



Australian Government

Australian Accounting  
Standards Board

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19 December 2008

Michael Buschhueter  
Project Manager  
International Accounting Standards Board  
30 Cannon Street  
London EC4M 6XH  
United Kingdom

Dear Mr Buschhueter

**Exposure Draft *Simplifying Earnings per Share* (proposed amendments to IAS 33  
*Earnings per Share*)**

The Australian Accounting Standards Board (AASB) is pleased to provide comments on the abovenamed Exposure Draft. In forming its views, the AASB considered comments received from Australian constituents in response to its Exposure Draft on the same topic.

The AASB considers that the revision of IAS 33 is not a high priority in view of the magnitude of important topics that the IASB needs to address. Accordingly, the AASB is of the view that the IASB should not be deploying resources on this project at this time. The AASB is also concerned about the rules-based approach that underlies IAS 33, which seems inconsistent with the IASB's intended principles-based approach to standard setting.

Notwithstanding the AASB's view on the priority of this project and its rules-based nature, it is generally supportive of the proposals in the Exposure Draft, with some exceptions as identified in the attached response.

Yours sincerely

A handwritten signature in black ink, appearing to be 'BP' with a long horizontal stroke extending to the right.

Bruce Porter  
Acting Chairman

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**Q1: Mandatorily convertible instruments and instruments issuable for little or no cash or other consideration**

*(a) Do you agree that the weighted 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. In respect of basic EPS, this proposal aligns with the basis on which the (earnings) numerator is determined for the current period. The AASB notes that, in respect of (the more future-oriented) diluted EPS, the relevant impact of instruments that do not carry the right to share currently in profit or loss is factored into the calculation through their dilutive effect on the denominator.

*(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, in respect of both basic and diluted EPS. There may be a concern that mandatorily convertible instruments and ordinary shares issuable for little or no cash or other consideration that don't currently share in profit or loss may not be factored into the calculation of diluted EPS because they are antidilutive. However, such instruments are disclosed under paragraph 64(c) in any case.

There should be greater consistency in the manner in which the notion of sharing in profit or loss is expressed. Paragraphs A8-9 are not consistent with the principle as described in paragraph 17. Paragraph 17 refers to "the date the holder has the right...to share currently in profit or loss of the period" while paragraph A8 refers to "the date the holder of the instrument has the right to share in profit or loss of the period". In addition, the definition of 'a participating instrument' (paragraph 6) refers to participating in dividends, rather than profit or loss. We appreciate that, with respect to a particular instrument, it may be more helpful to refer to dividends, but there may be a way of linking dividends to the notion of sharing in profit or loss in the definition to make the drafting more consistent.

**Q2: 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?*

No. We do not agree with this proposal on the basis that a key notion underlying the proposed IAS 33 is that instruments that share in profit or loss should be factored into EPS amounts. We consider that this notion should override the view that instruments that are classified as liabilities should not be factored into EPS amounts because users of EPS information are interested in the extent to which the profit or loss needs to be shared among stakeholders.

**Q3: Instruments that are measured at fair value through profit or loss**

*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?*

In some cases, the fair value movement will reflect the overall impact of such instruments on EPS through the earnings numerator. Where this is the case, the proposal would simplify the calculation of EPS for entities with instruments measured at fair value through profit or loss. However, for some instruments, in particular, convertible debt, the fair value movement will often not reflect the overall impact. For those instruments, the proposed change would not be appropriate. On balance, we therefore do not support the proposal.

Furthermore, in both instances, the AASB is also concerned that, in practice, this method may not show the potential burden of dilution from these instruments that would generally be reflected under the existing IAS 33. If the IASB proceeds with its proposal, supplementary disclosure about the potential dilution may be necessary.

**Q4: 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?*

Yes, on the basis that forward sale contracts generally have the same impact on EPS in substance as 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?*

Yes, on the basis that it simplifies the calculation and it is appropriate to focus on the most up-to-date price in the period in respect of instruments to be exercised in the future.

