



Grant Thornton

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Sent by e-mail to strategyreview-comm@ifrs.org

Dear Trustees,

IFRS Foundation Strategy Review

Grant Thornton International Ltd welcomes the opportunity to respond to the IFRS Foundation's (the Foundation) Paper for Public Consultation *Status of Trustees' Strategy Review* (the Consultation Paper).

We make some general comments and summarise our main views below. Our more detailed responses to the questions in the Consultation Paper are appended.

General comments

We appreciate the Trustees' continued efforts to engage with stakeholders in developing the Foundation's future strategy. We also welcome the significant enhancements made to the governance, accountability and due process of the Foundation and the IASB (together, the organisation) in recent years.

We continue to support the Foundation's goal of a single set of high quality global standards. The Consultation Paper provides a concise and compelling overview of the Foundation's successful progress towards that goal and also of the tensions, challenges and uncertainties that are now faced. In addition, we note that the decision expected later this year by the Securities and Exchange Commission on the use of IFRS in the US financial reporting system will have a significant effect on the Foundation's future strategy.

In shaping future strategy, we think it is also essential to keep in mind that:

- the goal of a single set of high quality global standards cannot be achieved by the Foundation alone. Success requires governments or other public authorities to adopt IFRS. Among other matters, this requires a broad alignment between governments' and the organisation's view of the public interest role of financial reporting
- the organisation's reputation, profile and impact are shaped primarily by the IASB's work - its standards and its process for setting standards. The standard-setting process is sometimes presented as a technical or operational matter that is distinct from governance and oversight. However, if the IASB takes a decision that is very controversial or unpopular this is widely considered to be a governance issue as well as a technical matter. For this reason some of our comments concern matters that may be regarded as technical or operational, but that we nonetheless believe to be strategic issues for the Foundation.

Independence, accountability and the public interest

Balancing independence of standard-setting with accountability and legitimacy is an ongoing challenge. The difficulties relate to differences of opinion in an area where there is no single right answer; the need to consider trade-offs; and the lack of obvious precedents based on comparable organisations. Accordingly, the most meaningful measure of success is acceptability to key stakeholders - in particular governments and other public authorities responsible for adopting IFRS. While we would expect that governments will be strongly influenced by investors' views, other public policy considerations may also come into consideration.

In striking an acceptable balance, it is also important to keep in mind that "independence" is not an end in itself. Its role is to help ensure the quality and credibility of IFRS, attributes which are themselves necessary (but not sufficient) for widespread, international acceptance. As noted above, legitimacy and accountability, governance, due process and alignment with public policy goals are also necessary to achieve acceptability.

It is perhaps now widely acknowledged that the Foundation's Constitution and structure established in 2001 over-emphasised independence and focused too little on legitimacy and accountability. The Monitoring Board (MB) was put in place to help address this. We supported the MB and its recognition in the Foundation's Constitution and continue to do so. However, our sense is that further steps may be needed to find a broadly acceptable balance. We suggest various areas for the Trustees' consideration in our detailed responses.

We note that the MB is also undertaking its own governance review and has published a separate consultation document, to which we plan to respond in due course. The MB consultation covers a number of areas referred to in this letter, and some of our comments may therefore be developed further in that response. Accordingly, the Trustees may wish to consider both letters in conjunction in their analysis of consultation responses. We hope in any case that the Trustees and the members of the MB will conclude their reviews in a cooperative and well co-ordinated manner to secure the best outcome.

High quality standards

Expertise and due process remain the critical drivers of quality. Considerable progress has been made in relation to due process and we welcome in particular:

- the IASB Board and Staff's significantly enhanced efforts in the areas of outreach and stakeholder engagement
- the IASB's commitment to public consultation in setting its technical agenda
- the increased use of feedback statements.

Views on what constitutes a high quality standard do of course differ. We expressed our views previously (both to the Trustees and to the IASB in standards-level projects) that:

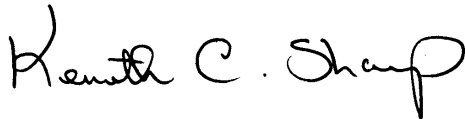
- undue complexity and disclosure volume need to be addressed
- financial statements should be aimed at a wide range of users
- the assessment of stewardship and the accountability of management should be part of the role of financial reporting.

