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Sir David Tweedie
International Accounting Standards Board
30 Cannon Street
London
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4 December 2008

Re: IASB Exposure Draft – Simplifying Earnings per Share (“EPS”)

Dear Sir David,

We are pleased to respond on behalf of PricewaterhouseCoopers to your invitation to comment on the above exposure draft, published in August 2008. Following consultation with members of the PricewaterhouseCoopers network of firms, this response summarises the views of member firms who commented on the draft interpretation. ‘PricewaterhouseCoopers’ refers to the network of member firms of PricewaterhouseCoopers International Limited, each of which is a separate and independent legal entity.

In principle, we support the twin objectives of the exposure draft: the simplification of EPS and convergence between United States Generally Accepted Accounting Principles (“US GAAP”) and International Financial Reporting Standards (“IFRS”). However, for the reasons set out below, we recommend that the Board does not proceed with this project at the current time.

Firstly, we agree with the concerns that are raised in the alternative view published in the exposure draft. In particular, we believe there cannot be high quality convergence of EPS until US GAAP and IFRS have converged models for liabilities and equity classification and measurement.

Secondly, we believe that there are more urgent topics for the Board to address in the current economic climate. Thus, we question whether it is appropriate to devote the Board’s scarce resources to this project before those other projects are completed.

Nonetheless, we attach our responses to your specific questions in the appendix to this letter.

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If you have any questions in relation to this letter please do not hesitate to contact Richard Keys, PwC Global Chief Accountant (+44 20 7802 4555), or Pauline Wallace (+44 20 7804 1283).

Yours sincerely,

PricewaterhouseCoopers LLP

PricewaterhouseCoopers LLP

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Appendix – Responses to Specific Questions raised in the Exposure Draft

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?

We support the principle proposed by the Board and agree that 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.

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(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?

We agree that the exposure draft correctly applies this principle to mandatorily convertible instruments and those instruments issued for little or no cash or other consideration.

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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?

We do not support the proposed changes.

Although we recognise that the intent of this proposal is to converge with the treatment of forward contracts under US GAAP, it does not achieve the desired objective. Under US GAAP only those forward contracts which meet specified criteria are excluded from the denominator of the EPS calculation. The different classification requirements in IAS 32, however, will result in many more derivatives on own equity being excluded from the denominator, including gross settled written put options.

Shares subject to written put options continue to give shareholders the right to share in profit or loss while the written put option remains unexercised. Thus, we do not believe the proposed treatment of written put options is consistent with the principle expressed in question 1. Furthermore, the difference in the classification of debt and equity between IFRS and US GAAP will result in different instruments being deducted from the denominator, thus also failing to achieve the convergence objective.

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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?

We do not agree with this proposal for convertible securities, but recognise its merit for options, warrants, and their equivalents.

Under this proposal, convertible instruments that are similar economically but accounted for differently will give rise to significant differences in diluted EPS. For example, a foreign currency convertible debt which fails to qualify for treatment as a compound instrument under IAS 32 will not give rise to dilution under this proposal, whereas a similar instrument issued in the entity's functional currency and treated as a compound instrument would continue to show significant dilution under the "if converted" method.

The lack of parity in treatment of these convertible instruments is aggravated by the proposal in question 5 which, if adopted, would calculate diluted EPS for the compound instrument based on the most dilutive of the "if converted" and "two class method".

Until a consistent principle is developed and applied for diluted EPS, we do not support making this change for convertible instruments.

However, we can see merit in the proposed method as a replacement for the existing method applied to "options, warrants, and their equivalents" recognised as derivatives. If the liability recognised for such instruments is treated as proceeds used to repurchase shares at the period-end price, the instruments would not have a dilutive impact and the proposed change would achieve the aim of simplification.

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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?

We agree with the Board's proposed amendments.

A forward contract to sell an entity's own shares is economically similar to a combination of a purchased put option and a written call option. The written call option component would be dilutive and therefore should be treated in the EPS calculation in the same way as a standalone written call.

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(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?

We support the Board's proposed changes on the basis of simplification.

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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?

We do not support the proposed changes.

We acknowledge that the method proposed by the Board regarding two-class ordinary shares would in some cases provide a more dilutive measure of EPS. However, this change would add greater complexity to the application of IFRS.

In practice, we believe that the “if converted” method provides a measure of dilution that is both simpler to compute and more understandable for the users of the financial statements.

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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?

We agree with the Board’s proposal not to change disclosure requirements for EPS as part of this project.