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July 31, 2008

Ms. Florence E. Harmon  
Acting Federal Advisory Committee Management Officer  
Securities and Exchange Commission  
100 F Street N.E.  
Washington, DC 20549-1090

**RE: July 31 Draft Final Report of the SEC Advisory Committee on Improvements to Financial Reporting, File No. 265-24**

Dear Ms. Harmon:

Grant Thornton LLP fully supports the recommendations in the draft report issued for discussion by the SEC Advisory Committee on Improvements to Financial Reporting (CIFiR) at its public telephone conference meeting on July 31, 2008. As a member of the Committee and its Subcommittee on Audit Processes and Compliance, I have been impressed by the openness of discussion and deliberation, the variety of perspectives presented, the expertise that has been made available to us, and the deep commitment of Committee members to the process and a meaningful outcome.

Our hope is that the report will be a catalyst in stimulating future action to make public company financial reporting more relevant, accessible and reliable.

Grant Thornton LLP is the U.S. member firm of the major global public accounting network, Grant Thornton International. Grant Thornton LLP has more than 5,500 personnel in more than 50 offices across the United States. The member firms of Grant Thornton International are in more than 110 countries, with some 2,200 global partners and 27,000 international firm personnel, including those in the U.S. firm.

Grant Thornton recognizes that for our capital markets to continue to function effectively, the public must maintain its confidence in the reliability of the financial information presented by America's public companies, in the way that information is produced, and in the professional and independent skepticism that is applied to its audit and regulatory review. For this reason, I am pleased to have been a member of the Committee and profoundly involved in its work.

In this comment letter, I offer additional observations on some of the recommendations in the draft final report. My comments are designed to augment and amplify the thinking behind a number of the report's most important elements.

### **Incorporating Investors' Perspectives**

Additional investor involvement in the standard-setting process is central to improving financial reporting. Only if investor perspectives are properly considered can the output of the financial reporting process meet the needs of the individuals and institutions it is primarily intended to serve. My colleagues and I at Grant Thornton are pleased to see that the CIFI<sup>R</sup> report emphasizes the importance of building investor views into many of the most pressing issues and decisions. In particular:

Evidence presented to the Committee by investors and financial analysts strongly reinforced the importance of disclosures as part of the total mix of information available to investors and other users. Recommendation 1.2 suggests the SEC and FASB to develop a disclosure framework to integrate existing SEC and FASB disclosure requirements into "a cohesive whole" and would require disclosure of the principal assumptions, estimates and sensitivity analyses that may impact a company's business, and a qualitative discussion of important key risks and uncertainties. We enthusiastically support this recommendation and believe that both preparers and auditors should place additional emphasis on the importance of full and informative disclosures in financial statements.

Recommendations 2.1 and 2.3 suggest more direct investor influence in standard-setting and the pre-eminence of investors. We fully support giving very strong consideration to the views of informed, experienced and knowledgeable investors in the development of accounting standards. Robust investor involvement will focus financial reporting on its relevance and utility. We also believe that regulators, auditors, and preparers have valuable contributions to make as well.

The Committee has reinforced, in recommendations 3.1 and 3.4, the principle that materiality must be assessed in terms of investors' views about the importance of a particular matter in relation to the "total mix" of information available, and that assessing materiality requires consideration of all factors, both quantitative and qualitative. Investors are well served when materiality judgments made by preparers, auditors and regulators are aligned with their needs. The recommended CIFI<sup>R</sup> approach is consistent with prior legal precedents and with existing auditing standards, but there is a substantial need for additional research and education related to applying this concept to the preparation and auditing of financial statements.

### **Improved Reporting Related to Restatements**

In testimony and comment letters, investors and analysts identified the lack of reliable and relevant information available to investors during the period from the discovery of an error to the time that final resolution of the matter is disclosed in a filing (the "dark period"). During this period, public information about the potential causes and effects of the error(s) and the results of the company's current operations is often limited or completely lacking. This is the precise moment when investors want more, not less information. Investors want to know how the error was discovered, why it occurred, what was done to remediate the problem, and the

effects of the error on the financial statements. The absence of information – and the resulting uncertainty – can result in a stock price drop pending resolution of the situation.