We continue to hold these views. We suggest that they are all strategic matters for the organisation and not merely technical matters for the IASB.

Another critically important (and in our view strategic) matter is effective management of the volume and pace of changes to standards. It has become increasingly clear that the IASB cannot deliver, and that constituents will not accept, the volume of new standards and amendments that has at times included on the IASB's work-plan. Once the current convergence programme is completed, we think the IASB needs to aim for period of stability. Going forward, we think that the IASB should do more work on fewer projects.

If you have any questions on our response, or wish us to amplify our comments, please contact our Executive Director of International Financial Reporting, Andrew Watchman (andrew.watchman@uk.gt.com or telephone + 44 207 391 9510).

Yours sincerely,

A handwritten signature in black ink that reads "Kenneth C. Sharp". The signature is written in a cursive, flowing style.

Kenneth C Sharp
Global Leader - Assurance Services
Grant Thornton International Ltd

Responses to questions

Mission: How should the organisation best define the public interest to which it is committed?

Question 1

The current Constitution states, “These standards [IFRSs] should require high quality, transparent and comparable information in financial statements and other financial reporting to help investors, other participants in the world’s capital markets and other users of financial information make economic decisions.” Should this objective be subject to revision?

We believe the objective remains appropriate. It allows flexibility for practical decisions and trade-offs among competing needs where necessary.

We believe that "quality" is not simply a matter of conceptual consistency or technical merit. We believe that a high quality financial reporting framework should:

- avoid undue complexity and excessive disclosure volume
- result in financial statements that are useful for a wide range of users
- assist in the assessment of stewardship and the accountability of management.

We do not think these matters necessarily merit specific reference in the Constitution. We do however suggest that the 'Trustees' periodic reviews of the effectiveness of the IASB should encompass these areas.

Question 2

The financial crisis has raised questions among policymakers and other stakeholders regarding the interaction between financial reporting standards and other public policy concerns, particularly financial stability requirements. To what extent can and should the two perspectives be reconciled?

As stated in our response to Question 1, we think the existing objective remains appropriate.

The interaction between financial reporting standards and financial stability has been much discussed, but no consensus has emerged as to the existence or extent of a cause and effect relationship. We also suggest that the organisation has no legitimate mandate to pursue macro-economic policy objectives such as financial stability and bank solvency, and lacks the necessary resources and regulatory tools to do so. Modifying the constitutional objective to this effect may then lead to criticism of standards-level decisions on the grounds that insufficient consideration has been given to financial stability issues. Such criticisms would be very difficult to respond to given the lack of evidence about the interactions.

Nonetheless, the organisation cannot simply ignore these broader public policy concerns. As noted in our cover letter, global acceptance of IFRS requires broad alignment between governments' and the organisation's view of the public interest role of financial reporting. We think this alignment should be promoted through continued and enhanced engagement with global regulatory organisations such as the Financial Stability Board and Basel Committee on Banking Supervision (along with governments and securities regulators).

At a standard-setting level we also believe that opportunities exist to make improvements that will serve the needs of general users and those of regulators and supervisors (for example, the IASB might consider making an improvement to address a 'regulatory' concern if the change is neutral in terms of the usefulness of financial statements to investors and other users). To the extent that financial stability objectives are seen as important in better understanding the operating environment, and performance and condition of an entity and where the manner in which they are reflected does not conflict with financial reporting for capital markets, they should be considered in evaluating reporting and disclosure requirements.

Governance: how should the organisation best balance independence with accountability?

Questions 3 and 4

The current governance of the IFRS Foundation is organised into three major tiers: the Monitoring Board, IFRS Foundation Trustees, and the IASB (and IFRS Foundation Secretariat). Does this three-tier structure remain appropriate?

