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File Reference No. 1570-100, *An improved Conceptual Framework for Financial Reporting: The Objective of Financial Reporting and Qualitative Characteristics and Constraints of Decision-Useful Financial Reporting Information*

Grant Thornton International and its US member firm, Grant Thornton LLP, appreciate the opportunity to jointly comment on the International Accounting Standards Board (IASB) and Financial Accounting Standards Board (FASB) Exposure Draft, *An improved Conceptual Framework for Financial Reporting: The Objective of Financial Reporting and Qualitative Characteristics and Constraints of Decision-Useful Financial Reporting Information* (the Exposure Draft). We support the Boards' efforts to update and enhance the conceptual framework to provide a foundation for developing principles-based and converged standards.

We believe that the Exposure Draft is a significant improvement over the Preliminary Views document. We have some remaining issues, mainly with some of the terminology and definitions in the Exposure Draft. Our primary concerns are set out below, followed by our responses to the questions posed.

Principal comments

The terms “financial information”, “financial reporting information” and “information” are used interchangeably throughout the Exposure Draft. Financial reporting information is defined in paragraph QC2 as information that depicts economic phenomena that exist or have already occurred in words and numbers in financial reports. We believe that one term should be used consistently throughout the final framework document.

The term financial information is first introduced in Chapter One, paragraph OB2. Moving the definition of financial reporting into Chapter One would help to clarify the meaning of the objective of financial reporting.

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The term “capital providers” introduced in OB2 is defined in paragraph OB5 as “those with a claim on the entity's resources.” Paragraph OB7 states that “the terms *capital providers* and *claimants* are used interchangeably to refer to the primary user group.” We believe that the two terms are not equivalent in general usage and that the interchangeable use of the terms could create confusion in usage and translation. We recommend that the Boards select a single term and use it consistently throughout the final framework document. Capital has a specific meaning in IAS 1 *Presentation of Financial Statements*, in paragraphs 134-136 which differs from how the term is used in the Exposure Draft. Accordingly, “claimants” might better represent the broad group of users of general purpose financial statements. However, we also note that this term has strong connotations of claims in litigation.

The proposed definition of relevance (capable of making a difference in decisions) incorporates elements of the definition of materiality (could influence decisions) without explicitly incorporating materiality. “Capable of making a difference in decisions” is defined differently in QC3 as “predictive value, confirmatory value or both.” Because the definition of materiality in QC28 uses equivalent language (could influence decisions) this definition can be construed also to apply implicitly to the definition of materiality. If so, we believe it would add to clarity to incorporate predictive value, confirmatory value or both explicitly into the definition of materiality as well as the definition of relevance. The terms relevance and materiality are semantic equivalents. Financial reporting information, therefore, is relevant when it is material (capable of making a difference in decisions, which is to say has predictive value, confirmatory value or both to users of financial statements). If this is the intent of the Boards, we suggest that the definition of relevance should incorporate the term materiality (rather than the definition of materiality) to make the relationship explicit. If this is not the intent of the Boards, then we suggest additional clarification of the definitions of relevance and materiality to distinguish between the concepts of relevance and materiality. One way to address this could be to specify that materiality is the qualitative and quantitative threshold at which financial reporting information becomes relevant and at which omission of additional financial reporting information would cause the financial statements to be incomplete or not representationally faithful.

These are our responses to the questions posed in the Exposure Draft.

Chapter 1 *The objective of financial reporting*

- 1. The Boards decided that an entity’s financial reporting should be prepared from the perspective of the entity (entity perspective) rather than the perspective of its owners or a particular class of owners (proprietary perspective). (See paragraphs OB5–OB8 and paragraphs BC1.11–BC1.16.) Do you agree with the Boards’ conclusion and the basis for it? If not, why?**

We agree with the discussion of the entity perspective set out in paragraph 118 of the Boards' Preliminary Views on the Reporting Entity. Those arguments recognise that the needs to the parent entity shareholders are “not ignored” under the entity perspective. We therefore consider that the Boards are implicitly acknowledging that the proprietary (or parent entity) perspective also provides useful information even though the entity perspective takes primacy. We suggest that the Boards should state this more explicitly. We note that information relating to non-controlling interests such as the amount of profit or loss attributable to non-controlling interests is useful to the owners of the non-controlling interests and to the parent company’s shareholders and other claimants to the entity’s resources. Certain information such as earnings per share from the perspective of the parent entity’s shareholders is also useful to the owners of the controlling interest.

2. **The Boards decided to identify present and potential capital providers as the primary user group for general purpose financial reporting. (See paragraphs OB5–OB8 and paragraphs BC1.19–BC1.22.) Do you agree with the Boards’ conclusion and the basis for it? If not, why?**

As noted in our general comments, we do not agree with using the terms capital provider and claimant interchangeably. We believe that the Boards should establish uniform terminology throughout the final framework document.

