Rapid Response Mechanism

Objective of Agenda Item

1. To consider a proposed IAASB rapid response mechanism.

Background

2. At its March 2009 meeting the IAASB discussed a preliminary outline of a possible framework for addressing emerging and urgent issues on a rapid response basis. The framework addressed two separate models for consideration:

   (i) One dealing with the issue of non-authoritative guidance documents by the IAASB and non-authoritative publications by IAASB Staff; and
   (ii) One dealing with changes to the authoritative pronouncements of the IAASB on a rapid response basis following a modified due process.

3. The IAASB supported the notion that some form of rapid response mechanism should be put in place. While the intent would be to use such a mechanism sparingly, there were clear benefits seen in formalizing the procedures to be followed so that there is certainty about the responsibilities of the IAASB in the event it is called upon to address an issue on a rapid response basis.

4. The IAASB, however, expressed some concerns with the preliminary framework. Principally, the IAASB felt that the framework should make clear the limited circumstances in which a rapid response might be appropriate, and should limit the range and scope of the types of possible responses that might be undertaken. This is essential to avoid creating the expectation that the IAASB will address emerging issues on a rapid response basis more frequently and more comprehensively than intended. It also avoids an undesirable proliferation of documents or changes to pronouncements developed outside IAASB’s normal due process. Nevertheless, the IAASB noted that some flexibility should be allowed for it to choose the type of response, or combination of responses, most appropriate in the circumstances.

5. The IAASB also felt strongly that an appropriate balance between timeliness and quality must be achieved. The desire for speed should not override the need to expose proposed changes to the Board’s pronouncements and for Board oversight of the development of Staff publications; these were seen as important contributors to quality of output.
6. In addition, the IAASB noted that by including the notion that it might issue separate documents providing non-mandatory/non-authoritative guidance material, the preliminary 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 labelled 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-mandatory/non-authoritative guidance material.

7. Input on the preliminary framework was also obtained from the IAASB, IESBA and IAESB Consultative Advisory Groups. The general comments of these groups echoed those of the IAASB.

8. The matter of a rapid response mechanism for the IAASB and IFAC’s other Public Interest Activity Committees (PIACs) has not yet been discussed with the Public Interest Oversight Board (PIOB). Any proposed changes to the due process to be followed by the PIACs will require PIOB approval.

Proposed Mechanism

9. The Appendix of the Paper sets out a proposed IAASB rapid response mechanism. The mechanism is structured to focus 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, and the process to be followed in developing a particular response.

10. Key features of the proposed mechanism are highlighted below.

Basis for, and Types of, Response

11. In deciding whether a rapid response is required, the proposed mechanism requires the IAASB to be satisfied that there is an appropriate basis for a response. It also proposes that the IAASB evaluate the relationship of the issue to its pronouncements. This recognizes the fact that emerging issues may take a wide range of forms and, in some cases, may not have any implication for the IAASB or its pronouncements.

12. Depending on these factors, the proposed mechanism indicates two types of rapid response available for use. The options, which can be used individually or in combination, are:

   (i) A Staff Publication (such as a Staff Audit Practice Alert); and

   (ii) A limited amendment to a pronouncement of the IAASB.

13. Each option is further limited in terms of what specifically it may, and may not, be used for. For example, a Staff Publication is not to be used for purposes of providing interpretation of, or additional guidance to, existing pronouncements, or where a matter is expected to require substantive IAASB involvement because of a significant divergence of views on the issue.
Rather, this type of response would be used when relevant guidance already exists in the pronouncements of the IAASB and there is benefit in drawing attention to it.

14. Similarly, the mechanism circumscribes a limited amendment of a pronouncement to certain specific cases. This acknowledges that it would not be in the public interest to attempt to address a substantive issue relating to IAASB pronouncements on a rapid response basis where the issue is highly complex, affects many requirements, or would require extensive study, IAASB deliberation and broad public consultation. Such cases should follow IAASB’s normal prioritization and development processes.

CRITERIA FOR A LIMITED AMENDMENT TO A PRONOUNCEMENT

15. Whereas the decision to issue a Staff Publication may be made on the basis that the IAASB believes doing so would be beneficial and help contribute to addressing an issue, the proposed mechanism establishes specific criteria that need to be met in order for the IAASB to judge that a rapid response affecting the content of a pronouncement is both necessary and appropriate in the circumstances. The intent of the criteria is to establish an appropriately high threshold for when, and under what special circumstances, the IAASB may undertake such a rapid response. This is consistent with the view expressed by the IAASB that unrestrained use of rapid responses will have a negative effect: frequent amendments to standards will decrease the stability of the standards and is generally problematic in cases where standards have been adopted into legislation.

