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Dear Sir

Comments on Exposure Draft – Simplifying Earning per Share (IAS 33)

The Zambia Institute of Chartered Accountants welcomes the opportunity to comment on the International Accounting Standards Board (IASB)'s Exposure Draft – Simplifying Earnings per Share (IAS 33).

Our comments on the Exposure Draft are as follows:

Question *1* – *Mandatory convertible instruments and instruments issuable for little or no cash or other consideration*

Paragraph 18 and 19 of the exposure draft propose that the weighted average number of ordinary shares 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?*

Comment:

a) **Yes we do 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. As has been advanced in paragraph BC11 of the basis for conclusions, if mandatorily convertible instruments and instruments issuable for little or no cash or other consideration which do not meet the requirement of participating instruments are included in calculating basic EPS, this will be inconsistent with the proposed principle.**

b) **The exposure draft does apply the principle consistently as evidenced in the illustrative examples such as A.3.**

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

Paragraph A31 and A32 of this exposure draft propose clarify 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 repurchased 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?

Comment:

Given that the ordinary shares that are subject to a gross physically settled contract to repurchase its own shares are treated in the exposure draft as if the entity had already repurchased the shares, the Board's proposal to excludes these shares together with the mandatorily redeemable shares from the denominator of the EPS calculation is a welcome move as it will be consistent with the objective of calculating EPS.

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 recognizing those changes in profit or loss eliminates the need for further adjustments to the calculation of EPS? Why or why not?

Comment:

Yes we do agree with the proposed treatment of instruments measured at fair value through the profit or loss. The effect of the changes to such instruments would have already passed thorough the profit or loss and so there is no need to make further adjustment as doing so would be double treating the effects of such instruments.

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 EPD 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 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?*

Comment:

a) Forward contracts to sell an entity's own shares are said to be equivalents to options and warrants. Therefore, if they are equivalent to options and warrants, then their treatment in calculating diluted EPS should be the same as that on options and warrants. To this effect, we do not see anything wrong in treating the forward contracts to sell an entity's own shares as dilutive and hence include them when calculating diluted EPS.

b) The idea behind regarding the ordinary shares from the assumed exercise or settlement of options, warrants and their equivalents as issued at the end-of-period market price is to simplify the calculation of diluted EPS. To avoid any complications when calculating diluted EPS, the board's proposal is welcome and it will also resolve the inconsistency in IAS 33.

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, dilutive 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?

Comment:

Based on the arguments in the basis of conclusions in BC 27 and BC 28, we do agree with Board's proposal. The test for the more dilutive effect is in line with objective of the duiluted 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. Secondly, the use of actual dividends when calculating diluted EPS, rather than the dividends that might have been payable assuming conversion at the beginning of the period, avoids the complication that might be there in trying to determine what dividends to attribute to the shares resulting from the assumed conversion at the beginning of the period.

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?

Comment:

Additional disclosures are not necessary since the objectives of the changes are still achievable using the current disclosures in IAS 33.

The Institute will be ready to respond to any matters arising from above comments.

Yours faithfully

Modest Hamalabbi
Technical Officer