3. **The Boards decided that the objective should be broad enough to encompass all of the decisions that equity investors, lenders, and other creditors make in their capacity as capital providers, including resource allocation decisions as well as decisions made to protect and enhance their investments. (See paragraphs OB9–OB12 and paragraphs BC1.23–BC1.29.) Do you agree with that objective and the Boards’ basis for it? If not, why? Please provide any alternative objective that you think the Boards should consider.**

We agree with the broad objective.

Chapter 2 Qualitative characteristics and constraints of decision-useful financial reporting information

1. Do you agree that:

- a. **Relevance and faithful representation are fundamental qualitative characteristics? (See paragraphs QC2–QC14 and BC2.3–BC2.24.) If not, why?**

We agree.

- b. **Comparability, verifiability, timeliness, and understandability are enhancing qualitative characteristics? (See paragraphs QC16–QC26 and BC2.25–BC2.34.) If not, why?**

We agree. We interpret the enhancing characteristics to be desirable rather than fundamental and that for each characteristic more of each quality is generally preferable to less.

- c. **Materiality and cost are pervasive constraints? (See QC28–QC33 and BC2.58–BC2.64.) If not, why? Is the importance of the pervasive constraints relative to the qualitative characteristics appropriately represented in Chapter 2?**

We agree that cost is appropriately characterised as a pervasive constraint.

We have concerns over the Exposure Draft's approach to materiality and its relationship to the qualitative characteristic of relevance. As noted in our general comments, as currently defined relevance and materiality are semantic equivalents. As semantic equivalents, it makes it difficult to discern the difference between a fundamental characteristic and a pervasive constraint. In our view, the usefulness and clarity of the conceptual framework would be better served by including the term materiality in the definition of relevance rather than presenting it as a pervasive constraint. We also suggest that the definition of materiality should be enhanced as discussed in our general comments.

2. **The Boards have identified two fundamental qualitative characteristics—relevance and faithful representation:**
- a. **Financial reporting information that has predictive value or confirmatory value is relevant.**
 - b. **Financial reporting information that is complete, free from material error, and neutral is said to be a faithful representation of an economic phenomenon.**
 - (i) **Are the fundamental qualitative characteristics appropriately identified and sufficiently defined for them to be consistently understood and useful? If not, why?**

We believe the Boards have appropriately identified the fundamental qualitative characteristics. As noted in our general comments, the definition of relevance (capable of making a difference in decisions) is a semantic equivalent to the definition of materiality (could influence decisions). The definition also refers to information instead of financial information or financial reporting information (the terms used elsewhere in the Exposure Draft). We recommend that the definition refer to financial reporting information for clarity.

The definition of representational faithfulness could also be improved by improving the definition of completeness in paragraph QC9 as discussed below.

- (ii) **Are the components of the fundamental qualitative characteristics appropriately identified and sufficiently defined for them to be consistently understood and useful? If not, why?**

We believe that the completeness component of the characteristic of representational faithfulness is not adequately specified. Paragraph QC9 states that “depiction of an economic phenomenon is complete if it includes *all information* that is necessary for faithful representation of the economic phenomena that it purports to represent” (emphasis added). We believe the definition should refer to financial reporting information to clarify the intent of this paragraph. Also, the definition should incorporate consideration of relevance and/or materiality (in addition to freedom from material error).

Moreover, *completeness* is included as a component of representational faithfulness which is itself explained at QC7 in the context of the depiction of a specific economic phenomenon. This may raise a question as to the role of *completeness* of the financial reporting information as a whole. Put another way, is it the Boards' intention that general purpose financial reports should be 'complete' (subject to the constraints of materiality and cost) and, if so, how is that term to be applied?

3. **Are the enhancing qualitative characteristics (comparability, verifiability, timeliness, and understandability) appropriately identified and sufficiently defined for them to be consistently understood and useful? If not, why?**

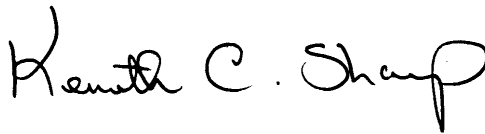
Yes, we believe the terms are appropriately identified and sufficiently defined.

4. Are the pervasive constraints (materiality and cost) appropriately identified and sufficiently defined for them to be consistently understood and useful? If not, why?

As noted in our general comments, the definitions of relevance (a fundamental characteristic) and materiality (a pervasive constraint) are semantic equivalents. This confuses the issues of what is a pervasive constraint and how a pervasive constraint differs from a fundamental characteristic.

We would be pleased to discuss our comments and recommendations with Board members or the staff. Please direct your questions or comments to Gary Illiano (Gary.Illiano@gt.com or +1 (212) 542-9830) on behalf of Grant Thornton LLP or Andrew Watchman (Andrew.Watchman@gtuk.com or +44 (0) 207 391 9510) on behalf of Grant Thornton International.

Sincerely,



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