THE
INSTITUTE OF
CHARTERED
ACCOUNTANTS
OF SCOTLAND

AH/ASC-SUB/mb

International Accounting Standards Board
30 Cannon Street
LONDON
EC4M 6XH

16 December 2008

Dear Sir or Madam

IASB EXPOSURE DRAFT – SIMPLIFYING EARNINGS PER SHARE: PROPOSED AMENDMENTS TO IAS 33

The Institute's Accounting Standards Committee has considered the above Exposure Draft and I am pleased to set out their comments below.

The Institute is the first incorporated professional accountancy body in the world. The Institute's Charter requires its committees and working parties to act primarily in the public interest, and our responses to consultations are therefore intended to place the general public interest first. Our Charter also requires us to represent our members' views and protect their interests, but in the rare cases where these are at odds with the public interest, it is the public interest which must be paramount.

General comments

We do not believe that it is an efficient use of the IASB's resources to continue with an EPS project at this time, given that the IASB/FASB project on defining equity and liabilities is still ongoing. The outcome of that project will impact on the calculation of EPS therefore we believe that this project should be deferred.

Generally, the reporting of earnings per share measures will be dictated by the market, and so an EPS accounting standard should ideally be concise and principles-based, with a small number of additional examples. Market pressure will result in consistent reporting of EPS, meaning that extensive guidance is not required in the accounting standard. Furthermore, we would note that some of the terminology used in this Exposure Draft does not lend itself to the aim of 'simplifying' EPS. For example, we believe that the term 'potential ordinary shares' is confusing since it is only used in this specific context, and that to refer to 'earnings per share' in relation to instruments that are not shares only adds to complexity and opacity of financial reporting.

Although we believe that the IASB should defer this project at this time, we have nonetheless set out our responses to the questions in the invitation to comment below.

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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?
(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?

Response:
We 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 for the period.

We agree that this principle seems to be applied correctly to mandatorily convertible instruments and ordinary 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?

Response:
We agree that shares that will have to be repurchased should be excluded from the denominator of the EPS calculation.

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.

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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?

Response:
We agree that the recognition of the fair value changes for instruments measured at fair value through profit or loss eliminates the need for further 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?
(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?

Response:
We agree with both of these proposals.

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?

Response:
We agree with these proposed amendments.

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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?

Response:
We agree that no further disclosures are necessary.

I hope our comments are useful to you in the development of this project. If you would like to discuss any of them further, please do not hesitate to contact me.

Yours faithfully

AMY HUTCHINSON
Assistant Director, Accounting and Auditing
Secretary to the Accounting Standards Committee

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