Finance and Controlling

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Exposure Draft: IAS 33 Simplifying Earnings per Share

Dear Sirs

We very much welcome the opportunity to comment on the above-captioned exposure draft.

In summary, we agree with the proposals in the exposure draft, as 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. As a result, the earnings per share calculation will be impacted as well. Consequently, we are afraid that the standard will have to be amended yet again. At this stage, it might be advisable to rather defer the proposed amendments until a consensus on the equity and liability classification has been reached.

However, for the purpose of supporting your due process and providing constructive feedback, please find below our responses to your questions in the invitation to comment:

Responses to specific questions in the 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 the inclusion of instruments only participating *currently* in profit or loss in the denominator economically better addresses the interests of a single ordinary share.

(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 *currently* in profit or loss they need to be added to the denominator. Therefore, 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 (e.g. written put option or forward purchase contract) to repurchase its own shares as if the entity had already repurchased the shares (quasi-treasury 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 should be treated as if already repurchased. Consequently, the shares will be considered as quasi-treasury shares and as non-outstanding which will therefore exclude them 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.

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 believe that the recognition of fair value changes in the income statement sufficiently reflects the related effects on basic 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 in the same way as dilutive options and warrants.

(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 assumed 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 the assumption should be that the assumed exercise or settlement is valued at the most recent available market price (i.e. end-of-period price). This value reflects the actual circumstances likely to occur far better than the average price over past periods.

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 any additional disclosure requirements.

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, either of the undersigned would be happy to discuss these further with you.

Keith Cameron
Head Standards and Accounting Principles

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Holcim