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Mr M Buschhueter
IASB
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10 December 2008

Dear Mr Buschhueter

Exposure Draft: Simplifying Earnings per Share

The Chartered Institute of Management Accountants (CIMA) is pleased to have the opportunity to comment on this consultation. CIMA is a global professional body representing accountants in business. CIMA represents over 164,000 members and students in 161 countries. CIMA is committed to high quality, global, principle-based, neutral financial reporting standards and supports the widespread adoption of International Financial Reporting Standards.

We are not aware of problems with the current IAS 33 and so question whether now is the time to propose amendments to it. The IASB's project clarifying the classification of debt and equity has not yet concluded and when it does it is likely to have a material impact on the calculation of Earnings Per Share (EPS). We are not convinced that, in this case, the benefits of convergence are such that they outweigh the risks of further changes to an amended IAS 33 in the near future.

We also note that the exposure draft includes an alternative view and we particularly agree with the aspect of this alternative view concerning changes beyond convergence. We would prefer that the final outcome of this exposure draft is deferred to coincide with the outcome with the outcome of the board's project on financial instruments with the characteristics of equity.

Despite our reservations about the timing of this project, we attach responses to your specific questions. We would be pleased to discuss with you any aspect of this letter that you may wish to raise with us.

Yours sincerely

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Responses to the specific consultation questions :

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 agree that the weighted average number of ordinary shares for basic EPS should include only instruments that give their holder the right to share currently in profit for the period. This is consistent with our belief that basic EPS should provide a measure of the interests of each ordinary share in the performance of the entity for that period.

(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 applies the principle correctly to mandatorily convertible instruments and shares issuable for little or no cash or other consideration.

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 agree that the proposed treatment for gross physically settled contracts to repurchase an entity's own shares and mandatorily redeemable shares is consistent with the principle of ensuring a link between the resources used in a period to generate earnings and the number of participating shares.

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?

When an entity measures an instrument at fair value through profit and loss, fair value changes affect the interest of the ordinary shares in the entity's performance and, as a consequence, we agree that such instruments should not be included in the calculation of diluted EPS.

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

(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 agree that the proposed treatment is appropriate.

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.

We agree with the extended scope of the application guidance to include participating instruments that are classified as liabilities for the purpose of basic EPS

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

We agree with the proposed application guidance for participating instruments and two-class ordinary shares.

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 do not believe that additional disclosures should be provided.