Addendum to Agenda Paper 4—IAS 33 *Earnings per Share*—Basic earnings per share and participating equity instruments

A1. Following discussions at the IFRS Interpretations Committee meeting on 14 March 2017, the below outlines a revised draft of the tentative agenda decision.

Proposed wording of the tentative agenda decision

IAS 33 *Earnings per Share*—Tax benefit arising from dividend payments on participating equity instruments

The IFRS Interpretations Committee (the Committee) received a request to clarify how an entity determines profit attributable to ordinary equity holders when calculating basic earnings per share (EPS). In the fact pattern described in the submission:

a. the entity has two classes of equity instruments—ordinary shares and participating equity instruments. Participating equity holders participate in dividends together with ordinary shareholders according to a predetermined formula—ie dividends are paid to participating equity holders only when they are paid to ordinary shareholders.

b. applying IAS 32 *Financial Instruments: Presentation*, the entity classifies the participating equity instruments as equity. The entity, therefore, recognises dividends on participating equity instruments in equity.

c. the dividends on participating equity instruments are deductible for tax purposes. Accordingly, such payments reduce taxable income and, thus, reduce income taxes payable to the taxation authorities ('tax benefit').

The submitter asked whether, in determining profit attributable to the ordinary shareholders (ie the numerator) in the basic EPS calculation, the entity reflects the tax benefit that would arise from the hypothetical distribution of profit to participating equity holders.

Paragraph A14 of IAS 33 requires an entity to allocate profit or loss to the different classes of shares and participating equity instruments in accordance with their dividend rights and other rights to participate in undistributed earnings. Paragraph A14 of IAS 33 also requires an entity to allocate profit or loss (after adjusting for cumulative dividends and dividends declared in the period) 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 Committee concluded that, when calculating basic EPS, the entity adjusts profit or loss attributable to ordinary shareholders for any tax benefit attributable to those ordinary shareholders. This is because, in the fact pattern in the submission, the hypothetical distribution of profit to the participating equity holders required by paragraph A14 of IAS 33 would give rise to a tax benefit that is attributable to the ordinary shareholders. The entity applies this accounting treatment, regardless of whether it recognises the tax benefit in equity or in profit or loss.

The Committee observed that this treatment is also consistent with the objective of basic EPS outlined in paragraph 11 of IAS 33—that paragraph says that the objective of basic EPS is to provide a measure of the interests of each ordinary share in the performance of the entity over the reporting period.

The Committee concluded that the principles and requirements in IAS 33 provide an adequate basis for an entity to calculate basic EPS in the fact pattern described in the submission. In the light of the existing requirements in IFRS Standards, the Committee [determined] that neither an Interpretation nor an amendment to a Standard was necessary. Consequently, the Committee [decided] not to add this issue to its agenda.