COMMENTS ON FASB EXPOSURE DRAFT "EARNINGS PER SHARE: AN AMENDMENT OF FASB STATEMENT NO. 128

Respondent's name and affiliation

Name:

Bob Deere

Title:

Vice-President, Accounting & Reporting

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Company:

Royal Dutch Shell plc

Address:

Shell Centre, London SE1 7NA

Phone:

44-20-7934-5182

E-mail address: b.deere@shell.com

General comments

Whilst we agree with the principles of the new proposals discussed in the Questions below, we believe that a change should not be made unless implemented jointly by the FASB and the IASB. The Exposure Draft is part of the short-term international convergence effort; however it seems unlikely that convergence will ever be achieved if such projects lead to convergence in some areas but create new divergences in others.

Specific questions asked

Question 1: This proposed statement [paragraphs 29 and A13] would require that in applying the treasury stock method to an instrument classified as a liability but potentially settled in shares, the carrying amount of an extinguished liability upon issuance of the shares should be included as assumed proceeds in the computation of incremental shares. Do you agree? If not, why?

This provision would apply only to instruments subject to the treasury stock method and would not affect the EPS computation for instruments that are accounted for using the if-converted method under Statement 128 [paragraphs 26 and 113]. Do you agree? If not, why?

We agree with the principles underlying the Board's proposal. If a liability is reported at fair value for such instruments, the basic earnings per share calculation denominator - and net assets – arguably already reflects the related dilution impact. No further adjustment to the diluted earnings-per-share denominator should therefore be necessary. We note that adjustments to the numerator would also no longer be required and suggest that this be explained in more detail in the Basis for Conclusions of any final Statement.

Whilst our comments are supportive of the change above, we believe that the benefit of making such a change does not overcome the detriment of creating a further divergence between the FASB and IASB.

Paragraph A14 of the ED states the same principles could have been extended to convertible instruments reported under the if-converted method, but that the Board decided that to do so would be outside the scope of the short-term convergence project.

We believe, equally, that the change presently proposed should not be made unless implemented jointly by the FASB and the IASB. It seems unlikely that convergence will

ever be achieved if convergence projects lead to convergence on certain policies but create new divergences in other areas.

Question 2: This proposed statement would require that the amount of the extinguished liability to be included in assumed proceeds be measured at the carrying amount as of the end of the period for which EPS is being measured. This measurement would lead to dilution when the share price used to compute the end-of-period liability is lower than the average share price used in the treasury stock method. An alternative approach would be to measure the liability in the assumed proceeds computation at the value at which the liability would have been recorded at the end of the period had the end of the period share price been equal to the average share price during the period. Under that alternative, an instrument subject to the treasury stock method that is classified as a liability and carried at fair value would never be dilutive. Do you agree with the measurement objective in the proposed statement? Why or why not? If not, would you favour the alternative measurement objective? Why or why not?

In the event of implementation, we would favour the alternative measurement approach—with consequent straightforward exclusion from the dilution adjustment of any instrument subject to the treasury stock method that is classified as a liability and carried at fair value.

However (as discussed in our response to Question 1), we believe a change should not be made unless implemented jointly by the FASB and the IASB.

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