

Our Ref AM/NJJ/0507

Paul Koster
Chairman, CESR-Fin
The Committee of European Securities Regulators
11-13 avenue de Friedland
75008 PARIS
FRANCE

18 May 2007

Dear Mr Koster

**CONSULTATION PAPER - CESR'S TECHNICAL ADVICE ON A
MECHANISM FOR DETERMINING THE EQUIVALENCE OF THE
GENERALLY ACCEPTED ACCOUNTING PRINCIPLES OF THIRD
COUNTRIES**

Grant Thornton International welcomes the opportunity to respond on behalf of its member firms on the above named consultation paper published by The Committee of European Securities Regulators (CESR). We support the approach taken by CESR in seeking views from stakeholders, and we hope that the results of this consultation paper will come to be seen as an important step in achieving a transparent and appropriate mechanism for determining the equivalence of Generally Accepted Accounting Principles (GAAP) of third countries.

Grant Thornton International is one of the world's leading international organisations of independently owned and managed accounting and consulting firms. Firms operate in 113 countries and employ over 25,000 people worldwide. Grant Thornton International has member firms in 21 European Union (EU) countries and a further two member firms in European Economic Area countries.

The consultation paper considers assessment principles at a high level, with which we are largely in agreement, but we are concerned that practical problems will arise once the assessment process commences. For example, it is not clear what happens when an overseas company is approaching an announcement deadline but the equivalence assessment process is incomplete. Also, there appears to be an assumption that equivalence assessments will be complete before 1 July 2008, but we assume there will be a need for EC assessment

decisions after that date, perhaps in emerging jurisdictions that are not yet equivalent but are moving towards equivalence.

Convergence programme not a necessity for equivalence

We agree that a programme for convergence of a third country's GAAP to IFRS is desirable, but in our view it is not appropriate that the existence or progress of a convergence programme should be a necessity or a requirement before equivalence of third country GAAP to IFRS is granted. Equivalence is mainly a technical assessment at a point in time; and indeed needs to be regularly updated as a third country GAAP could change its equivalence status over time through action (or inaction) of its local standard setting process.

Filters not important for equivalence assessment

We agree that "filters" at the country level such as Statutory Audit Directive compliant audit and related enforcement activities are important in assessing the overall confidence that a user may have in financial information originating from a third country, but we do not believe that they should be a factor in a GAAP equivalence assessment, especially given the EC's parallel auditor registration process and auditor oversight assessment.

In our view, equivalence of GAAP is mainly a technical question on which filters such as independence and oversight of auditors should have no bearing. However, criteria such as implementation and understanding of third country GAAP among users of the third country GAAP will have a bearing on the GAAP equivalence decision.

We would encourage CESR to engage with regulators from jurisdictions outside the EC to ensure that equivalence assessments are carried out around the world in a similar fashion, with a similar degree of rigour, giving reasonably consistent results. It would be unfortunate if one jurisdiction assessed a GAAP to be equivalent to IFRS, but another jurisdiction did not. In this regard, we are encouraged by the progress made by the International Federation of International Audit Regulators (IFIAR).

We would also encourage the EC to consider equivalence of third country auditing standards using a similar process to that used for assessment of third country GAAP, including assessment based on principles.

If you have any questions on this response, please contact April Mackenzie (phone: +1 212 542 9789; email April.Mackenzie@gt.com) or Nick Jeffrey (phone: +44 870 991 2787; email Nick.Jeffrey@gtuk.com).

Yours sincerely

A handwritten signature in black ink, appearing to read 'April Mackenzie', with a stylized flourish at the end.

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For Grant Thornton International

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APPENDIX - QUESTIONS POSED BY CESR IN THE CONSULTATION PAPER

Question 1: Do you agree that CESR's suggested method for handling applications for equivalence is the best way? In cases where the standard setter is not in a position to initiate and/or substantiate an application, do you have any concrete suggestions as regards the solution of such a situation and in particular, who could undertake the abovementioned assessments?

Grant Thornton International response: We agree that third country standard setters would be the natural applicant for equivalence, and that the assessment should be done in the first instance by the standard setter of the country seeking equivalence.

The final assessment should be carried out by independent experts.

Where the standard setter is not in a position to apply to the EC, a suitable body in the third country could fulfil this role, so a degree of flexibility as to the application process should be retained by the EC. In our view, the process of assessment of equivalence is more important than the process of application for equivalence.

Question 2: Do you think that CESR should publish guidance on the information that it would consider satisfactory to ensure an informed decision?

Grant Thornton International response: We agree that CESR should publish guidance on equivalence, but this guidance should be set at a high level and avoid giving detailed requirements in order to avoid creating a GAAP framework that is neither IFRS nor third country GAAP.

Question 3: Which of the two approaches indicated above (and in the Appendices) do you think is most appropriate? Please provide your reasons.

Grant Thornton International response: We agree with CESR that the "short cut methodology" described in paragraph 24 of the consultation paper is not appropriate for two reasons. Firstly, the short cut methodology does not require convergence of recognition principles, which in our view is a vital ingredient if equivalence with IFRS is to be achieved. Secondly, the specific standards and information available at the time that the equivalence decision is reached need to be taken into consideration if the definition of equivalence is intended to result in users receiving all of the relevant information.

Question 4: Recital 8 of the Commission Regulation 1787/2006 and recital 7 of the Commission Decision 2006/891/EC of December 2006 state that "the progress of the convergence process should be closely examined before any decision on equivalence is taken". Do you think the existence of a convergence programme between the assessed third country's GAAP and IFRS should play any role in the determination of equivalence, other than facilitating the comparison between the standards and identifying the necessary rectifications?

Grant Thornton International response: We agree that a programme of convergence of a third country's GAAP to IFRS is desirable, but in our view it is not appropriate that the existence or progress of a convergence programme should be a necessity or a requirement before equivalence to IFRS is granted.

Question 5: Do you agree that filters are important and that they should be effected in any equivalence mechanism? If so, do you think the CESR's model correctly reflects how consideration of the filters should be incorporated into the mechanism?

Grant Thornton International response: We agree that "filters" at the country level such as Statutory Audit Directive compliant audit and related enforcement activities are important in assessing the overall confidence that a user may have in financial information originating from a third country, but we do not believe that they should be a factor in a GAAP equivalence assessment. In our view, equivalence of GAAP is a technical question on which filters such as independence and oversight of auditors should have no bearing. The EC considers GAAP equivalence, and runs a separate system of third country auditor registration and recognition of auditor oversight. To join GAAP equivalence and audit assessments together, as opposed to run them parallel, could disadvantage an individual corporate entity and introduce an unreasonable barrier to listing on a EU exchange.

However, criteria such as implementation and understanding of third country GAAP among users of the third country GAAP will have a bearing on the GAAP equivalence decision.

Question 6: Do you agree with this proposal? Do you have any suggestions as regards the procedure for providing the envisaged impact assessments which avoids a period of uncertainty for issuers while these are being made?

Grant Thornton International response: Paragraph 31 of the consultation paper asserts that "...the necessary work can be planned into the audit process to enable these additional disclosures to be audited" but it is not immediately clear that rectification procedures required to render a third country GAAP equivalent to IFRS will fall within the scope of a statutory audit within the meaning of law in the third country.

Equivalence assessments will need to be kept up to date by the EC, and so it seems reasonable for the EC to ask that third country standard setters submit updates in respect of new standards. However, because of timing issues, this is another area where the assessment process will need to include a degree of flexibility.

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