinary shares
= CU -1 EPS

(b) If, however, the after-tax amount of the preference dividends on non-cumulative preference shares will not be deducted from Year 1's profit or loss in the (reporting) period since no preference dividends were declared, the after-tax amount of the preference dividends on non-cumulative preference shares will also not be deducted from profit or loss in any following reporting period (upon a dividend has been declared, respectively), since the declaration is not being made 'in respect of the period' (in which the profit has been generated).

Reasoning: This approach follows the guidance of IAS 33.14 (a) in a meaning which is meant to read as "declared in respect of the period in which the profit has been generated". Thus, in the reporting period (Year 1) no preference dividends on non-cumulative preference shares are considered since they are not 'declared' in the meaning of IAS 33.14 (a). In the financial statements for the period following the reporting period (i.e. year 2), in which the dividend has been declared, the preference dividends on non-cumulative shares are not deducted from profit or loss since the dividends are not 'declared in respect of the period in which the profit distributable has been generated'. As a result, dividends on non-cumulative preference shares are never deducted from profit or loss in a legal environment, in which the dividends are (normally) declared with a time-lag as explained above. Therefore, the basic EPS on an aggregated level is overstated by the preference dividends on non-cumulative preference shares.

Approach 2 (b): According to this approach, the basic EPS would calculate as follows:

Year 1: (profit of CU 100 minus preference dividend (declared) on non-cumulative preference shares of CU 0)
/ 100 ordinary shares
= **CU +1 EPS**

Year 2: (profit of CU 0 minus preference dividend (declared) on non-cumulative preference shares of CU 0)
/ 100 ordinary shares
= CU 0 EPS

'Participating equity instruments' in the meaning of IAS 33.A13 f.

With respect to the above issue to appropriately interpret IAS 33.14 (a), some of the application guidance provided in Appendix A to IAS 33 could possibly be supportive. IAS 33.A13 f. deals with 'participating equity instruments and two-class ordinary shares'. According to IAS 33.A14 (a), to calculate basic and diluted earnings per share

> 'profit or loss attributable to ordinary equity holders of the parent entity is adjusted (a profit reduced and a loss increased) by the amount of dividends declared in the period for each class of shares and by the contractual amount of dividends (or interest on participating bonds) that must be paid for the period (for example, unpaid cumulative dividends).'

If the two paragraphs A13 f. of IAS 33 would apply to preference shares in the meaning of IAS 33 as well, the above cited paragraph would support the approach 2 (a) described above since an adjustment would be necessary to reduce a profit or loss by the amount of dividends declared in the period for each class of shares. In contrast to IAS 33.14 (a), which uses the term 'declared in respect of the period', in IAS 33.A14 (a) the term 'declared in the period' is used, which appears to support the view of approach 2 (a). According to its wording IAS 33.A13 f. seems to apply to preference shares in the meaning of IAS 33 as well.

II. Current practice: diversity in practice

We have looked through various national annual reports of listed companies and identified significantly divergent practice evenly split over the two approaches 1 and 2 (a). When contacting some national audit firms, we were ensured that internationally approach 2 (b) is used as well.

III. Reasons for the IFRIC to address the issue:

a) Is the issue widespread and has it practical relevance?

Based on the above mentioned investigations and inquiries, it was confirmed that the issue as described in this document is widespread and of practical relevance.

b) Does the issue involve significantly divergent interpretations (either emerging or already existing in practice)?

As outlined above – there are currently three approaches we are aware of, which lead to fundamentally different calculations of basic earnings per share.

c) Would financial reporting be improved through elimination of the diversity?

Financial reporting would greatly be improved by clarifying this issue since EPS is considered to be one of the key performance indicators in financial reporting. An appropriate clarification in the course of the AIP project of the IASB would enhance comparability among companies' financial reporting.

d) Is the issue sufficiently narrow in scope to be capable of interpretation within the confines of IFRSs and *Framework for the Preparation and Presentation of Financial Statements*, but not so narrow that it is inefficient to apply the interpretation process?

We are of the opinion that the issue is sufficiently narrow in order to be addressed in the course of the Annual Improvements Process (AIP) of the IASB.

e) If the issue relates to current or planned IASB project, is there a pressing need for guidance sooner than would be expected from the IASB project? (The IFRIC

will not add an item to its agenda if an IASB project is expected to resolve the issue in a shorter period than the IFRIC would require to complete its due process).

N.A.

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