



International Federation of Accountants

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Agenda Item

H

Committee: IAASB Consultative Advisory Group

Meeting Location: Washington

Meeting Date: September 9-11, 2009

Rapid Response Mechanism

Objective of Agenda Item

1. To obtain the views of Representatives on a proposed IAASB¹ rapid response mechanism, and provide a brief report back on the proposals of Representatives discussed at the March 2009 CAG meeting.

Proposed Rapid Response Mechanism

2. Agenda Item H.1 sets out a proposed IAASB rapid response mechanism. The structure of the mechanism focuses on:
 - The key decision of whether a rapid response (in some form) is necessary and appropriate;
 - The evaluation of the need for a rapid response against acceptable options available to effect a response (i.e., a response in either the form of a non-authoritative staff publication (e.g., Staff Audit Practice Alert) or a limited amendment to an existing pronouncement, or both);
 - In the case of an urgent issue affecting an authoritative pronouncement of the IAASB, whether the necessary criteria for a rapid response has been met; and
 - The due process to be followed in developing a particular response.

Matter for Consideration – Due Process for a Rapid Response Involving a Limited Amendment to an IAASB Pronouncement

3. In general, the IAASB feels strongly that any form of rapid response mechanism needs to make clear the limited circumstances in which a rapid response might be appropriate. In connection with an urgent issue relating to an authoritative pronouncement of the IAASB, the proposed mechanism therefore restricts the type of rapid response to a *limited amendment* of the pronouncement. Further, the proposed mechanism also establishes specific criteria that need to be met in order for the IAASB to judge that a limited amendment to a pronouncement is both necessary and appropriate in the circumstances.

¹ The intent of this project is to develop a rapid response mechanism applicable to all IFAC standard-setting Public Interest Activity Committees (PIACs). Reference only to the IAASB rapid response mechanism in this document is for convenience.

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These provisions acknowledge that it would not be in the public interest to attempt to address a complex or pervasive issue relating to IAASB pronouncements on a rapid response basis, and that unrestrained use of rapid responses would generally have a negative effect. **Refer to paragraphs 5-6 and 9-11 of Agenda Item H.1.**

4. Because the proposed mechanism limits the nature and type of amendments that can be made to a pronouncement, it identifies those specific provisions of current due process that may be less relevant in the circumstance when compared to the case when developing a new, or revising an existing, pronouncement – the context in which the current due process was designed.
5. It is therefore proposed that the IAASB be permitted to make certain elections in relation to these specific due process provisions in order to accelerate the development and issue of a limited amendment to a pronouncement when there is a need for a rapid response. Except with respect to these specified elections, all other requirements of due process would remain applicable in full.² **Refer to paragraph 18-22 of Agenda Item H.1.**
6. In the context of due process and the interaction between the IAAASB and IAASB CAG, the IAASB would be entitled to make the following due process elections in the context of rapid response, as noted in Agenda Item H.1:

“Subject to that approval, the IAASB may take advantage of one or more of the following elections in the application of due process. ...The decision to elect one or more of the following is made by the IAASB in a public meeting....

Interaction with CAG

- The IAASB may elect to consult with the IAASB CAG on either (i) significant issues relating to the development of the limited amendment to a pronouncement, or (ii) significant issues raised in comment letters on the exposure draft thereof and the IAASB’s related response, rather than on both. This election is made after having the discussed the matter with the IAASB CAG Chair.
- While the IAASB, or the Project Task Force as applicable, remains responsible to report back to the IAASB CAG the results of the IAASB’s deliberations on significant comments received through the consultation with the IAASB CAG, the report back need not be prior to IAASB approval of the final limited amendment to a pronouncement.

Except for the above, all other requirements of due process remain applicable in full.”

² In terms of timeliness with respect to a limited amendment to a pronouncement, there is at present no option other than a full revision. Even is the revision was narrow in scope, the process would take approximately 18-24 months on average. In contrast, the proposed mechanism permits a rapid response amendment in a period as short as six to nine months. Subject to IFAC and PIOB approval, it is envisioned that the proposed rapid response provisions be incorporated in the current PIAC Due Process and Working Procedures document.