16. Too stringent a set of criteria, however, may inadvertently limit the ability of the IAASB to respond to an issue it otherwise believes it should address on a rapid response basis. Accordingly, the criteria accommodate the fact that it is not possible to anticipate the types of issues that might arise.

QUALITY CONTROL FOR STAFF PUBLICATIONS

17. The IAASB noted that adequate quality control processes need to surround the development and issue of Staff Publications. The proposed mechanism therefore includes specific provisions that incorporate IAASB involvement in both the commissioning and development stages of a Staff Publication.

18. The mechanism does not envision IAASB approval of the final Publication in a public meeting. While some IAASB members were of the view that this would be beneficial, it would affect the speed by which a publication could be issued.¹

DUE PROCESS FOR RAPID RESPONSE AMENDMENTS TO PRONOUNCEMENTS

19. The preliminary framework discussed in March suggested the adoption of a ‘modified due process’ that set out specific steps to be followed. The emphasis was on obtaining stakeholder

¹ It has also been noted that IAASB debate on a Staff Publication would increase the potential for users to regard them as IAASB documents and therefore carry a greater authority than intended. The counter argument, of course, is that since these documents do not contain any obligations on the auditor that are not already in the standards themselves the question of actual or perceived authority is irrelevant.
input in advance of an IAASB meeting at which a rapid response amendment was to be discussed, with no public exposure of the proposed amendment. While this would achieve an extremely quick response, the IAASB noted that public exposure – even if for a much shorter period than normal – should not be bypassed. The IAASB also felt that whatever due process is proposed, it should be incorporated in the provisions of current due process rather than set out as a separate process.

20. The proposed mechanism accommodates these views and, accordingly, adopts a fundamentally different approach to the due process to be applied than originally suggested. 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 where there is development of a new, or a full revision of an existing, pronouncement – the context in which the current due process was designed. It is proposed, subject to the criteria for a rapid response being met, 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. Except with respect to these specified elections, all other requirements of due process would remain applicable in full.

21. Subject to IFAC and PIOB approval, it is envisioned that this element of the proposal would be incorporated in the current PIAC Due Process and Working Procedures document.

Timeliness versus Due Process

22. The proposed mechanism seeks to achieve an appropriate balance in the trade-off between the time in which a response can be issued and the process that should followed in its development to maintain quality. With respect to a limited amendment to a pronouncement, there is at present no option other than a full revision which, even if it was limited in scope, 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. Staff Publications should be capable of being developed within a period of two to four months.

IAASB Involvement in Staff Publications

23. Agenda Item 10-A addresses the next proposed Staff Audit Practice Alert on External Confirmations. Without prejudicing the decisions of the IAASB regarding the process to be followed in developing such publications, the IAASB is asked, in commissioning this Staff publication, to provide input on the main issues to be addressed in the planned Alert.

Action Requested

The IAASB is asked to consider the enclosed proposed rapid response mechanism.
Appendix

Proposed IAASB Rapid Response Mechanism

Introduction

1. The IAASB periodically develops and approves, based on appropriate consultation, a strategy and work program that reflect its consideration of the relative priorities and importance of its activities for the period. Based on the work program, the IAASB conducts its standard-setting activities as expeditiously as possible in accordance with due process. The IAASB aims to be flexible in its planning in order to be able to respond to new events and circumstances as they arise and to alter its work program, as appropriate, to address new priorities. In such cases, the IAASB may undertake a new project, subject to the IAASB approving a proposal that confirms that it is appropriate to commence the project, taking account of the effective and efficient utilization of resources, the likely output of the project and its timescale.

2. In special cases, a new event or circumstance may give rise to issues of significance that, in the public interest, it is important that the IAASB consider whether a response is needed on a timelier basis than that which IAASB current working procedures would permit. These circumstances require the IAASB to be satisfied that it is both practicable and appropriate for the IAASB to respond on a rapid response basis, and to undertake the development of a response in a manner that ensures the quality of output.

I. Determining the Need for, and Type of, Rapid Response

3. The IAASB is responsible for decisions about whether a rapid response is required for an emerging and urgent issue.\(^2\) It is a matter of judgment of the IAASB about whether a rapid response is required. The following sets out factors the IAASB considers in making these decisions.

