SwissHoldings

Verband der Industrie- und Dienstleistungskonzerne in der Schweiz
Fédération des groupes industriels et de services en Suisse
Federation of Industrial and Service Groups in Switzerland

10 December 2008

International Accounting Standards Board
30 Cannon Street
London EC4M 6XH
United Kingdom

Comment Letter on Exposure Draft – Simplifying Earnings per Share

Dear Sir / Madam

SwissHoldings, the Swiss Federation of Industrial and Services Groups in Switzerland, represents 46 Swiss groups, including most of the country's major industrial and commercial firms. We very much welcome the opportunity to comment on the above-mentioned Exposure Draft (ED). Our response below has been prepared in conjunction with our member companies.

In summary, we agree with the proposals in the exposure draft because these principles will ease and simplify the earnings per share (EPS) calculation as well as better capture the representation of the EPS measure in the short run.

The IASB and FASB initiated a joint project on the definition of financial instruments qualifying for equity. We expect that the outcome of this project will most likely change the current characteristics of equity and have so an impact on the earnings per share calculation as well. As a result, the standard will have to be amended again. We therefore think that it might be advisable to defer the proposed amendments at this stage until a consensus on the equity and liability classification has been reached.

However, for the purpose of supporting your due process, please find below our responses to your questions.

Specific questions in invitation to comment

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 believe that an inclusion of shares only participating in profit or loss in the denominator economically better addresses the interests of a single ordinary share.

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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?

If the instruments participate ab initio in profit or loss, they need to be added to the denominator. Hence the principle has been deployed correctly.

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 principle for contracts to repurchase an entity's own shares for cash or other financial assets should also apply to mandatorily redeemable shares. Do you agree with the proposed treatment of gross physical settled contracts to repurchase an entity's own shares and mandatorily redeemable shares? Why or why not?

We agree with the proposed clarification that shares that are subject to gross physically settled repurchase contracts will be treated as if already repurchased. Consequently, the shares will be considered as treasury shares and as non-outstanding which will exclude them from the denominator.

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?

If instruments are measured at fair value through profit or loss, we are of the opinion that this recognition of fair value changes in profit or loss sufficiently reflects the related effects on earnings per share (EPS) and therefore eliminates the need for additional adjustments to the EPS calculation.

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 that an entity should assume settlement of forward sale contracts and occurrence of such transactions in the same way as dilutive options and warrants. The clarification is consistent with the assumptions to be made for diluted EPS calculations.

(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 believe that the price determination of the exercise or settlement should be as of the end-of-period market price. As the transactions in question have not yet occurred, we are of the opinion that it should be assumed that the exercise or settlement should be valued at the most recent and available market price (i.e. end-of-period price). This value represents the actual circumstances likely to occur much better than the average value over past periods.

Question 5 – Participating instruments and two-class ordinary shares

Paragraph A23 proposes to extend the scope of the application guidance for participating instrument 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 the dilutive convertible instruments, 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 agree with the proposal to amend the application guidance with additional illustrative examples to make it clearer that the two-class method should be applied for convertible participating instruments.

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 foresee further needs for additional disclosure.

We thank you for the opportunity to submit our contribution to your due process.

If you would like further clarification of the points raised in this letter, we would be happy to discuss these further with you.

Yours sincerely,

SwissHoldings
Federation of Industrial and Service Groups in Switzerland

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Chairman Executive Committee

Denise Laufer
Economist

cc SH Board

CL ED Simplifying_earnings_per_share