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THE INSTITUTE OF
Chartered Accountants
IN IRELAND

12 September2002

Allan Cook CBE
The Technical Director
Accounting Standards Board
Holborn Hall
100 Gray's Inn Road
London
WC1X 8AL

Dear Allan

Earnings Per Share (FRED 26)

The following are the comments of the Accounting Committee (AC) of the Institute of Chartered Accountants in Ireland on FRED 26. Also included are the comments of the AC that have been sent to the IASB on its proposed revisions to IAS 33 Earnings per Share.

1. <u>Overall Comment</u>

AC welcomes the opportunity to comment on FRED 26 and supports the ASB strategy of convergence in a number of areas in advance of 2005 in order to ease the challenge of change for users of UK GAAP.

AC recommends that ASB should endeavour to explain the technical reason for the proposed changes to existing UK accounting standards. AC considers that users of UK GAAP have been well served by the explanations within the FRS's, issued by ASB, supplemented by the Appendix to each FRS on "The Development of the FRS"

While FRED 26 identifies the main changes proposed to existing UK requirements in the preface, AC considers that it would benefit users of UK GAAP, and would further ease the challenge of convergence, if the technical reasons (ie. reasons other than convergence) for those changes were set out. AC assumes that the eventual IFRS will focus on the changes from existing IFRS, and considers that ASB should provide UK GAAP users with a separate explanation of the changes from existing UK practice.

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2. **AC's answers to the questions posed in FRED 26 are set out below.**

1. Do you agree with the proposal to issue a new UK standard on earnings per share to replace FRS 14, as soon as the new MS 33 is approved by the IASB?

AC agrees with the proposal to issue a new UK standard on EPS to replace FRS 14, as soon as the new IAS 33 is approved by the IASB.

2. Do you believe that ASB should consider any other transitional arrangements?

AC considers that the ASB should not consider any transitional arrangements as it would be particularly desirable, in the area of EPS calculation, to minimise the period during which differing standards were used.

3. Are there any aspects of the draft standard that the ASB should request the L4SB to review when finalising the revised MS 33?

AC recommends that ASB should consider the wisdom of requiring that additional earnings per share amounts be relegated to the notes to the financial statements, and that ASB should request IASB to reconsider its proposal, if ASB considers that appropriate.

While AC is conscious of the difficulties for users that have been posed by the use of pro-forma EPS numbers in recent years, AC questions whether relegating such additional EPS numbers is the solution.

AC continues to agree with FRS 3 Explanation paragraph *52* that **"**It is not possible to distil the performance of a complex organisation into a single measure. Undue significance, therefore, should not be placed on any one measure of which may purport to achieve this aim". AC considers that relegating additional EPS numbers may militate against that view, by focusing undue prominence, and thus apparent importance, on the Basic and Diluted EPS numbers specified by the FRED.

AC considers that the practice that has developed, since the issue of FRS 3, of preparers providing and explaining additional EPS measures of performance on a consistent basis from year to year where they wish to highlight another version of EPS, often by excluding the effect of significant one-off items, has been well received by users of financial statements and has facilitated more prompt and incisive analysis of reported financial performance.

AC also notes that relegating such additional EPS numbers to the notes in the full financial statements may well have no effect on the approach taken by preparers in preliminary announcements of results (or other announcements of results apart from the full financial statements), which represent a more immediate, and potentially influential, reporting of financial performance, and which may not be subject to the rigours of IFRSs or FRSs.

Indeed, preparers may even choose to place the EPS "note to the financial statement" on the face of the profit and loss account in order to circumvent the FRED's proposal.

In considering this matter, AC strongly recommends that ASB should take account of the views of investors, analysts and other users of financial statements.

3. AC's responses to the IASB's questions on the proposed amendments to IAS 33 are set out below:

1. Do you agree that contracts that may be settled either in ordinary shares or in cash, at the issuer's option, should be included as potential ordinary shares in the calculation of diluted earnings per share based on a rebuttable presumption that the contracts will be settled in shares?

Yes.

2. Do you agree with the following approach to the year-to-date calculation of diluted earnings per share (as illustrated in Appendix B, examples 7 and 12)?

- ***The number of potential ordinary shares is a year-to-date weighted average of the number o of potential ordinary shares included in each interim diluted earnings per share calculation, rather than a year-to-date weighted average of the number of potential ordinary shares weighted for the period they were outstanding (ie without regard for the diluted earnings per share information reported during the interim periods).***

- ***The number of potential ordinary shares is computed using the average market price during the interim periods reported upon, rather than using the average market price during the year-to-date period.***

- ***Contingently issuable shares are weighted for the interim periods in which they were included in the computation of diluted earnings per share, rather than being included in the computation of diluted earnings per share (if the conditions are satisfied) from the beginning of the year-to-date reporting period (or from the date of the contingent share agreement,*** if ***later).***

Yes.

4. AC's additional comments are set out below:

AC favours strongly the inclusion of the Illustrative Examples in the Appendix to the FRED as it will aid preparers significantly in their interpretation of the detached application of the rules. AC considers it would be more useful and authoritative if these examples were to be approved by the Boards of both ASB and IASB, rather than the staff only.

If you require any clarification or further details on any of the points raised in the response please contact the Secretary to the Committee, Alix Brebbia on +353 1 6377316 or at alix.brebbia@icai.ie

Yours sincerely

Alix Brebbia

Alix Brebbia
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