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Re: *Draft comment letter to Exposure Draft of Proposed Improvements to IAS 33 Simplifying Earnings per Share*

Dear Sir/Madam

We are pleased to provide our comments on your draft comment letter to *ED of Proposed Improvements to IAS 33 Simplifying Earnings per Share.*

General comments

It is our opinion that the accounting treatment and related disclosure of Earnings per Share should continue to be included in the International Accounting Standards. In our view, it is both appropriate and important that such treatment is disciplined by the Standards, since not all of the users of the financial statements have available all the information necessary to correctly understand the management reasoning behind the resulting earning per share, expressed as a synthetic value. Particularly, the financial analysts may benefit from a comprehensive treatment of such matters within the Standards.

Furthermore, it appears that there are other informative elements which are not always being cleared to the users: one example is a clear disclosure of the net financial position. A possibility might be to include this matter in the project on the Management Commentary currently in the IASB agenda.

The equity/liabilities convergence project conducted by the IASB and the FASB is likely to result in a change to the present way of distinguishing between equity and liabilities elements, as well as to underlying concepts. Therefore, it would seem more logical to defer the project on simplifying earnings per share to the time when the equity/liabilities one is completed.

Question 1 – Mandatorily convertible instruments and instruments issuable for little or no 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) 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?

The IASB proposes that the weighted average number of ordinary shares for basis 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. Ordinary shares issuable for little or no cash or other consideration or mandatorily convertible instruments should be included in the basic EPS, if they meet this condition.

We support the IASB's proposal to make it clear 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. Moreover, we believe it is correct that this approach be also applied to mandatorily convertible instruments and ordinary shares issuable for little or no cash or other consideration.
We believe that basic EPS should not include instruments that would give rise to contingent dividends if they are not exercised or converted. Anyway, we support for any above-mentioned instruments that an appropriate disclosure should be provided.

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

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?

The Exposure draft clarifies that ordinary shares subject to a gross physically settled contract to repurchase entity's own shares should be excluded from the denominator of the EPS calculation since such transaction is equivalent to one in which the entity had already repurchased the shares. Such a contract gives rise to a financial liability for the present value of the redemption amount, as said in IAS 32. To calculate EPS the dividends are allocated to the liability and, consequently, the liability meets the definition of a participating instrument. On the contrary, when the contract requires the holder of the instrument to remit back to the entity any dividends paid on the shares to be repurchased, the liability is not a participating instrument.
The IASB proposes to apply the same treatment (i.e. exclusion from the EPS denominator) to mandatorily redeemable ordinary shares.

We concur whit the IASB's proposal to exclude these instruments from the denominator of the EPS calculation, because the cash flows from those shares are not an outflow from the entity. In other words, their effect would be an increase in the carrying value of the portfolio of such instruments with a corresponding decrease in net equity (undistributed earnings).

Question 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 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?

According paragraphs 26-27 of the exposure draft the denominator shall not increase for the number of additional ordinary shares that would arise from the exercise or conversion of instruments (or the derivative components of compound instruments) that are measured at fair value through profit or loss. The Board observes that the numerator reflects the changes in fair value and as a consequence no adjustment is needed.

We observe that should *all* financial instruments measured at fair value through profit and loss be excluded from the computation of EPS, this would include also those instruments which are likely to have a dilutive effect. For example, the application of the proposed principle would not take into computation the dilutive effect of a put option "in the money" on ordinary shares measured at FVTPL

We note that the measurement at FVTPL can include also instruments negotiated between the entity and equity holders acting in their capacity as equity holders. We do believe this kind of relations should not accounted for to profit or loss but to equity. We also do not believe appropriate that they are measured at FVTPL. As a consequence, we suggest to amend IAS 39 reconsidering which type of instrument should be measured at FVTPL under the Standard.

As discussed in the "General comments" above, the definition of the types of instruments to be recognised as elements of equity or liabilities will likely change from the current one at the completion of the equity/liabilities project. Hence, we believe that the amendment of IAS 33 should be deferred at the time when the equity/liabilities project is completed.

Although we do not fully concur with the IASB's proposal we nevertheless believe that it would be appropriate that the number of options which might be converted and the number of shares that would result from their conversion be disclosed, in line with the EFRAG's proposal in its paragraph 11.

Question 4 – 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?

For diluted EPS an entity assumes the exercise of dilutive options, warrants and their equivalents, not measured at FVTPL. The exposure draft proposes to clarify that for diluted EPS calculation 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.

We agree to assume the settlement of forward contracts to sell entity's own shares because these contracts have a dilutive effect.

(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?

To simplify the calculation of diluted EPS the exposure draft proposes 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.

We agree on adopting of the end-of-period market price, rather than the average one during the period, since it simplifies the calculation of diluted EPS and provides more relevant information.

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?

The Exposure draft proposes to extend the scope of the application guidance for participating instrument to include those classified as liabilities and 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. To calculate diluted EPS the entity would assume the more dilutive alternative. In addition the proposed 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.

We agree with the IASB's proposal and we welcome a detailed guidance. The proposed methodology is in line with the approach of choosing the more restrictive solution.

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 amount a type of disclosures already required is sufficient and it is not necessary any additional information other than the one suggested under question 3.

Yours sincerely,

Angelo Casò
(OIC Chairman)