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7. Because of the intention to accelerate the development process, the proposed mechanism also includes two new provisions application to IAASB and CAG interaction designed to help ensure that the CAG has adequate opportunity to consider the issues at hand and provide input to the IAASB as appropriate. These provisions are as follows, as noted in Agenda Item H.1:

“As an additional element of due process to be followed, the IAASB is required to provide appropriate advance notification on the IAASB website, and directly to members of the PIOB, the IAASB, the IAASB CAG and other IFAC Boards and Committees, of its intent to discuss a proposed limited amendment to a pronouncement in response to an emerging and urgent issue following an accelerated due process basis....”

“For purposes of discussion or approval of an amendment to a pronouncement, the IAASB and the IAASB CAG may determine that it is necessary and appropriate to hold an additional meeting(s) of the IAASB or the CAG, respectively, in between their regularly scheduled meetings. Such a meeting may be held by telecommunications link provided the meeting is open to the public. [*Footnote:* In order to facilitate such a teleconference meeting, should the need arise and as appropriate, or in order to address the matter where it is not possible to hold an additional CAG meeting, the CAG may decide to establish a Working Group to consider the matter for purposes of formulating views in advance of the teleconference meeting or otherwise for purposes of facilitating input to the IAASB.]”

Action Requested

The Representatives are asked for their views on proposals noted above with respect to due process for a rapid response involving a limited amendment to an IAASB authoritative pronouncement, and in particular the process for the CAG’s involvement.

The Representatives are also invited to comment on any other aspect of the proposed rapid response mechanism in general as set out in Agenda Item H.1.

Report Back – March 2009 CAG Proposals

8. Below are extracts from the minutes of the March 9-10, 2009 CAG meeting³ related to the discussions on the preliminary outline of a possible framework for addressing emerging and urgent issues on a rapid response basis, and an indication of how IAASB Staff or the IAASB responded to the Representatives’ comments.

³ The minutes will be approved at the September 2009 CAG meeting.

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Representatives' comments	IAASB Staff/IAASB response
<ul style="list-style-type: none"> Regarding the issue of authoritative material on a rapid response basis, Ms. Sucher noted that IOSCO was of the view that irrespective of the urgency of an issue, some form of public consultation would be necessary to ensure the quality and acceptability of the IAASB's response. Mr. Pickeur supported this view. 	<p>Point accepted.</p> <p>The IAASB noted that public exposure – even if for a much shorter period than normal – should not be bypassed. The proposed mechanism therefore includes public exposure of proposed limited amendments to authoritative pronouncements. Refer to paragraph 20 (including fourth bullet) of Agenda Item H.1</p>
<ul style="list-style-type: none"> Regarding the issue non-authoritative material on a rapid response basis, Ms. Sucher noted the importance of having quality assurance procedures built into development process. Mr. Pickeur suggested that a form of “negative assurance” approach could be used, for example, that the IAASB did not object to the content of a document. 	<p>Point accepted.</p> <p>The proposed mechanism establishes quality assurance procedures into the development process for non-authoritative Staff Publications. Refer to paragraphs 12-17 of Agenda Item H.1.</p>
<ul style="list-style-type: none"> Mr. Gutterman questioned whether it is necessary and appropriate to establish a separate “emerging issues” task force for purposes of rapid responses. He suggested that the IAASB Steering Committee could be used to serve the same function. Mr. Pickeur was of the view that there is a role for the CAG to be involved to solicit the views of its Member Organizations. Mr. Ratnayake supported this point, particularly in the context of non-authoritative guidance. 	<p>Point accepted.</p> <p>The proposed mechanism does not suggest the establishment of a separate emerging issues task force. Rather, the matter of whether a rapid response is required and appropriate in the circumstances is a matter for the IAASB to determine. The mechanism, however, states that the IAASB may charge its Steering Committee responsibility to address issues raised and to formulate recommendations for IAASB consideration. Refer to paragraph 4 of Agenda Item H.1.</p> <p>Point accepted – with respect to amendments to authoritative pronouncements. There is the continued expectation that CAG input will be sought in the development of a response. Refer to paragraphs 20 (including second and third bullets), 21, and 22 of Agenda Item H.1</p> <p>Point not accepted – with respect to non-</p>