BASIS FOR RESPONSE

4. Because emerging and urgent issues may take a wide range of forms, the IAASB needs to satisfy itself that there is an appropriate basis for an IAASB response.

5. For this purpose, the IAASB considers the same types of factors relevant to a decision to undertake standard-setting activity following its normal processes. For example, the issue must relate to the remit and strategic priorities of the IAASB, and have international relevance (e.g., the issue does not relate to the application of standards to, and is not circumscribed by, national circumstances where the national standard-setting body, rather than the IAASB, is best positioned to address the matter). The IAASB also considers whether there is a need to further monitor developments before deciding a course of action.

\(^2\) The IAASB may charge its Steering Committee responsibility to address issues raised and to formulate recommendations for IAASB consideration.
RELATIONSHIP OF THE ISSUE TO IAASB PRONOUNCEMENTS

Issues that Do Not Affect IAASB Pronouncements

6. In many cases, an emerging and urgent issue is of a nature where relevant guidance already exists in the pronouncements of the IAASB. In such cases, IAASB may decide that use of a Staff Publication is an appropriate response, provided the IAASB is satisfied that the issue of such a document would contribute to addressing the issue.

7. The following describes the intended role of Staff Publications for purposes of a rapid response:

IAASB Staff Publication

Staff Publications include, but are not limited to, Staff Audit Practice Alerts, Staff Questions and Answers, and other types of document of a similar nature. Staff Publications are prepared by Staff of the IAASB and have no authoritative status. They are for information purposes only and are in all cases descriptive and not prescriptive.

Staff Publications are used to help raise practitioners’ awareness in a timely manner of significant new or emerging issues or other noteworthy circumstances relevant to engagements addressed by IAASB pronouncements, to direct their attention to relevant provisions of IAASB pronouncements, or to provide clarification to emerging questions by referring to existing requirements and application material and background information such as that contained in Staff Basis for Conclusions documents.

Staff Publications are not used for purposes of providing interpretation of, or additional application material to, existing pronouncements, or in cases where a matter is expected to require substantive IAASB involvement because of a significant divergence of views on the issue. Accordingly, they do not amend or override the Standards or other pronouncements to which they relate that are currently effective, the texts of which alone are authoritative.

Issue that Affect IAASB Pronouncements

8. In other cases, an emerging and urgent issue relates directly to practice which is governed by the provisions of one or more of the IAASB’s pronouncements, and the issue can only be effectively addressed through a change to the pronouncement(s).

3 Though Staff Publications are addressed in the context of a rapid response, this does not preclude their use for other purposes as the IAASB may consider appropriate.

4 Each Staff Publication also makes clear the following: (i) Staff Publications are not meant to be exhaustive and reference to relevant Standards themselves should always be made; (ii) Reading such Publications is not a substitute for reading the Standards and other authoritative material, and practitioners should determine whether and how to respond to circumstances highlighted in a Staff Publication based on the specific facts presented; and (iii) Statements contained in a Staff Publication are not rules of the IAASB and do not reflect any IAASB determination or judgment, and accordingly do not constitute authoritative or official pronouncements of the IAASB or IFAC.
9. The IAASB adopts the presumption that issues pertaining to its pronouncements brought to its attention are to be considered following its normal standard-setting prioritization and development process.

10. This presumption may be overcome only where the IAASB concludes, based on its judgment, that the following criteria have been met:

   (a) The nature of the issue is such that a limited amendment to a pronouncement(s) (the only type which is available to IAASB for purposes of a rapid response affecting its pronouncements) would contribute to addressing the issue.

   The following described the intended use of a limited amendment to a pronouncement:

   **Limited amendment to a pronouncement(s)**

   A limited amendment to a pronouncement(s) may take the form of direct amendment to the requirements or application material of a pronouncement, an addendum to a pronouncement, or other similar form of documented change to the pronouncement. Amendments for this purpose exclude corrections of factual errors which the IAASB may determine and rectify as it deems appropriate.

   Amendments to pronouncements on a rapid response basis are made only if it is necessary in the public interest to do so in advance or in lieu of a full revision of the pronouncement. Circumstances in which an amendment may be made include, for example: where it is necessary to clarify the intent or scope of a provision within a pronouncement when evidence indicates inappropriate application of the provision or differing interpretations that are giving rise to significant divergence of practice; or where it is necessary to rectify contradictory provisions within or between pronouncements. Limited amendments to pronouncements on a rapid response basis are not used in cases where the nature of the issue is highly complex, affects many requirements, or would require extensive study, IAASB deliberation and broad public consultation.