Some stakeholders have raised concerns about the lack of formal political endorsement of the Monitoring Board arrangement and about continued insufficient public accountability associated with a private-sector Trustee body being the primary governance body. Are further steps required to bolster the legitimacy of the governance arrangements (including in the areas of representation of and linkages to public authorities)?

Our covering letter discusses the challenges of striking a broadly acceptable balance of independence with accountability and legitimacy. We believe that a further shift in balance towards legitimacy and accountability is called for, albeit one that is incremental rather than fundamental. We have identified the following areas for consideration:

- whether there is still too much emphasis on the independence of the IASB. We support the notion of an independent Board because it promotes quality and credibility which in turn promote acceptability (along with many other factors). Independence is therefore a means to an end, not an end in itself. It is well accepted that independence should be counter-balanced by effective oversight and due process. We have previously suggested that the Trustees' powers appear too limited to provide this counter-balance in an effective and visible way. We continue to hold this view
- irrespective of any formal constitutional role to intervene in standard-setting activity, we question whether the Trustees are sufficiently active and visible in the process of holding the IASB to account. We recognise that some steps have been taken - in particular we welcome the expanded role and enhancement of the Advisory Council. However, we suggest that the Trustees' oversight activities are not particularly visible to most stakeholders and are not perceived to make a significant difference to practical outcomes. Consistent with comments in our covering letter, we think the Trustees may need to be more visibly involved in assessing the IASB's response to widespread concerns such as complexity and the volume of changes to IFRS
- whether tensions or conflicts may exist between the Trustees' role as sponsors of (and fundraisers for) the IASB and the Trustees' oversight functions.

We continue to support the three-tier structure at least for the short to medium term, subject to the suggestions in the bullet points below. This structure is relatively new and should be given a full opportunity to succeed. There is also probably insufficient time for a more fundamental restructuring to be in place prior to the SEC's decision on US adoption.

We suggest some areas for consideration by the Trustees and the MB in order to enhance the current structure. We recognise that changes can be achieved only in collaboration with the MB and we encourage all parties to co-operate fully in concluding their respective reviews.

- an explicit political endorsement of the MB should be sought (perhaps by the G-20, which we note has consistently expressed support for global standards)
- we suggest that the feasibility of establishing a closer alignment between the MB and the G-20 should be considered. One approach could be to expand the MB's membership to include representatives from each G-20 country, or a subset thereof. We think the MB should as far as possible provide a proxy for the broad range of public interests in financial reporting
- given the possibility of tensions between the Trustees' sponsorship and accountability responsibilities, we suggest that the Trustees should work with the MB to assess whether some oversight functions should be ceded to the MB. We also suggest that the Trustees and MB should reaffirm and publicly clarify their respective responsibilities and working practices.

Longer term, a structure that places even more emphasis on the G-20 as the key sponsor should be considered. This may provide more effective protection to the organisation and significantly bolster its perceived legitimacy. It is also not evident that the current structure is making a material difference to the stability and security of funding.

Process: how should the organisation best ensure that its standards are high quality, meet the requirements of a well functioning capital market and are implemented consistently across the world?

Question 5

Is the standard-setting process currently in place structured in such a way to ensure the quality of the standards and appropriate priorities for the IASB work programme?

The standard-setting process is adequately prescribed, although there is no doubt always room for improvement and refinement (eg criteria for annual improvements, operation of IFRIC). The real challenge is around execution, meaningful stakeholder engagement, and sound judgements at the Board and Staff level.

We commend the IASB and the staff for their enhanced efforts to engage with stakeholders. We observed a step change in outreach efforts during the development of the new requirements on classification and measurement of financial instruments standards. This set a new benchmark which has been carried forward into other high profile projects.

As explained in our cover letter, however, we also believe that the IASB has been too ambitious in setting its agenda. The technical resources required to deliver several critical projects are only part of the issue. Creating a broad consensus on the need for change, and gaining acceptance for major revisions, are also critical. We understand that convergence has been the main driver and we continue to support the convergence objective. However, it has become evident that the organisation has struggled to deliver the volume of high quality standards that has been envisaged. Constituents are increasingly calling for a more stable system.

