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Technical Director
File Reference No. 1240-100
Financial Accounting Standards Board
401 Merritt 7
P.O. Box 5116
Norwalk, CT 06856-5116



LETTER OF COMMENT NO. 8

PricewaterhouseCoopers appreciates the opportunity to comment on the Exposure Draft of the Proposed Statement of Financial Accounting Standards, *Earnings per Share — an amendment of FASB Statement No. 128* (the "Exposure Draft"). "PricewaterhouseCoopers" refers to the network of member firms of PricewaterhouseCoopers International Limited, each of which is a separate and independent legal entity.

We agree with the Board's objective to eliminate the differences in the methods used to determine the denominator in earnings per share (EPS) computations under United States Generally Accepted Accounting Principles (US GAAP) and International Financial Reporting Standards (IFRS) in a manner that would also simplify and clarify the EPS computation. However, we do not support completing the project at this time. As noted by the dissenting board members, this project will not result in the full convergence of the EPS computation under US GAAP and IFRS. Differences in how earnings are determined and how financial instruments are accounted for will persist and continue to prevent the computation of EPS from being completely comparable. Furthermore, potential changes to the accounting for financial instruments resulting from the liabilities and equity project could have significant EPS implications and require additional changes to the computation.

In light of these concerns and the number of high-priority projects targeted for completion by 2011, we recommend that the Board delay this project. On balance, we do not believe that the benefits of the proposed simplifications and clarifications, and limited convergence of methodologies, are currently worth the effort required to complete the project at this time—particularly when those benefits may be short-lived because of the impact that the liabilities and equity project could have on the EPS computation in the near future. Additionally, delaying the project would free up Board resources for higher priority projects.

If the Board elects to proceed with this project, however, we have outlined in the Appendix to this letter several suggestions for improving the proposed guidance, which we describe as part of our responses to the questions in the Notice for Recipients of the Exposure Draft.

Again, we thank you for the opportunity to express our views on this matter. If you have questions regarding our comments, please contact John Althoff at (973) 236-7288 or Ken Miller at (973) 236-7336.

Sincerely,

PricewaterhouseCoopers LLP

Exposure Draft
Proposed Statement of Financial Accounting Standards
Earnings per Share — an amendment of FASB Statement No. 128

Instruments That Are Measured at Fair Value Each Period with Changes in Fair Value Recognized in Earnings

Issue 1: Do you agree that the fair value changes sufficiently reflect the effect of those instruments on current shareholders and that recognizing those changes in earnings eliminates the need to include those instruments in determining the denominator of diluted EPS or in computing EPS under the two-class method? If not, why not?

We agree with the Board's conclusions for those instruments that are subject to the treasury stock (or reverse treasury stock) method. The recognition of changes in fair value through earnings appropriately reflects the economic effects of those instruments on current shareholders. Furthermore, including the associated liability balance as additional assumed proceeds in the application of the treasury stock (or reverse treasury stock) method and using an end-of-period stock price in the computation will eliminate their dilutive impact on the denominator in EPS.

While we support the Board's conclusions for instruments subject to the treasury stock method, we do not support the extension of this approach to instruments currently subject to the if-converted method. The scope of the EPS project excludes a reconsideration of the application of the if-converted method because that method is already sufficiently converged. Rather than changing the EPS computation for only a subset of convertible instruments (i.e., those for which the conversion option has been separated from the instrument and marked-to-market through earnings), we prefer to see the Board address the if-converted method on a comprehensive basis to ensure that all economically similar instruments are treated consistently in the EPS computation.

Diluted EPS under the Two-Class Method

Issue 2: In computing diluted EPS, dilutive potential common shares and potential participating securities are assumed to be outstanding. This proposed statement would clarify that an entity would not reduce income from continuing operations (or net income) by the amount of additional dividends that would be assumed to be declared for potential common shares or potential participating securities that are assumed to be outstanding. The Board reasoned that an entity may make a different decision on the per-share amount of dividends declared if that per-share amount was distributed to all potential common shares or participating securities. Do you agree? If not, why not?

While we agree with the proposed clarification, the application of the two-class method can be inordinately complex for some capital structures. As noted in EITF 03-6, *Participating Securities and the Two-Class Method under FASB Statement No. 128*, the pro forma nature of the allocation of earnings under the two-class method may not necessarily reflect the economic probabilities of actual distributions to the participating security holders. For this reason, we recommend that the Board undertake a future project to reconsider the two-class method for computing diluted EPS so that the economics of the participating security holders are better reflected.

Disclosures

Issue 3: Do you agree that additional disclosures are not warranted? If not, what additional disclosures should be required and why?

We agree with the Board's proposal not to change disclosure requirements for EPS as part of this project.

Other Comments

- We have the following comments on instruments that would be included in basic EPS under the Exposure Draft:
 - a) **Shares that are currently exercisable/issuable for little or no cost to the holder**

The Board should clarify that the amount of interest/dividends that a holder would forgo by converting an instrument early should be considered in determining if an instrument is exercisable/issuable for little or no cost. We do not believe this point is sufficiently clear in the Exposure Draft.
 - b) **A mandatorily convertible instrument that is a participating security**

The Board should (1) provide a definition of a mandatorily convertible instrument and (2) clarify the circumstances under which such an instrument is deemed to have the present right to share in current-period earnings with common shareholders and the extent to which (if any) the no anti-dilution guidance applies. The proposed guidance infers that all mandatorily convertible instruments are participating securities, which is not necessarily true.
- We believe that the end-of-period market price is simpler and more consistent with the change for including any liability balance as assumed proceeds in the application of the treasury stock (or reverse treasury stock) method. However, to avoid any confusion for entities listed on multiple exchanges around the world, we recommend that the Board clarify that the end-of-period market price should be based on the closing price on the principal exchange on which the shares trade.