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Dear David

Exposure Draft 164 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 Australia Limited (Grant Thornton) is pleased to provide the Australian Accounting Standards Board with its comments on the International Accounting Standards Board's (the Board) 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".

Grant Thornton's response reflects our position as auditors and business advisers both to listed companies and privately held companies and businesses.

This submission has benefited with input from our clients, Grant Thornton International which will be finalising a global submission to the IASB by its 29 September 2008 deadline, and discussions with key constituents.

Our response is set out in the Appendix.

If you require any further information or comment, please contact me.

Yours sincerely
GRANT THORNTON AUSTRALIA

Keith Reilly
National Head of Professional Standards

APPENDIX

GENERAL COMMENTS

The terms "financial information", "financial reporting information", and "information" are used interchangeably throughout the document. Financial reporting information is defined
or have already occurred in words and numbers in financial reports. We believe that one term should be used consistently throughout the documents.

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.

The term "capital providers" introduced in OB 2 is defined in paragraph OB5 "those with a claim to the entities resources." In paragraph OB7 it 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 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 framework. Of the two, we prefer claimants better represents the broad group of users of general purpose financial statements.

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 QC 28 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 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 quantitative threshold at which financial reporting information becomes relevant and at which omission of financial reporting information would not cause the financial statements to be incomplete or not representationally faithful.

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 believe that both the entity perspective and the parent company perspective provide useful information. We therefore broadly agree with the arguments in paragraph 118 of the Preliminary Views but note that information relating to noncontrolling interests such as the amount of profit or loss attributable to noncontrolling 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 may also be 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 comment, we do not agree with using the terms capital provider and claimant interchangeably. We believe that the Boards should establish uniform terminology throughout the framework.

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 TWO QUALITATIVE CHARACTERISTICS

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?

As noted in our general comment, as currently defined relevance and materiality are semantic equivalents. As semantic equivalents, it makes it difficult to discern the difference between fundamental characteristic and a pervasive constraint

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.

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

As noted in our general comments, the definition of relevance (capable of making a difference in decisions) is equivalent to the definition of materiality (could influence decisions). The definition also refers elsewhere in the framework. 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 complete in paragraph QC9 as discussed below.

(2) 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 "information 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). For example, financial reports that omit immaterial (or irrelevant) information are complete and therefore representationally faithful.

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?

We agree.

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.