new york state society of
NYSSCPA
certified public accountants
530 fifth avenue, new york, ny 10036-5101
www.nysscpa.org

April 9, 2004

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

By email: director@fasb.org

Re: File Reference 1200-200

Exposure Draft: Proposed Statement of Financial Accounting Standards, *Earnings Per Share, an amendment of FASB Statement No. 128*

Dear Ms. Bielstein:

The New York State Society of Certified Public Accountants, the oldest state accounting association, represents approximately 30,000 CPAs that will implement the provisions proposed in the captioned exposure draft. NYSSCPA thanks FASB for the opportunity to comment on its exposure draft.

The NYSSCPA Financial Accounting Standards Committee deliberated the exposure draft and prepared the attached comments with the consultation of the International Accounting and Auditing Committee. If you would like additional discussion with the committee, please contact Robert A. Dyson, chair of the Financial Accounting Standards Committee, at (212) 842-7565, or Robert Colson, NYSSCPA staff, at (212) 719-8350.

Sincerely,

Jeffrey R. Hoops
President

Attachment

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NEW YORK STATE SOCIETY OF

CERTIFIED PUBLIC ACCOUNTANTS

COMMENTS ON FASB EXPOSURE DRAFT

Proposed Statement of Financial Accounting Standards, ***Earnings Per Share, an amendment of FASB Statement No. 128***

File Reference No. 1200-200

April 9, 2004

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Mark Mycio
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COMMENTS ON FASB EXPOSURE DRAFT

Proposed Statement of Financial Accounting Standards, *Earnings Per Share, an amendment of FASB Statement No. 128*

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Comments

We support the Board's efforts to achieve international convergence in accounting standards and generally find the proposals in this exposure draft to be positive. This exposure draft presents three changes to the methodology for computing earnings per share, but does not elicit comments on any specific aspects of its content. The following comments present our views on each of the proposed changes.

Item 1

Change in the Method of Computing Incremental Shares for Annual and Year-to-Date Periods

Quarterly and year-to-date diluted earnings per share computations should utilize the average market price of common shares for the respective reporting periods. This is consistent with paragraph 11 of SFAS 128, which states that "the objective of diluted earnings per share is … to measure the performance of an entity over the reporting period while giving effect to all dilutive potential common shares that were outstanding during the period."

Although the text of the exposure draft proposes that quarterly diluted earnings per share should be computed using the average market price of common shares for the respective periods, certain computations in Illustration 3 of SFAS 128 continue to be affected by the frequency of interim reporting (specifically, computations "e" and "j"). Accordingly, the illustrations should be revised to reflect example #7 in IAS 33, *Earnings per Share*.

Item 2

Elimination of Any Exceptions to the Presumption that a Contract that Can be Settled in Either Cash or Stock Will be Settled in Stock

The proposed elimination of exceptions to the presumption that a contract will be settled in stock if it can be settled in either cash or stock is appropriate. Moreover, the Board should clarify whether this presumption should be applied even when specific transactions during the period have settled in cash. The Board should also provide guidance regarding the disclosure of transactions that settled in cash subsequent to the reporting period, but prior to the issuance of the financial statements

Item 3

Inclusion of Mandatory Convertible Securities in Basic Earnings Per Share

If we correctly understand the term “mandatory convertible,” this change is appropriate. Nonetheless, we recommend that this term be defined for purposes of applying the final standard. Finance and investment jargon refers to the term as a security that automatically converts to common stock upon maturity and that such securities are at times referred to as “deferred equity” or “equity substitutes.”

Paragraph 27 of SFAS 128, which discusses consideration of anti-dilution, is integral to applying the “if-converted method” described in paragraph 26 of the ED. The standard should clarify whether anti-dilution should be considered in the application of the ”if-converted method” for the inclusion of mandatory convertible securities in basic earnings per share.

The Board should provide examples illustrating the inclusion of mandatory convertible securities in computing earnings per share. In addition, guidance should be provided to address the application of the standard to financial instruments that have variable terms.