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Le Président

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Dear Mr. Enevoldsen,

Re: EFRAG Draft Comment Letter on the IASB Exposure Draft *Simplifying Earnings per Share* - Proposed amendments to IAS 33

1. FEE (Fédération des Experts Comptables Européens - Federation of European Accountants) is pleased to submit its comments on the EFRAG Draft Comment Letter on the IASB Exposure Draft *Simplifying Earnings per Share* - Proposed amendments to IAS 33 (the "ED").

General comments

2. We agree with the observations of EFRAG on whether this is the appropriate moment to change the EPS standard given that the equity and liabilities project is not yet completed and this may result in changes to the definition of equity, which in turn may lead to changes in EPS. This means that entities may have to change twice. It can be questioned if this is the best way of spending resources, not only of the IASB but also of entities themselves.
3. Moreover, the proposed amendments do not result in convergence with USGAAP, since the definitions of debt and equity under IFRS and USGAAP are not yet converged. We agree with EFRAG's suggestion that it would be better to delay the EPS project until the equity and liabilities project has been completed.

Question to constituents

EFRAG is aware that some users and other interested parties argue that how to calculate EPS is not an issue that should be addressed by accounting standards, as it is not dealing with an accounting issue. Furthermore some users believe that how best to calculate EPS is for users to decide, and users are content to rely on their own calculations in their day-to-day work.

We would therefore particularly welcome views from constituents as to whether the IASB should even have a standard on EPS (and, by implication, whether IAS 33 *Earnings per Share* should be withdrawn).

4. We are of the opinion that there is a continuous need for a standard on EPS, as an agreed methodology to calculate EPS. We believe that it is not appropriate to add to the existing lack of comparability between non-GAAP measures. If EPS becomes a non-GAAP measure it will be increasingly difficult to reconcile EPS to the financial statements.

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

Paragraphs 18 and 19 of the exposure draft propose that the weighted average number of ordinary shares 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. If ordinary shares issuable for little or no cash or other consideration or mandatorily convertible instruments do not meet this condition, they will no longer affect basic EPS.

- (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?***
- (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?***

5. Like EFRAG, we welcome the introduction of the principle that the weighted average number of ordinary shares for basic EPS should include only those instruments that give (or are deemed to give) their holder the right to share currently in profit or loss of the period.
6. However, it would be helpful if the standard would give examples of the “contingently issuable for little or no cash or other consideration”.
7. Regarding the requirement on Retrospective adjustments (as detailed in paragraph 56 of the ED), we are not convinced it would be appropriate to adjust the calculation of basic and diluted earnings per share for all periods presented if the number of ordinary or potential ordinary shares outstanding changes as a result of a capitalisation, bonus issue, share split or reverse share split after the balance sheet date but before the financial statements are authorised for issue. We think that more comparability would be achieved between entities if the year-end date is consistently applied for the EPS calculation that is presented.
8. However, we still consider that it would be useful having the information changing the number of ordinary or potential ordinary shares outstanding after the balance sheet date disclosed in the notes to the financial statements.
9. Regarding the inclusion of mandatorily convertible instruments, we presume that they will only be included in basic EPS if the holder has the right at the end of the reporting period to become an ordinary shareholder. Because most mandatorily convertible instruments convert at a specified date in the future, i.e. are not immediately convertible, and therefore would not be considered as ordinary shares until the specified date is reached, we think this point would benefit from being stated clearly.
10. Finally, we understand that mandatorily convertible instruments and instruments issued for little or no consideration would be considered as outstanding ordinary shares as at, say, 31 December 20X0 if:
 - The holder has the right at the end of the reporting period (31 December 20X0) to become an ordinary shareholder;
 - Even if conversion or issuance for little or no consideration actually takes place in a subsequent period (say 15 January 20X1), the holder will have the right to share in profit or loss of the current period (period ended 31 December 20X0).

11. We believe that the final standard should clarify the requirements applicable to the computation of EPS as at 31 December 20X0 as in some jurisdictions new ordinary shares issued in these circumstances may only give a right to share in profit or loss from the beginning of the year of issuance (profit or loss for the year ended 31 December 20X1 in the example above).

Question 2 – Gross physically settled contracts to repurchase an entity’s own shares and mandatorily redeemable ordinary shares.

Paragraphs A31 and A32 of this exposure draft propose clarifying that an entity treats ordinary shares that are subject to a gross physically settled contract to repurchase its own shares as if the entity had already repurchased the shares. Therefore, the entity excludes those shares from the denominator of the EPS calculation. To calculate EPS, an entity allocates dividends to the financial liability relating to the present value of the redemption amount of the contract. Therefore, the liability is a participating instrument and the guidance in paragraphs A23-A28 applies to this instrument. However, such contracts sometimes require the holder to remit back to the entity any dividends paid on the shares to be repurchased. If that is the case, the liability is not a participating instrument.

The Board proposes that the principle for contracts to repurchase an entity’s own shares for cash or other financial assets should also apply to mandatorily redeemable shares. Do you agree with the proposed treatment of gross physical settled contracts to repurchase an entity’s own shares and mandatorily redeemable shares? Why or why not?

