Hong Kong Institute of
Certified Public Accountants
香港會計師公會

5 September 2008

To: Members of the Hong Kong Institute of CPAs
All other interested parties

INVITATION TO COMMENT ON IASB EXPOSURE DRAFT OF *PROPOSED AMENDMENTS TO IAS 33 – SIMPLIFYING EARNINGS PER SHARE*

Comments to be received by 10 November 2008

The Hong Kong Institute of Certified Public Accountants' (Institute) Financial Reporting Standards Committee (FRSC) is seeking comments on the IASB Exposure Draft which has been posted on the Institute's website at: www.hkicpa.org.hk/professionaltechnical/accounting/exposuredraft/content.php.

The IASB and the US Financial Accounting Standards Board (FASB) (collectively the boards) are working on a joint project to converge the guidance on earnings per share (EPS). The proposed amendments will simplify the calculations of EPS and increase transparency for users of financial statements.

In particular, the proposed amendments aim to simplify the calculations of EPS by:

- providing a clear principle to determine which shares and other instruments should be included in the EPS calculation;
- clarifying the EPS calculation for particular instruments, such as contracts to sell or repurchase an entity's own shares and participating instruments; and
- simplifying the EPS calculation for instruments that are accounted for at fair value through profit or loss.

A summary of the main proposals in the Exposure Draft is set out in the Appendix.

In accordance with the Institute's Convergence Due Process, comments are invited from any interested party. The FRSC would like to hear from both those who do agree and those who do not agree with the proposals contained in the IASB Exposure Draft.

Comments should be supported by specific reasoning and should be submitted in written form.

To allow your comments on the IASB Exposure Draft to be considered, they are requested to be received by the Institute on or before **10 November 2008**.

Comments may be sent by mail, fax or e-mail to:

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Comments will be acknowledged and may be made available for public review unless otherwise requested by the contributor.

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Appendix

<u>Summary of the main proposals in the Exposure Draft</u>

(1) Basic principle of determining what instruments are included in the basic EPS

The Exposure Draft proposes that only ordinary shares that give (or are deemed to give) the holder the right to share currently in profit or loss of the period should be included in the calculation of basic EPS. Ordinary shares include ordinary shares that are currently issuable for little or no cash or other consideration. Currently under IAS 33 mandatorily convertible instruments are likely to be treated for EPS purposes as if the instrument has already been converted, i.e. the shares have been issued, whereas under the Exposure Draft this will not be the case if the holder of the instrument does not have the right to immediately convert as the holder does not currently share in profit or loss of the period.

Also, in determining the amount of earnings attributable to ordinary shares an entity shall consider the effects of a second class of ordinary shares and participating instruments.

(2) Clarification on EPS calculation of particular instruments

(a) Contracts to repurchase an entity's own shares in exchange for cash or other financial assets and mandatorily redeemable ordinary shares

The EPS impact for contracts that require the entity to buy back its own ordinary shares for cash or other financial assets that are not fair valued through profit or loss, e.g. some forward purchase contracts over own equity. The Exposure Draft proposes to treat those contracts as if the entity had already repurchased the shares, therefore as a reduction in the number of ordinary shares outstanding. This would also apply to mandatorily redeemable ordinary shares. If the underlying shares to be acquired are receiving dividends it may result in the financial liability being considered a participating instrument.

(b) Participating instruments and two-class ordinary shares

IAS 33 currently only takes into account participating instruments that are classified as equity when determining the amount of earnings and number of ordinary shares. The Exposure Draft proposes extending this to participating instruments that are classified as financial liabilities if they are not fair valued through profit or loss.

The Exposure Draft proposes that in determining whether a participating instrument or a second class of shares convertible into ordinary shares is dilutive, the entity must calculate dilutive EPS assuming both conversion does and does not occur. Diluted EPS reflects the more dilutive of these scenarios.

(3) Simplification of EPS calculation for instruments that are accounted for at fair value through profit or loss

The Exposure Draft proposes that if an instrument (or part of an instrument in the case of an embedded derivative that is separated) is fair valued through profit or loss and may result in the issue or acquisition of ordinary shares in the future, then no adjustment is required to earnings or the number of shares for either basic or diluted EPS. As the instrument's fair value is already recognised in current earnings, thereby impacting current equity holders, no further adjustment is required to earnings or the number of shares. This proposed change in treatment will be relevant to all standalone derivatives over own equity that under IAS 32 *Financial Instruments: Presentation* are not classified as equity instruments and to convertible debt where the embedded conversion option into own equity fails to meet the definition of equity.

In determining whether an option, warrant, or equivalent is dilutive, the existing standard looks to the average share price for the period. The Exposure Draft proposes that the period end share price should be used instead. The Exposure Draft also clarifies that in determining whether a forward sale contract over own equity is dilutive the treasury stock method should be used, which is the same method used for options and warrants.

The Exposure Draft proposes removing the guidance on determining whether forward purchase contracts or written puts over own equity are dilutive. The Exposure Draft presumes that these are either fair valued through profit or loss and therefore not adjusted for EPS purposes, or else may be participating instruments if a financial liability is presented for the present value of the redemption amount and dividends are still payable under the shares to be acquired.

The Exposure Draft proposes clarifying that if a supplementary EPS is disclosed using a different amount of earnings than is required by the Standard, then this may only be disclosed in the notes and not presented in the statement of comprehensive income. The Exposure Draft does not propose additional disclosures beyond those required in IAS 33.