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**International
Accounting Standards
Board**

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Amendments to IAS 33 *Earnings per Share*

Project Updates are provided for the information and convenience of constituents who wish to follow the IASB's deliberations. All conclusions reported are tentative and may be changed at future IASB meetings. Decisions become final only after completion of a formal ballot to issue an International Financial Reporting Standard, Interpretation, or Exposure Draft.

Introduction

This project report is structured as follows:

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Objectives

- 1 The Earnings per Share project is part of a wider convergence project with the FASB. Its purpose is to reduce differences between IFRSs and US GAAP that can be resolved in a relatively short time and can be addressed outside major projects. The objective of the Earnings per Share project is to simplify and converge the calculation of EPS according to IAS 33 Earnings per Share and SFAS No. 128 Earnings per Share.

Next Steps

- 2 The IASB will resume the discussion on the project plan towards the end of the year of 2009.

Background

- 3 IAS 33 states that for calculating diluted EPS, an entity shall assume the exercise of diluted options, warrants and their equivalents. The assumed proceeds from these instruments are regarded as having been received from the issue of ordinary shares at the average market price of ordinary shares during the period. The difference between the number of ordinary shares issued and the number of ordinary shares that would have been issued at the average market price of ordinary shares during the period is treated as an issue of ordinary shares for no consideration. US GAAP has a similar requirement.
- 4 In September 2005, the FASB published an Exposure Draft to amend the calculation of diluted EPS. The proposal clarifies that the assumed proceeds from the exercise of options, warrants and their equivalents include the end-of-period carrying value of the liability that is assumed to be settled. The proposal would use the end-of-period market price, rather than the average market price, in the computation of incremental shares.
- 5 At the November 2005 Board meeting, the IASB tentatively decided to amend IAS 33 to align the calculation of EPS under IAS 33 with the amendments proposed in the FASB Exposure Draft.

Project history: Decisions to Date

- 6 At the March 2007 Board meetings, the IASB and the FASB tentatively decided to propose for financial instruments measured at fair value through profit or loss that:
 - a. profits or losses from changes in their fair value should remain in the numerator of diluted EPS; and
 - b. the denominator of diluted EPS should not include incremental shares resulting from their assumed exercise or conversion.¹

In addition, the Board decided that neither basic nor diluted EPS should be adjusted for participating financial instruments that are measured at fair value through profit or loss.

- 7 The IASB also decided to amend IAS 33:
 - to require the two-class method for computing basic earnings per share for mandatorily convertible instruments with a stated participation right. Mandatorily convertible instruments without a stated participation right would be excluded from the calculation of basic earnings per share; and

¹ This amendment eliminates the need for the IASB to clarify that the assumed proceeds from the exercise of options, warrants and their equivalents include the end-of-period carrying value of the liability that is assumed to be settled because those instruments are measured at fair value through profit or loss.

- to include options and warrants with a nominal exercise price in the computation of basic earnings per share if (a) the instruments are currently exercisable or convertible into ordinary shares for little or no cost to the holder or (b) the option or warrant currently participates in earnings with ordinary shareholders.
- 8 At the July and September 2007 and May 2008 Board meetings the IASB considered the application of the proposed changes to particular types of instruments. The instruments reviewed were:
- *Instruments in which an embedded option is accounted for at fair value:* The Board tentatively decided that the amendments described in paragraph 6 should apply also to instruments in which the embedded conversion option is accounted for at fair value through profit or loss.
 - *Allocation of actual dividends under the two-class method:* The Board tentatively decided that actual dividends rather than hypothetical dividends should be used.
 - *Forward purchase contracts for own shares with or without remittance of dividends:* The Board tentatively decided that for EPS ordinary shares subject to a gross physically settled forward purchase contract to buy an entity's own shares should be treated as repurchased. IAS 32 states that those forward purchase contracts give rise to a liability measured at the present value of the redemption amount. The Board clarified that if dividends on ordinary shares subject to such a contract are not remitted back to the entity, the liability meets the definition of a participating instrument in IAS 33. The method described in paragraphs A13 and A14 of IAS 33 would apply (described in US GAAP as the two-class method). In contrast, if dividends are remitted back to the entity, the liability does not meet the definition of a participating instrument.
- 9 In January 2008, the boards discussed the need for additional disclosures for the calculation of diluted EPS for instruments that are measured at fair value through profit or loss. The IASB asked the staff to begin drafting an Exposure Draft on the proposed amendments to IAS 33.
- 10 In May 2008, the IASB discussed issues that it had identified, when reviewing a preliminary version of the exposure draft. The Board reached the following tentative conclusions:
- In February 2008, the Board amended IAS 32 *Financial Instruments: Presentation*. That amendment classifies some puttable instruments and obligations as equity. At the May 2008 meeting, the Board decided tentatively that this classification should also apply for IAS 33. The exposure draft will not include specific material on the treatment for EPS of a financial liability that is subsequently reclassified to equity.
 - The exposure draft will clarify that the method described in paragraphs 45-47 of IAS 33 should apply to a forward contract to sell an entity's own shares. US GAAP refers to this method as the treasury stock method.
 - Share-based payment awards might give rise to a tax deduction that exceeds the related cumulative remuneration expense. IAS 12 *Income Taxes* states that an entity should recognise the resulting current or deferred tax directly in equity. The exposure draft will clarify that, in calculating EPS, an entity should include this tax benefit in the proceeds from the assumed exercise of dilutive share-based payment awards.
 - The exposure draft will propose that the principles for gross physically settled forward contracts to buy an entity's own shares should also apply to mandatorily redeemable ordinary shares.

- Early application of the proposed amendments to IAS 33 should not be permitted.
- 11 The IASB has published an Exposure Draft in August 2008 and invited comments by 5 December 2008
- 12 In April 2009 The IASB reviewed a summary of responses to the exposure draft. In the light of other priorities, the Board decided to consider towards the end of the year of 2009 when would be the best time for the Board to start reviewing the responses in more detail.

Contact information

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