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5 September 2008

Exposure Draft 'Simplifying Earnings per Share'
International Accounting Standards Board
30 Cannon Street, London EC4M 6XH
United Kingdom

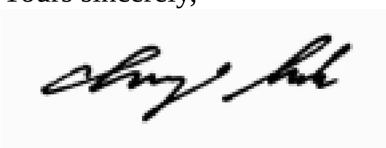
Dear Sir or Madam:

The Korea Accounting Standards Board (KASB) has finalized its comments on Exposure Draft 'Simplifying Earnings per Share'. I would appreciate your including our comments in your summary of analysis.

The enclosed comments represent official positions of the KASB. They have been determined after extensive due process and deliberation.

Please do not hesitate to contact us if you have any inquiries regarding our comments. You may direct your inquiries either to me(cwsuh@kasb.or.kr) or to Mr. Sung-ho Joo (sung-ho.joo@kasb.or.kr), researcher of KASB.

Yours sincerely,



Dr. Chungwoo Suh
Chairman, Korea Accounting Standards Board

Cc: Sungsoo Kwon, Director of Research Department

We are pleased to comment on the Exposure Draft 'Simplifying Earnings per Share'. Our comments include views from a public hearing and responses collected from the various associations. We finalized the comment letter through the due process established in KASB.

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?

We suggest that the calculation of EPS for convertible instruments should be consistent with the treatment in law when the right to share in profit or loss is specified under law.

According to the Korean business law, when convertible instruments are converted in the middle of the period, with regard to a dividend to be distributed to the converted shares, the conversion shall be deemed to have been effected at the end of the business year in which the conversion is demanded. In this practical case, we believe that entity should consider whether those instruments give their holder the right to share currently in profit or loss of the period in accordance with the principle to determine which instruments are included in the calculation of basic EPS.

Therefore, in order to clarify this basic principle, it is necessary to address calculation of EPS in accordance with the treatment in law when the right to share in profit or loss is specified under law.

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 A23–28 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.

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 A23–28.

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 agree.

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?
(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 end-of-period market price should be used for ordinary shares arising from the assumed exercise of options, warrants and their equivalents.

However, in the extremely rare circumstance in which stock prices fluctuate widely, it is not reasonable to assume that options, warrants or their equivalents are issued at the end-of-period market price. Thus, in this rare circumstance, it would be necessary to use an average market price because an average of high and low prices usually produces a more representative price.

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?

Users are not familiar with the term "two-class method" because the term has not been used in IFRSs, even though the method is described in the IAS 33. Therefore, we believe that the definition of the term should be included in the standard.

In addition, calculation of diluted earnings per Class A shares is described assuming conversion of class B shares in the alternative 1 for illustrative example D.3 (page 96), and then diluted earnings per Class A shares is calculated under the two-class method without assumption for conversion of class B (page 98). We noted that there is inconsistency between these steps for the calculation of EPS. It would be best to provide with additional explanation for these assumptions.

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 believe that entity should disclose the amount of the adjustment in basic and diluted EPS, in profit or loss (the numerator), and in the weighted average number of ordinary shares outstanding (the denominator) when retrospective application is required in order to contribute to the usefulness of accounting information.

Also, it is more adequate to require disclosure for information of participating instruments in paragraph 58 in the Exposure Draft because current requirements are only for ordinary shares and two-class of ordinary shares.