**Q5: 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?*

The 'assumed conversion' approach is the basis generally applied under IAS 33. Although this proposal is consistent with US GAAP, the AASB does not consider that there is adequate justification for requiring entities to test for the most dilutive outcome as between the 'assumed conversion' approach and the 'two-class' approach. The AASB considers this to be a further complication of IAS 33, rather than a simplification.

In the context of 'assumed conversion' the AASB supports the change to include actual dividends rather than impute the dividends that would have been paid had conversion occurred at the beginning of the period. This acknowledges that the entity may have made a different decision about dividends had the instruments actually been converted at the beginning of the period.

**Q6: Disclosure requirements**

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

The AASB has no suggestions for further disclosures other than those mentioned in our response to Q3.

However, the AASB disagrees with the amendment made to paragraph 67 that alternative EPS numbers can only be disclosed in the notes. Such EPS numbers can provide useful information to users, and it is important for them to be presented together with the prescribed EPS numbers to allow for comparisons between those numbers. Alternative EPS amounts that are calculated on a 'through the eyes of management approach' may have either alternative numerator amounts, alternative denominator amounts, or both, and should be permitted provided they are reconciled to the numerator or denominator amounts as prescribed by the Standard.

For example, some entities in Australia have issued stapled securities, whereby the equity securities of two or more entities that operate as a group are combined and traded as one security. A holder of such a security has one of each of the securities of the stapled entities, and not just one or the other, and the financial performance of the stapled security depends on the financial performance of all the entities whose securities are stapled. For the purposes of financial reporting, however, in a business combination, one of the stapled entities must be identified as the acquirer and the other entity is effectively minority interests. Consistent with the Exposure Draft and the existing IAS 33, basic and diluted EPS is calculated using profit or loss attributable to the parent entity, that is, after deducting minority interests. EPS measured in this way is unhelpful to the holders of a stapled security as they are interested in the EPS measure relating to all the stapled entities combined, that is, including the portion that is in minority interests, as the stapled security holders of the parent are the same as the stapled security holders in the minority interests. For such entities, disclosure of basic and diluted EPS calculated using group earnings would provide relevant information to users. Where alternative EPS numbers provide relevant information, such EPS amounts should be required to be presented together with the EPS numbers calculated in accordance with the Standard to ensure that the user is aware of both sets of EPS numbers. We therefore do not agree with the requirement in paragraph 67 to only permit alternative EPS numbers to be disclosed in the notes.

## Other comments

### *Equity and liabilities project*

The AASB considers that the IASB should clarify the extent to which the EPS project might be impacted by the proposals in the recent Discussion Paper *Financial Instruments with Characteristics of Equity*.

### *Example D1*

This example appears to deal with contingently issuable shares rather than the treatment of shares issuable for little or no cash or other consideration as indicated by the heading.

### *Guidance*

There should be consistency between paragraph A16 and paragraph 54. Paragraph A16 should explain that contingently issuable shares are included in diluted EPS from the later of the beginning of the period or the date of the contingent share agreement, if the conditions in the agreement have been satisfied at the reporting date.

### *Cancelled and lapsed potential ordinary shares*

Paragraph 37 – The AASB considers that cancelled or lapsed potential ordinary shares should not be factored into the calculation of diluted EPS. This is on the basis that diluted EPS is often used as a forward-looking indicator and it is appropriate to apply the knowledge we have at year end about cancellations and lapses in performing the calculation.

If the requirement to include cancelled or lapsed potential ordinary shares in the calculation of diluted EPS is retained, then IAS 33 should require their separate disclosure so that users can rework the calculation to remove their effect.

### *Location of disclosure*

Paragraph 58 – The AASB does not consider that it is justifiable to require the EPS amounts to be disclosed with the statement of comprehensive income. The AASB considers that the EPS amounts should be able to be disclosed either with the statement of comprehensive income or in the notes to the statement. This would also facilitate the co-location of the prescribed and alternative EPS amounts (also see our response to Q6).