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The Society of Investment Professionals

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Accounting Standards Board

Dear Sirs

Re FRED 26: Earnings Per Share

I attach the Society's response to the above exposure draft.

Please note that we have separated our comments between ASB questions and IASB questions. While we are content for our responses to ASB questions to be made available publicly, we request that our responses to the IASB question remain confidential.

Yours faithfully

Paul H Richards

Earnings per share (FRED 26) issued by the Accounting Standards Board

ASB(i) 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 IAS 33 is approved by the IASB?

The Society supports this approach.

ASB(ii) Do you believe that ASB should consider any other transitional arrangements?

No.

ASB(iii) Are there any aspects of the draft standard that the ASB should request the IASB to review when finalising the revised IAS 33?

Treatment of ESOPs.

IASB(i) 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?

The Society supports this.

<u>FRED 26: IASB questions</u>
(UKSIP response to remain confidential)

IASB(ii) 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 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).*

The Society does not agree with this approach: it is not consistent with current practice. The more natural time-weighted basis should be adopted. The Society is also concerned that this approach might present management with opportunities for abuse by manipulation of earnings.

REF: Fred 26/202/Sept/02