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Representatives' comments	IAASB Staff/IAASB response
	<p>authoritative publications. The proposed mechanism in relation to non-authoritative publications is now limited to Staff Publications the content of which do not extend beyond the IAASB pronouncements themselves (see further discussion below). Because of the nature and limited scope of these documents and the need to not inadvertently imply a greater authority of these documents than intended, such documents are neither to be discussed by CAG nor approved by the IAASB.</p>
<ul style="list-style-type: none"> • Ms. Patti cautioned that even when guidance is labeled “non-authoritative,” some perceived form of authority is attached because it is issued by the IAASB. • Because a number of jurisdictions will be incorporating ISAs into law, Mr. White encouraged the IAASB to make clear what the interaction would be between the ISAs and any authoritative guidance issued on a rapid response basis. Mr. Fleck supported this view. • Mr. Cassel expressed the view that due process is relatively less important in circumstances when new guidance simply elaborates on matters that are already in principle addressed by an ISA, in contrast to situations where new guidance is developed relating to the application of an ISA to a new situation. • Mr. White held a similar view. He noted that there is a distinction between changing a standard versus adopting a pronouncement that clarifies an existing standard – the former would require a higher threshold of due process. He also suggested the IAASB consider a process whereby material that is developed in response to an emerging or urgent issue is at some point either incorporated in the authoritative body of the standards through full due 	<p>Points taken into account, with a decision to amend the framework to change its scope with respect to non-authoritative guidance issued by the IAASB. This is further explained as follows.</p> <p>The framework presented at the March 2009 CAG meeting included a model dealing with the issue of non-authoritative guidance documents by the IAASB. Consistent with the comments of the CAG, the IAASB noted that by including the notion that it might issue such documents, the framework confused the development of longer-term guidance with the types of responses that are more pertinent to a specific urgent issue. Further, the IAASB noted that issuing guidance outside the standards themselves carries a significant risk of confusion about how such material relates to application material of the standards and what obligation is imposed on the professional accountant to consider its use. It noted that any document issued by the IAASB, even if labeled non-authoritative, will carry some authority by virtue of its source. On balance, the IAASB felt that the rapid response mechanism should exclude the issue of separate documents providing non-</p>

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Representatives' comments	IAASB Staff/IAASB response
process or withdrawn.	mandatory/non-authoritative guidance material.
<ul style="list-style-type: none"> Mr. Bradbury encouraged the IAASB to work with the other PIACs to ensure whatever mechanism developed can be used by all of the PIACs. He also expressed some concern that that IAASB and its staff resources are limited and initiatives like this (as well as implementation support and the effectiveness review) may affect other work that can be undertaken. 	<p>Point accepted.</p> <p>The proposed IAASB rapid response mechanism is intended to be applicable to all of the PIACs. The development process for the mechanism includes obtaining input from them, their CAGs, and the PIOB.</p> <p>Point accepted.</p> <p>At the meeting, Mr. Sylph noted that the intent would be to use such a mechanism sparingly. This point has been made clear in paragraphs 2-3 of Agenda Item H.1. In addition, the mechanism now includes consideration of the trade-off in spending energy on current and other projects in comparison to responding to an emerging and urgent issue. Refer to paragraph 11(b) of Agenda Item H.1</p>

Material Presented –IAASB CAG PAPER

Agenda Item H.1

Proposed IAASB Rapid Response Mechanism

Material Presented – FOR IAASB CAG REFERENCE PURPOSES ONLY

Agenda Item O of the March 2009 IAASB CAG Meeting – Responding to Emerging and Urgent Issues

<http://www.ifac.org/IAASB/Meeting-FileDL.php?FID=4656>

Agenda Item 7-A of the March 2009 IAASB Meeting – Discussion Paper – Structure for Non-Authoritative Documents

<http://www.ifac.org/IAASB/Meeting-FileDL.php?FID=4648>

Agenda Item 7-B of the March 2009 IAASB Meeting – Discussion Paper – Framework for Rapid Authoritative Responses to Emerging and Urgent Issues

<http://www.ifac.org/IAASB/Meeting-FileDL.php?FID=4649>