MASB MALAYSIAN ACCOUNTING STANDARDS BOARD
LEMBAGA PIAWAIAN PERAKAUNAN MALAYSIA

10 December 2008

Sir David Tweedie
Chairman
International Accounting Standards Board (IASB)
30 Cannon Street
London ED 4M 6 XH
United Kingdom

Dear Sir David

IASB EXPOSURE DRAFT OF SIMPLIFYING EARNINGS PER SHARE

The Malaysian Accounting Standards Board welcomes the opportunity to provide comments to the IASB on Exposure Draft of Simplifying Earnings per Share.

We have the following comments for your consideration.

Question 1 – Mandatorily convertible instruments and instruments issuable for little or no cash or other consideration

(a) Do you agree that the weighted average number of ordinary shares for basic earnings per share (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?

Agree. Their mandatorily convertible feature would make this meaningful.

(b) Does the ED 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 ED has applied the principle correctly in recognising their participating feature with regard to those instruments that give their holder the right to share in the profit or loss of the period.

In addition we believe the drafting in paragraph 19 would be enhanced if it also referred to the rebuttable presumption, i.e. regarding ordinary shares issuable for little or no cash that may not meet the participation condition. This would be particularly useful since the current drafting deems these to have participation rights.

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Question 2 – Gross physically settled contracts to repurchase an entity's own shares and 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 with the proposed amendment which is analogous to that for treasury shares, in considering such shares to be non-participating. We suggest that paragraph A 32 would be significantly clearer if it discussed the matter along the following lines:

- ***if gross physically settled contracts to repurchase ordinary shares are such that no dividend outflow would occur because the entity would itself hold those shares, then these would not be considered participating shares and therefore would be excluded from the denominator;***
- ***if, however, the contracts are such that the dividend would be receivable by the holder without the obligation to remit back to the entity, then these would be treated as participating shares and therefore should not be excluded from the denominator; and***
- ***if the holder is obliged to remit the dividend it receives back to the entity, the shares would be considered non-participating and therefore should be excluded from the denominator.***

Question 3 – Instruments that are measured at fair value through profit or loss (FVTPL)

Do you agree that the fair value changes sufficiently reflect the effect on ordinary equity holders of instruments measured at FVTPL and that recognising those changes in profit or loss eliminates the need for further adjustments to the calculation of EPS? Why or why not?

The proposed amendments only address instruments measured at FVTPL but unfortunately do not resolve the anomaly in IAS 33 with regard to the different treatment applied to the conversion feature in a compound instrument versus an equivalent non-convertible instrument accompanied by a stand alone option or warrant.

IAS 32 requires split accounting for embedded conversion rights in a compound instrument. In other words, the accounting of compound instruments would be consistent with that of an equivalent non-convertible instrument accompanied by a stand alone warrant because the substance of both instruments is the same.

Conversely for the purpose of EPS calculation, IAS 33 requires a different treatment to assess the dilution arising from separate and embedded warrants and options. Whilst the proposed IAS 33 paragraph 43 clearly states that

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"Options and warrants ... do not affect the numerator of the calculation", paragraph 51 states "If convertible instruments ... or conversion options ... are not measured at fair value through profit or loss the entity shall reflect their dilutive effect in diluted earnings per share ..."

This would mean:

(i) ***for a contract classified wholly as an equity instrument (ie non-convertible instrument accompanied by a stand alone warrant), no adjustment to the numerator will be necessary (as illustrated in B.1); and***

(ii) ***for a contract not classified wholly as an equity instrument (e.g. compound instruments with embedded warrants or options) and not measured at fair value through profit or loss, the numerator should be adjusted for any changes in profit or loss that would have resulted if it had been classified wholly as an equity instrument (as illustrated in B.3).***

We believe that the liability portion of a compound instrument that has been fair valued on initial recognition should not have an impact on the diluted EPS similar to the treatment accorded to an equivalent non-convertible instrument accompanied by a stand alone option or warrant. In this respect we believe the IASB should review the requirements of the proposed IAS 33 paragraphs 43 and 51 holistically.

Should the Board decide to maintain these requirements, clarification should be included to explain the rationale for doing so.

<u>Question 4</u> – Options, warrants and their equivalents

(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?

Agree. The requirement would result in consistent treatment of contracts of similar nature. It also enhances the comparability of EPS measures among entities.

(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?

Agree. The end-of-period market price would be a more precise measure of the entity's share price compared to the weighted average market price during the period. It would eliminate subjectivity in determining average market price.

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__Question 5__ – **Participating instruments and two-class ordinary shares**

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

Agree. The proposed amendments are consistent with the general requirement in IAS 33 to consider the sequence of the most dilutive to the least dilutive i.e. dilutive potential ordinary shares with the lowest 'earnings per incremental share' are included in the diluted earnings per share calculation before those with a higher earnings per incremental share.

__Question 6__ – **Disclosure requirements**

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

We do not suggest further additional disclosures.

__Other comments__

According to paragraph 4 of IAS 33, entities that present both separate financial statements and consolidated financial statements need only to present disclosures required by the Standard either on the basis of the consolidated information or EPS information of its separate statement of comprehensive income if it chooses to disclose EPS based on its separate financial statements.

However, IAS 33 is silent on whether EPS information is only provided on the basis of the separate financial statements where they are produced in addition to financial statements that incorporate by the equity method associates / joint ventures in which the entity has a financial interest.

We propose that the Standard should clarify whether EPS information is required in both these financial statements or either one of the financial statements as in the case of entities presenting both separate financial statements and consolidated financial statements.

If you need further clarification, please contact Dr Nordin Mohd Zain at nordin@masb.org.my or Ms. Tan Bee Leng at beeleng@masb.org.my.

Yours sincerely,

Dato' Zainal Abidin Putih
Chairman