# Memo

To: International Accounting Standards Board

From: Accounting Standards Board – Canada, Staff

Date: November 25, 2008

Re: IAS 33 *Simplifying Earnings per Share*

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The staff of the Canadian Accounting Standards Board agree with the proposed amendments to IAS 33, *Simplifying Earnings per Share*, dated August 2008. Staffs' answers to the specific questions posed in the Exposure Draft follow this page.

We would be pleased to elaborate on our response if you require. If so, please contact Peter Martin, Director Accounting Standards at +1 416 204-3276 (e-mail peter.martin@cica.ca); Mark Walsh, Principal Accounting Standards at +1 416 204-3453 (e-mail mark.walsh@cica.ca; or Harry Klompas, Principal Accounting Standards at +1 416 204-3236 (e-mail harry.klompas@cica.ca).

**Question 1**

**(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?**

Yes, because instruments that give (or are deemed to give) their holder the right to share currently in profit or loss of the period provide a measure of the interest of each ordinary share in the performance of an entity during the reporting period, as explained in the proposed standard and basis for conclusions.

**(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?**

Yes, the exposure draft applies the principle correctly to mandatorily convertible instruments and ordinary shares issuable for little or no cash or other consideration, as explained in the proposed standard and basis for conclusions.

**Question 2**

**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?**

Yes, because we agree with the Board's observation that when the financial liability is recognised initially in accordance with IAS 39 *Financial Instruments: Recognition and Measurement*, the present value of the redemption amount is reclassified from equity, and that a contract to repurchase an entity's own shares is economically similar to the acquisition of treasury shares using borrowed funds. We therefore agree that the denominator of the basic and diluted EPS calculations should exclude the number of ordinary shares that will be acquired upon physical settlement of the contract.

**Question 3**

**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?**

Yes, because we agree with the Board's observation that the changes in fair value of instruments measured at fair value through profit or loss reflect the economic effect of the instruments on current equity holders for the period. Accordingly, the numerator of the EPS calculation includes those changes without the need for any adjustment. Therefore, for an instrument that is measured at fair value through profit or loss, we agree that an entity should not adjust the EPS calculation for assumed exercise or conversion.

**Question 4**

**(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?**

Yes, we agree because dilutive EPS calculations assume the settlement of all relevant dilutive transactions, as explained in the proposed standard and basis for conclusions.

**(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?**

Yes, we agree. Although not technically correct, the use of the end-of-period market price simplifies the calculation of diluted EPS, which will reduce the work-effort and costs for preparers.

**Question 5**

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

Yes, we agree. The proposed amendments appear to be logical in the context of the new proposals.

**Question 6**

**Are additional disclosures needed? If so, what additional disclosures should be provided and why?**

The proposed disclosures appear to meet the needs of users of general purpose financial statements.