

Perspective: Global Regulatory Convergence

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Brief background

Since 2001, International Financial Reporting Standards, or IFRS, have been set by the International Accounting Standards Board (IASB) in London. The IASB is involved in convergence programs with other standards-setters, including those in China, Japan and the U.S.

In 2002, the IASB and the U.S. Financial Accounting Standards Board (FASB) came to a formal understanding to seek to remove differences between their standards. They are developing a single conceptual framework to guide future standards and acceptance of IFRS continues to build momentum abroad.

On the international auditing front, the International Audit and Assurance Standards Board (IAASB), has published a rigorous set of International Standards on Auditing (ISAs), many International Auditing Practice Statements (IAPs) and other pronouncements, which have been continuously updated and improved. The ISAs have been developed through an increasingly open and transparent process. More than 100 countries are now using or are in the process of adopting or incorporating ISAs into their national standards. The AICPA Auditing Standards Board is aligning its standard-setting process with that of the IAASB.

Why this issue is important to investors, the markets and the economy

In an age of business globalization, inconsistencies in regulatory requirements can obscure corporate transparency. Corporate operations often span many borders. A company's financial reporting management and independent auditors must respond to multiple, and often conflicting, national rules while attempting to provide coherent information and insight on the financial position and results of an entity's global operations.

The individual threads of national regulation may make sense in isolation, but these rules often have extraterritorial reach and are nearly impossible to weave together in a coherent global fabric that addresses investors' needs.

Investors and other financial statement users do not benefit when they have to reconcile multiple sets of accounting and auditing standards at the expense of comparability, accessibility and confidence in regulatory oversight.

Grant Thornton's position

- Grant Thornton International (GTI) strives for continuous improvement and consistency across the world, and convergence of various national

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regulatory standards would contribute to our efforts and will enhance corporate transparency.

- We support the development of a single set of high-quality global accounting standards and a single set of high-quality global auditing standards.
- We support the convergence of U.S. GAAP with IFRS – and the eventual adoption of IFRS.
- We support the convergence of U.S. GAAS with ISAs – and the eventual adoption of ISAs.
- Convergence will yield greater comparability between companies and within industries.
- Investors will not need to waste time and effort reconciling financial information when comparing similar companies from different countries.
- Convergence of auditing standards will provide greater assurance to investors that auditors around the world are applying the same rigorous standards when conducting their work.
- Convergence of national regulatory regimes could eliminate or minimize unnecessary regulatory barriers that work against the global networks' goal of consistently high levels of seamless audit quality around the world.
- Regulatory convergence could also result in higher levels of investor protection, increased efficiencies and a reduced cost of capital.
- Convergence of oversight systems (for example, registrations and inspections in multiple countries) will reduce the cost of oversight while upholding investor confidence and protection.
- Other regulatory areas should also be harmonized on a global basis, including

privacy, data protection and client confidentiality rules.

- We support the IFAC Code of Ethics and believe that there should be a consistent auditor independence framework based on the IFAC Code's "threats and safeguards" approach.

Current status

Audit firms and multinational companies are urging the SEC to keep the global standards movement on the fast track. With respect to auditing standards, the PCAOB's strategic plan commits it to examine the implications of multiple auditing standards and consider its response.

The facts

- Global convergence of regulatory regimes will eliminate or minimize the regulatory and legal barriers that work against seamless, high-quality global accounting and auditing. They will also reduce the costs and inefficiencies associated with overlapping and inconsistent oversight systems.
- Regulatory convergence could also result in higher levels of investor protection and a reduced cost of capital.
- Grant Thornton supports the convergence of U.S. GAAP with International Financial Reporting Standards (IFRS) – and the eventual adoption of IFRS
- We support the convergence of U.S. GAAS with International Standards on Auditing (ISAs) – and the eventual adoption of ISAs.