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RÉPUBLIQUE FRANÇAISE

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Le Président

JFL/JC

n°543

Paris, 8 décember 2008

IASB

30 Cannon Street
LONDON EC4M 6XH
UNITED KINGDOM

Dear Sirs,

The Conseil National de la Comptabilité welcomes the opportunity to comment on the Exposure Draft “Simplifying Earnings per Share”. We are also usually supportive when it comes to simplifying standards and convergence with US GAAP.
We however question whether the Exposure Draft actually does simplify the calculation of Earnings per Share. In this respect, whilst we understand the Board’s wish to remove all examples from the standard in order to compile them in an Appendix, we question the result : the standard, already rather complex, has become so abstract that it is sometimes not understandable, and it is difficult to understand which practical situations it refers to (see our comments below).
Furthermore, the IASB has currently undertaken a project on the definition of equity/liabilities. When this project is finalised, there is a considerable risk that the conclusions reached in the current simplification proposals might have to be reconsidered, along with the current standard itself. We therefore do not favour consecutive changes on a single topic.

If you have any question concerning our comment letter, do not hesitate to contact me (jean-francois.lepetit@cnc.finances.gouv.fr) or Jérôme Chevy jerome.chevy@cnc.finances.gouv.fr) or Isabelle Grauer-Gaynor (isabelle.grauer-gaynor@cnc.finances.gouv.fr).

Yours Sincerely

Jean-François LEPETIT

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MINISTÈRE DE L’ÉCONOMIE
DE L’INDUSTRIE ET DE L’EMPLOI

Question 1 : Mandatorily convertible instruments and instruments issuable for little cash or other consideration

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) the right to share currently in profit or loss? Why or why not?

We welcome the ambition of the IASB to clearly establish principles for the calculation of earnings per share.
We however are still unclear about what the principle “give the right to share currently in profit or loss of the period” exactly means.
For the record, different notions coexist in the standard that may potentially conflict with each other:

- paragraph 10 of the standard states that the objective of earnings per share is to “provide a measure of the interests of each ordinary share of a parent entity in the **performance** of the entity over the reporting period”,
- paragraph 11 refers to the “**profit or loss attributable to ordinary equity holders of the parent entity**”,
- paragraph 6 defines participating instruments as “giving the **right to participate in dividends** with ordinary shares according to a predetermined formula”.

We understand that the coexistence of these various terms arises from the fact that work is still pending on various fundamental concepts (performance, equity/liability). Still, we are concerned that it may create uncertainty around the calculation of earnings per share.
An example of questions that may arise would be the case of a **share that would give rise to rights to dividend, but not for the current year**.We believe that such an instrument should be integrated in the denominator of the ratio. However, as there are references to the current period in one of the examples, and to dividends in another, there might be uncertainty around this integration. The uncertainty would also be reinforced by paragraph 18 b, which refers to “a class of ordinary shares with a dividend rate different from that of another class of ordinary shares but without prior or senior rights”. Would shares that do not give rights to dividends for the period meet that definition?

With respect to the substance of the proposed amendment, whilst we agree with the stated principle, we do question some of its consequences. The new definition will increase the number of instruments that will qualify for being integrated in the denominator of EPS. This might lead to an increase in the number of earnings per share per category of shares being disclosed. We consider this would be burdensome and confusing for users. We therefore do not support it.

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?
Specifically referring to paragraphs 19 and 20, it is difficult for us to understand which practical cases the standard refers to outside business combinations. For shares issuable for little or no cash, we have identified that some stock options issued for start up associates might meet the definition. We have not been able to identify examples of shares redeemable for no cash. Examples would help clarify what the standard actually refers to.

Question n°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 treatment.
We also note that the standard does not refer to " mandatorily redeemable shares ". To avoid confusion we would encourage the use of consistent wording through the text of the standard, its basis for conclusion and appendices.

Question n°3 : 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 and 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?
We understand the rationale of the alternative view exposed and agree that the fair value changes in the profit and loss do not entirely reflect the dilution that would arise if convertible instruments at fair value were to be exercised.
However, we also consider that only considering fair value changes in the profit and loss is a real simplification for the calculation of diluted EPS, and that the differences arising from the use of both methods will not be material.
We therefore support the proposed amendment.

Question 4 : Options, warrants and their equivalents

a) *Do you agree that to calculate diluted EPS an entity should assume the settlement of forward contracts on its own shares in the same way as options, warrants and their equivalents? Why or why not?*

We agree.

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 the period market price? Why or why not?*

We do not agree that using the end of the period market price constitutes a simplification. Entities are well aware of the average market price and we do not see any difficulty in the calculation as it currently stands.
We also believe that the use of the end of the period market price is not consistent with other parts of the standard, which favour the use of average measures.
Finally, it seems to us that using an average better reflects the economic reality of the conversion, if it had happened. Shares would then have been converted during the whole period, not just at the end of the period.
We therefore disagree with the proposed amendment.

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?
As stated in our answer to question 1, we do not favour the multiplication of disclosures of earnings per share for various types of instruments, which can only be confusing.

Question 6 : Disclosure requirements

Are additional disclosures needed?
We do not think so.