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April 7, 2004

Ms. Suzanne Bielstein
Director of Major Projects and Technical Activities
Financial Accounting Standards Board
401 Merritt 7
P.O. Box 5116
Norwalk, CT 06856-5166

File Reference No. 1200-200

Letter of Comment No: File Reference: 1200-200

Date Received: 4/7/04

Dear Ms. Bielstein:

PricewaterhouseCoopers LLP appreciates the opportunity to respond to the Proposed Statement of Financial Accounting Standards, Earnings per Share – an amendment of FASB Statement No. 128.

We support the issuance of guidance to clarify and converge earnings per share ("EPS") computations in the U.S. to make them more consistent with IAS 33, *Earnings per Share*, thereby improving the comparability of EPS data on a global basis. We support the goal of achieving convergence with International Financial Reporting Standards.

The proposed use of year-to-date figures when computing the denominator for diluted earnings per share computations will eliminate the differences that arise due to the frequency of interim reporting. Thus, convergence in this regard will improve the comparability of financial information globally.

The comments included below are intended to improve the operationality and clarity of the proposed statement,

Mandatorily Convertible Securities

Par. 2(a) of the proposed statement states "Shares that will be issued upon conversion of a mandatorily convertible security shall be included in the weighted-average number of shares outstanding used in computing basic EPS from the date that conversion becomes mandatory using the if-converted method described in par. 26 of this Statement." We agree that mandatorily convertible securities should be included in basic EPS computations and believe this is consistent with the Board's current treatment of contingently issuable shares. Par. 91 of FAS 128 states that such shares should be included in basic EPS only when there is no circumstance under which those shares would not be issued.

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However, we believe the par. 2(a) language makes it unclear at what point in time such shares should be included in the basic EPS computation under certain circumstances. For example, where a mandatorily convertible security has a floating conversion rate, should the conversion shares be included in basic EPS:

- 1. from the date the mandatorily convertible security is issued using a conversion price as of the reporting date, or
- 2. from the date the number of conversion shares are fixed and determinable, such that issuance of the shares depends only upon the passage of time?

We recommend including a definition of a mandatorily convertible security such as "one that will be converted into a fixed number of common shares at a fixed future date when all contingencies have been resolved and the number of conversion shares is known." Otherwise, it is inconsistent with the notion of basic EPS in FAS 128 that includes only shares that are no longer subject to contingency as to issuance.

We also recommend that the language in par. 2(a) explicitly state that shares to be issued upon conversion of a mandatorily convertible security should be included in basic earnings per share from the date the security becomes mandatorily convertible (i.e. meets the definition of a mandatorily convertible security). This definitional guidance would clarify the point in time to include such shares in the basic EPS computation and reduce the risk of diversity in application.

The inclusion of mandatorily convertible securities in basic EPS raises a question about whether other types of instruments, such as forward sale contracts that will result in the future issuance of a fixed number of shares, should also be included. Under FAS 150, shares subject to a forward purchase contract that will be physically settled are removed from basic EPS computations. We believe the same type of treatment should be applied to forward sale contracts. However, in the interest of convergence, we recommend the Board confine the basic EPS computation to actual shares issued and reacquired during the period and those meeting the mandatorily convertible security definition.

Contracts That May Be Settled in Stock or Cash

We agree with the proposed amendment to par. 29 eliminating the provision that allows an entity to rebut the presumption that contracts with the option of settling in either cash or stock will be settled in stock.

We believe the assumption that those contracts will be settled in stock is consistent with the principle that diluted EPS should present the most dilution that could occur. However, the amendment may cause certain companies (i.e., those that have outstanding securities with the option of settling in cash or stock and have relied upon past experience

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or a stated policy of settling in cash to overcome the presumption in par. 29), to initiate exchange offerings to eliminate the stock settlement options from their instruments. The transition rules in the proposed statement would require a company to restate the prior years to reflect EPS calculated under the new guidance, reflecting the terms of the security as they existed during those periods, and resulting in the inclusion of shares issuable under the share settlement provisions. If the share settlement provisions have been removed, in subsequent years EPS would no longer reflect such shares. Accordingly, there will be a lack of comparability between the restated prior periods and future periods. We believe that this result does not promote a reader's understanding of the company's financial results on a year-to-year basis. We therefore recommend that the Board include a grandfathering clause in the transition guidance for instruments that are amended prior to the effective date to eliminate the option to settle in stock.

Year to Date Diluted EPS Computations

We agree that the frequency of interim reporting should not affect the year-to-date diluted EPS computation. We support the revisions to the computational guidance in Illustration 1 requiring the use of the average market price for the year-to-date period when computing incremental shares for diluted EPS. However, to be internally consistent, we recommend that the proposed statement include the same year-to-date diluted EPS computational revisions for contingently issuable shares. Illustration 3 of FAS 128 should be revised so that the number of incremental shares to be included in the year-to-date diluted EPS computation is from the beginning of the year-to-date period (consistent with Example 7 of IAS 33 revised), based on the status of the contingency at the end of each year to date period.

Basis for Conclusions

We believe paragraphs A7. and A8. would be strengthened by adding a conceptual justification for the changes in addition to the goal of overall convergence with existing IASB provisions.

We appreciate the opportunity to express our views on the proposal. If you have any questions regarding our comments, please contact Marvin A. Thomas (973-236-4989) or Jay Seliber (973-236-7277).

Sincerely,

PricewaterhouseCoopers LLP

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