Comments from Ms Brezoeva, certified public auditor at SKM and assistant professor at Bulgarian University of World and National Economy

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?*

A) We do not agree 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, because this principle is not consistent with the purpose of calculating basic earnings per share, set out in paragraph 10. According to that paragraph, the objective of basic EPS information is to provide a measure of the interests of each ordinary share in the performance of the entity over the reporting period. Therefore, basic earnings per share should be a measure of the financial power of an entity from an ordinary shareholder` s view rather than dividend per share. The above basic principle is appropriate for dividend per share and it is not rationale for basic earnings per share.

(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?*

We believe that, if adopted, this principle will apply correctly to mandatorily convertible instruments and ordinary shares issuable for little or no cash or other consideration. If these instruments do not give the holder a current right to share to the profit or loss of the period, they should not be included in calculating the weighted averaged number of ordinary shares.
We would note that in Bulgaria under the national Companies` Act, ordinary shares issuable for little or no cash or other consideration give the holder equal rights as other ordinary shares, including a right to share to the profit or loss of the period. Therefore the proposed amendment will not affect the treatment of such shares when calculating EPS.

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 contacts 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?

We consider that, ordinary shares that will be repurchased by an entity at the settlement of gross physically settled contracts (such as gross physically settled forward purchase contracts and written put options) should not be excluded from the denominator of EPS. This treatment is consistent with the concept of basic EPS computation which is to exclude only actually repurchased ordinary shares rather than assumed. The same argument applies to mandatorily redeemable ordinary shares as they have similar characteristics.

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?

We 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. By not requiring the restatement to both numerator and denominator of the EPS formula with respect to the impact of such instruments, also assists in simplifying EPS computation.

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.

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?

We agree that when calculating diluted EPS forward contracts to sell own shares of an entity not measured at fair value through profit or loss should be treated in the same way as options and warrants, and treasury-stock method should be used, which is the same method used for options and warrants, because they meet the definition of a potential ordinary share in paragraph 6 of the ED.

(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?

We agree that, the end-of-period market price should be used for ordinary shares arising from the assumed exercise or settlement of options, warrants and their equivalents, because a period end value is more relevant and reliable than an average value over the period. Furthermore using the end-of-period market price rather than the average value for the period is consistent with the ED purpose of simplifying earnings per share computation.

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?

We think that, to include the effect of all participating instruments in computation of basic EPS, including instruments that are liabilities, because it is not consistent with the objective of basic EPS that is to provide a measure of the performance for the period from the perspective of the ordinary shareholder.

We agree with proposed amendment in the standard with respect to participating instruments and two-class ordinary shares and appreciate a more detailed application guidance. We think that applying the two-class method for such instruments is consistent with the basic principle set out in paragraph 17 of the ED.

We also agree that, when calculating diluted EPS for convertible participating instruments and two-class ordinary shares, an entity should consider the effect of either two-class method, prescribed in paragraph A24 of the ED, or if-converted method, which is more dilutive, as those two methods correspond to two possible decisions made by potential investors.

We agree that actual rather than hypothetical dividends should be attributed to shares resulting from the assumed conversion of such instrument.

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?

We think that the disclosure requirements in the current IAS 33 are sufficient and that no other disclosures should be added.

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).

We believe that *IAS 33 Earnings per Share* should not be withdrawn as it gives an uniform guidance for computation of earnings per share by entities. Doing that, it assists in comparability of financial statements on an entity-by-entity basis. The standard is especially valuable for such countries like Bulgaria where long traditions do not exist in calculating and using earnings per share.