M MAZARS

IAS 33 Comment Letters
International Accounting Standards Board
30 Cannon Street
London EC4M 6XH
United Kingdom

19 December 2008

Dear Sir/Madam,

Re: Comments on IASB Exposure Draft *Simplifying Earnings per Share*

Mazars welcomes the opportunity to comment on the Exposure Draft *Simplifying Earnings per Share*. Our general comments are given below. Detailed responses to the specific questions included in the Exposure Draft are attached to this letter.

We also welcome the Board's objective to simplify IAS 33 *Earnings per Share* and agree with most of the amendments set forth in the Exposure Draft.

However, we do have some reservations relating to the following:

- we believe that some fundamental definitions need to be clarified or illustrated by more examples, and notably the *"right to share currently in profit or loss"*.
- in our view some amendments do not simplify the calculation of earnings per share, rather the contrary. This is in particular the case with the proposed test to determine the most dilutive effect for two class-ordinary shares.
- we question why the diluting effect of convertible instruments is not treated in the same way as options, warrants and their equivalents.

Would the Board decided to work on a comprehensive revision of IAS 33, we would recommend to wait until the projects on *Financial Instruments with Characteristics of Equity* and *Financial Statements Presentation* are complete. The first step of such a work should be to re-define precisely the objectives of disclosing earnings per share and which figures should be calculated and disclosed.

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MAZARS

We would be pleased to discuss our comments with you and remain at your disposal should you require further clarification or additional information.

Yours sincerely

Michel Barbet-Massin
Head of Financial Reporting Technical Support

Appendix: Detailed responses to the specific questions included in the Exposure Draft

Question 1: Mandatorily convertible instruments and instruments issuable for little cash or other consideration

(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) the right to share currently in profit or loss? Why or why not?

Mazars comments

We agree with this principle. Indeed, if the holder of an instrument is not entitled to receive any part of the year-end result, this result has to be shared between the other equity holders whose equity instruments have to be included in the weighted average number of ordinary shares.

We nevertheless believe that the board should clarify what is meant by "*the right to share currently in profit or loss*". Indeed, instruments that give the holder the right to share currently in profit or loss include participating instruments, for which the Exposure Draft gives a definition. We have the following questions about this issue:

- does a perpetual instrument that gives right to a mandatory interest only if the entity distributes a dividend "*gives the right to share currently in profit or loss*"? Would the answer be the same if the right to this interest is cumulative or not?
- should an instrument that gives right to any increase in equity, without any right to dividend, be considered as giving "*the right to share currently in profit or loss*"?

(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?

Mazars comments

We agree with the way the Exposure Draft applies this principle to mandatorily convertible instruments. Indeed, a bond mandatorily convertible in ordinary shares does not give its holder the right to share in profit or loss until it is converted. We believe this instrument should not be considered as an outstanding ordinary share.

We would be pleased if the Board could give some examples of instruments that give rise to ordinary shares currently issuable for little or no consideration, and ordinary shares currently callable for little or no consideration. Indeed, we wonder why the entity or the holder of such an instrument would not have already exercised its rights, since the exercise would result in sharing dividends.

Question 2: Gross physically settled contracts to repurchase an entity's own shares and 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?

Mazars comments

We agree with the proposed amendment on gross physically settled contracts, and believe that the treatment should be the same for "*mandatorily redeemable ordinary shares*", even if we are not sure to understand under which legal context such instruments could exist.

We believe that the proposed treatment is consistent with the debt characteristics of such instruments. We also agree that these ordinary shares should be considered as participating instruments, unless they do not give right to share in dividends.

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

Do you agree that the fair value changes sufficiently reflect the effect on ordinary equity holders of instruments measured at fair value through profit and 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?

Mazars comments

We understand and agree with the rationale of the Board and believe this amendment contributes to the simplification of the calculation of diluted earnings per share.

Nevertheless, we have the following concerns on this issue:

- We believe that under current IAS 32 very few instruments that represent potential ordinary shares are accounted for as financial instruments at fair value through profit or loss. Therefore the scope of this amendment seems to be narrow.

- The future Board's decisions regarding its project on *"Financial Instruments with Characteristics of Equity"* could have a huge impact on the effects of this amendment. Indeed, if the Board ever decided to adopt the *Basic Ownership Approach*, all derivatives based on basic ownership instruments would be accounted for at fair value through profit or loss. Under this assumption, diluted earnings per share would have no sense any more.

- We agree that this amendment currently simplifies diluted earnings per share calculation, but we are not sure it is consistent with the other steps of calculating diluted earnings per share. Indeed the fair value of a derivative instrument based on basic ownership instruments represents the future dilution of current owners' rights on the entity's fair value, when other provisions of IAS 33 measure the dilution of current owners' rights on profit or loss.

Question 4: Options, warrants and their equivalents

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

Mazars comments

We agree that for the computation of diluted EPS an entity should assume the settlement of forward contracts on its own shares in the same way as options, warrants and their equivalents.

We do not understand why there is such a difference between the treatment of options and convertible bonds, since a convertible bond is nothing more than a bond plus an option. Indeed:

- options, warrants and their equivalents are considered as dilutive, and thus included in the calculation of diluted earnings per share, only if their comprehensive exercise price is lower that the share price,

- convertible bonds are considered as dilutive when the interest cost per potential ordinary share is lower than the basic earnings per share.

We believe that the probability of conversion should be taken into account for convertible bonds in the same way as for options.

> (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 the period market price? Why or why not?*

Mazars comments

We 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 the period market price. We believe it represents the best estimate of the probability that the instruments will be exercised, and of the potential free shares these instruments would represent at balance sheet date.

Nevertheless we think that the rationale for that change in BC 23 is not clear, and should be re-written. Indeed, we do not understand which inconsistency in IAS 33 the Board refers to in this paragraph.

We believe that the use of balance sheet date figures instead of average figures should be extended to other topics of earnings per share calculation. Since the objective of earnings per share is to calculate the rights of current owners to share in profit or loss of the period, why should the number of shares be the weighted average number of ordinary shares outstanding during the period? Why is this figure more relevant than the number of outstanding ordinary shares at the end of the period?

Question 5: Participating instruments and two-class ordinary shares

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

Mazars comments

We have encountered difficulties in appreciating what would imply this amendment. Is it a clarification of the provisions of current IAS 33, or is it a change in the calculation of diluted earnings per share?
If it is a change, we do not believe that it simplifies the calculation.

This is the reason why we do not support the application of the more dilutive method for the computation of diluted earnings per share for participating instruments and two class ordinary shares.

Question 6: Disclosure requirements

Are additional disclosures needed?

Mazars comments

No.