Issuers have been reluctant to disclose operating information for current periods out of concern that errors under review may ultimately also affect current period reporting. Recommendation 3.3 addresses the issue by asking the SEC to modify its rules to require increased and timelier disclosure to reduce investor uncertainty. The recommendation would substantially improve the quality of available information about errors in financial statements of public companies. Having this information more consistently and reliably disclosed will also encourage better research and monitoring of the causes of errors in financial statements, including the quality of related audits.

In particular:

We believe that SEC clarification of 8-K rules to specify that Form 8-K is to be filed in all cases of restatement will be of great service to investors and other financial statement users. They will have access to timely notice of restatements without the risk of the so-called “stealth” restatements that are not now publicly disclosed through a Form 8-K filing.

We also support the Committee’s recommendation that the SEC encourage issuers to be more diligent in disclosing the current state of efforts to correct errors and in disclosing reasonably reliable information regarding current operations. This recommendation will go a long way toward addressing one of the largest costs of a restatement: the discounting of the stock price during the “dark period” caused by lack of information about the potential causes of the errors and the results of the company’s current operations.

### **Improvements in Making and Supporting Professional Judgments**

We believe that appropriate recognition should be given to the necessity for professional judgment in financial reporting matters. Professional judgment is inherent in all stages of the financial reporting process. Formal public recognition by CIFIIR that reaffirms a respect for appropriate professional judgments and recognizes that professional judgments can differ among knowledgeable, experienced and objective experts is an important move forward.

The Committee heard serious concerns from preparers that professional judgments in accounting and reporting are often “second guessed” by auditors and regulators, causing excessive conservatism and cost. As a result, the Committee’s recommendation 3.5, that the SEC should issue a statement of policy articulating how it evaluates the reasonableness of accounting judgments including factors that it considers when making this evaluation, is a very meaningful one. The foundation of the recommendation is that evaluating judgments require that the evaluator understand how the judgment was formed and the “reasonableness” of the judgment itself.

We fully support this position. It is important that everyone in the financial reporting process have a common understanding of the precepts used by accountants and auditors to reach good faith, well-reasoned and well-documented decisions that are appropriate applications of the relevant standards.

The Committee also recommended that the PCAOB issue similar guidance to describe how auditors should exercise judgment and how judgments of auditors will be evaluated in connection with PCAOB inspection and enforcement activities. We believe that, for the

PCAOB to implement the “prudent supervisory model” described as its objective in its strategic plan, this type of guidance is essential to enable audit firms to understand the results desired by the regulator. We support this recommendation and look forward to working with the PCAOB in accomplishing its objective.

### **Delivering Financial Information**

We support the recommendations in chapter four related to the delivery of financial information. The use of enhanced electronic financial reporting, XBRL, to provide better, faster, cost-efficient and more consistent financial information supports informed business and investment decisions. XBRL is the gateway to moving financial reporting into the Internet Age and its universal adoption on a rational and timely basis will serve investors and the public interest. We agree with CIFIr’s recommendations that call for mandatory data tagging as a long-term SEC objective and a phased-in approach to mandatory data tagging.

Grant Thornton LLP has been a driving force behind the development and adoption of this enabling technology on a global basis since its early days, because we believe that the quality and transparency of financial and business information is critical to the health of the markets and our economy. We have dedicated significant funding and people to the development of XBRL, including a commitment of \$1 million to XBRL US, Inc.

The Enhanced Business Reporting Consortium, of which Grant Thornton is a founding member, and Gartner are now collaborating to bring CIFIr recommendation 4.3 to life. EBRC and Gartner will engage business executives, financial analysts, and investors in a study to identify and test the predictive usefulness of industry-specific key performance indicators (KPIs). The initial focus will be on three sectors: insurance, retail and consumer goods, and high technology. They will also organize “communities of interest” to refine and promote these KPIs as industry standards to support internal management conclusions, external comparisons, and investment recommendations and decisions.

I am honored to have been a member of the Committee and hope that our recommendations can be acted upon as soon as possible. Only then can financial statement users, preparers, auditors and others begin to realize the benefits of improvements in our financial reporting system.

Sincerely,



Edward E. Nusbaum  
Chief Executive Officer, Grant Thornton LLP  
Chairman, Grant Thornton International Board of Governors