12. We agree with EFRAG that the denominator should not include shares that will have to be repurchased.
13. Even if we understand the rationale followed by the Board by aligning balance sheet presentation with the EPS treatment in the case of written puts over own equity we note that this will result in volatility in EPS on entering into arrangement and at expiration of the arrangement if the put is not exercised. If a written put is not exercised then at expiration there will be an increase in the number of ordinary shares even though no new shares have been issued and no new resources have been received by the entity. We agree with EFRAG that this lead to a difference of calculation between US GAAP and IFRS that would be important to address.

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

For an instrument (or the derivative component of a compound instrument) that is measured at fair value through profit or loss, paragraphs 26 and A28 propose that an entity should not:

- (a) adjust the diluted EPS calculation for the assumed exercise or conversion of that instrument; or***
- (b) apply the guidance for participating instruments and two-class ordinary shares in paragraphs A23-A28.***

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 recognizing those changes in profit or loss eliminates the need for further adjustments to the calculation of EPS? Why or why not?

Question to constituents

EFRAG would also welcome comments from constituents as to exactly which information they believe would be lost under the fair value method and how it might best be replaced. For example, EFRAG thinks that one possibility might be to re-instate the following disclosure requirement, which used to be paragraph 47 of IAS 32 but was withdrawn on implementation of IFRS 7:

47 For each class of financial asset, financial liability and equity instrument, both recognised and unrecognised, an enterprise should disclose:

(a) Information about the extent and nature of the financial instruments, including significant terms and conditions that may affect the amount, timing and certainty of future cash flows.

14. Like EFRAG, we agree that not adjusting EPS for movements in the fair value of derivative instruments that may result in the issue or acquisition of ordinary shares does represent a simplification.
15. The downside of this simplified method is that users will not know the degree to which the entity is effectively issuing shares for cheap or nil consideration. Accordingly, the fact that current ordinary shareholders will have future earnings diluted by issuing shares cheap will no longer be visible in the financial statements.
16. In order to compensate for this situation, we consider that supplementary disclosure of the cumulative fair value of these instruments to the extent not already identifiable separately from other instruments in the financial assets and liabilities notes should be considered.
17. In addition, we note that the ED does not make clear whether ordinary shares that are issued as a mean of settlement of a financial liability, for example, a liability being settled by the delivery of a variable number of shares which value represent the fixed amount of the liability, are potentially dilutive. We think that a clear statement that the future issue or acquisition of ordinary shares at future fair value is ignored for EPS purposes would be valuable.

Question 4 – Options, warrants and their equivalents

For the calculation of diluted EPS, an entity assumes the exercise of dilutive options, warrants and their equivalents that are not measured at fair value through profit or loss. Similarly, paragraph 6 of this exposure draft proposes clarifying that to calculate diluted EPS an entity assumes the settlement of forward contracts to sell its own shares, unless the contract is measured at fair value through profit or loss. In addition, the boards propose that the ordinary shares arising from the assumed exercise or settlement of those potential ordinary shares should be regarded as issued at the end-of-period market price, rather than at their average market price during the period.

- (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?***
18. Like EFRAG, we agree that an entity should assume the settlement of forward contracts (not measured at fair value through profit or loss) to sell its own shares for the computation of diluted EPS.

(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?

19. We also agree that assumed exercise or settlement of options, warrants and their equivalents at end-of-period market price is appropriate. However, we note that this specific amendment will result in dilutive EPS being more sensitive to share price volatility.

Question 5 – Participating instruments and two-class ordinary shares

Paragraph A23 proposes to extend the scope of the application guidance for participating instrument to include participating instruments that are classified as liabilities. In addition, the Board proposes to amend the application guidance for participating instruments and two-class ordinary shares. The proposed application guidance would introduce a test to determine whether a convertible financial instrument would have a more dilutive effect if the application guidance in paragraph A26 and A27 for participating instruments and two-class ordinary shares is applied or if conversion is assumed. The entity would assume the more dilutive treatment for diluted EPS. Also, the amended application guidance would require that, if the test causes an entity to assume conversion of the dilutive convertible instruments, diluted EPS would not include dividends that might have been payable had conversion occurred at the beginning of the period.

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

20. We agree with the proposed application guidance for participating instruments and two-class ordinary shares. In particular, we agree that the proposed treatment for convertible financial instruments as this is consistent with the objective to include the effect of dilutive potential ordinary shares by reflecting the more dilutive treatment.

21. We are not clear on the message conveyed in paragraph 16 at the EFRAG Draft Comment Letter. It would be helpful if the wording of this paragraph were clarified further.


Question 6 – Disclosure Requirements

The Board does not propose additional disclosures beyond those disclosures already required in IAS 33. Are additional disclosures needed? If so, what additional disclosures should be provided and why?

22. We believe that addressing our concern mentioned in Question 3, could be achieved by requiring supplementary disclosure of the fair value of these instruments to the extent that they are not already identifiable in the financial assets and liabilities notes.

We would be pleased to discuss any aspect of this letter that you may wish to raise with us.

Yours sincerely,



Jacques Potdevin
President

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