Once the current convergence process is complete, we suggest that the organisation must reflect on the lessons learned. We would expect that, beyond 2011, the IASB should take more time over fewer projects.

We note that some constituents continue to call for more detailed, quantified cost-benefit analysis. The difficulties of performing such analysis - and of quantifying benefits in particular - are well documented. Whilst recognizing the challenges and acknowledging the steps that have been taken, we encourage the Trustees and the IASB to continue to develop this aspect of due process. We also suggest, however, that calls for more work in this area are in large part a reflection of concerns over the level of complexity and the extent of change.

The agenda-setting process is a partly separate, and very controversial matter. The controversy once again stems in large measure from the IASB's agenda decisions being dominated by convergence. We welcome steps taken to increase the role of the Advisory Council and the Trustees' commitment to periodic public consultation. However, we have in the past also raised the possibility that the oversight body(ies) may need greater powers to intervene in the agenda.

Finally, we suggest that the IASB should complete its work on a revised Conceptual Framework as soon as practicable. A robust and up-to-date Framework is a key resource for the development of new Standards. The absence of such a resource detracts from the standard-setting process.

Question 6

Will the IASB need to pay greater attention to issues related to the consistent application and implementation issues as the standards are adopted and implemented on a global basis?

Yes. The organisation cannot assume responsibility for the enforcement of IFRS, which is of course one key driver of consistent application. Enforcement is a matter for regulators, and we support efforts by jurisdictional regulators to pursue greater consistency in their approaches and decisions. However, the IASB does have a responsibility for setting standards that are clear, understandable, practical and therefore capable of being applied and enforced consistently.

Extensive changes to the IASB's current Standards are of course inevitable as the IASB completes its current convergence plan in 2011 (as targeted). Convergence between IFRS and US GAAP will bring many benefits. Convergence is critical to the outcome of the US decision on whether to incorporate IFRS into its financial reporting system. Even without US adoption, convergence will take us closer to a single, global financial reporting language.

Beyond 2011 we believe the IASB's work should place greater emphasis on assessing the effectiveness of the major recent changes already made. We consider that post-implementation reviews of significant pronouncements are essential to the achievement of high quality, global standards and therefore welcome the current indications that these will be a substantial part of the IASB's post-2011 work plan. We think these reviews should consider more routine matters such as internal consistency and clarity, but also address broader matters such as complexity, costs and benefits, the relevance of the information in practice and an appropriate level of consistent application (subject to the normal constraints on that outcome).

Financing: how should the organisation best ensure forms of financing that permit it to operate effectively and efficiently?

Question 7

Is there a way, possibly as part of a governance reform, to ensure more automaticity of financing?

We continue to believe that a stable and secure funding system is best achieved by national or regional payment systems or levies. However, we recognise the challenges of implementing such a system across multiple regions and jurisdictions. Recent commitments by the European Commission indicate that the funding situation will be adequate in 2011-2013, but a truly stable, secure and global funding solution remains elusive. We therefore expect the Trustees will need to continue to operate a hybrid funding model in the short to medium term. The Trustees' funding model should also be considered and preferably endorsed by the MB.

We do believe that a more fundamental governance reform that establishes closer links with the G-20 may provide an opportunity to engage the G-20's support for a stable and secure funding solution.

Question 8

Are there any other issues that the Trustees should consider?

The Trustees should consider whether the current operational structure is sufficiently scalable to address the ever-increasing stakeholder base as more countries around the world transition to IFRS. Matters that might be considered include: (i) the establishment of branch offices, and their role and authority; (ii) working more closely with national standard setters, either individually or in groupings; and (iii) developing and supporting more regional / functional groups of stakeholders to assist with outreach and consultation efforts.

We also believe there is an emerging gap between some constituents' expectations as to the extent of application and interpretive guidance and the output of the IASB and IFRIC. As in most areas, views are mixed on the appropriate balance and there is no obvious or simple solution. We note that the Trustees are currently reviewing the IFRIC's effectiveness and we look forward to their conclusions.