   Amendments form part of the authoritative pronouncements of the IAASB. Amendments are determined by, and require formal approval of, the IAASB in accordance with its terms of reference.

   Amendments to a pronouncement are clearly indicated as such, and are accompanied by effective date provisions and any other related transitional considerations.

   (b) The set of facts and circumstances of the issue is of such significance and gravity that, in the public interest, a response is warranted.

   The IAASB weighs the advantages and disadvantages of issuing a rapid response from a public interest perspective, including the effectiveness of a rapid response in addressing the issue and the implications of a rapid response in the international context. The IAASB also considers the appropriateness of issuing a rapid response in relation to the effective and efficient utilization of its resources, including whether redirecting resources that it would otherwise apply to its current priorities would result in an overall outcome that would not be beneficial in the public interest.
II. Process for Developing an IAASB Staff Publication

11. The IAASB is responsible for commissioning a Staff Publication. The decision to do so is made once the IAASB has concluded that the issue of a Staff Publication is an appropriate form of response.

12. In commissioning a Staff Publication, the IAASB advises Staff on matters relevant to the development of the Publication. This includes matters such as the following: (i) the issue or circumstance which the Publication is to address; (ii) specific issues or messages that should be highlighted in the Publication; and (iii) an indication of the key provisions of the pronouncements to which practitioners’ attention should be drawn. The IAASB may also instruct Staff on matters which would not be appropriate for inclusion in the Publication.

13. For each Publication, the IAASB Chair, in consultation with the Steering Committee and IAASB Technical Director, appoints a small group of IAASB members to advise Staff on the development of the Publication. This advisory group provides input on technical and drafting matters, and reviews the general quality of the draft Publication.

14. Before a Staff publication is issued, all IAASB members are provided an opportunity to consider and comment on whether it is consistent with, and does not extend beyond, the authoritative pronouncements to which it relates.

15. Staff, in consultation with the appointed advisory group, is responsible for addressing any substantive concern raised by IAASB members. All IAASB members are then provided an opportunity to consider and comment on how these concerns have been addressed by Staff.

16. The IAASB Technical Director, in consultation with the IAASB Chair, is responsible for approving release of a Staff Publication. Staff Publications are made available only on the IAASB’s website, with their availability announced through appropriate channels.

III. Process for Developing a Limited Amendment to a Pronouncement

17. The decision to undertake the development of a proposed amendment to a pronouncement is made in a public meeting and only once the IAASB has concluded that the specified criteria have been met.

18. The IAASB obtains the Public Interest Oversight Board’s (PIOB) approval\(^5\) that a response following an accelerated due process is both essential and appropriate in the circumstance.

19. Subject to that approval, the IAASB may take advantage of one or more of the following elections in the application of due process. These elections pertain to provisions of due process that may be less relevant in the circumstance of a limited amendment to a pronouncement as opposed to the development of a new, or full revision of an existing, pronouncement as originally contemplated in the design of due process. The decision to elect one or more of the following is made by the IAASB in a public meeting.

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\(^5\) This approval may need to be expedited as appropriate. It is for discussion with the PIOB whether a provision in due process would be appropriate for the possibility of negative clearance from the PIOB on the matter, followed by further appropriate steps to obtain final PIOB approval.
Project Commencement

- The IAASB may elect to commence a rapid response based on deliberations in a public meeting of the identified issue and the above criteria, including the material prepared for that purpose, rather than on a project proposal prepared specifically for IAASB approval and prioritization.

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.

Exposure

- The IAASB may elect to establish an exposure period shorter than the ordinary 120 days. Normally this will be for 30 days, the minimum period that may be set.

- The IAASB may elect to post comments made by respondents to an exposure draft of a proposed limited amendment on the IAASB website as received rather than only after the end of the exposure period, to facilitate review of respondents’ views on a timely basis.

Except for the above, all other requirements of due process remain applicable in full.6

20. 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.

21. 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.

6 It is assumed that it may be necessary for the PIOB to consider due process applied to the proposed amendment to a pronouncement outside its normal meeting schedule and that acceptable arrangements could be agreed in advance.
Illustrative Flow Chart of IAASB Rapid Response Mechanism

1. Issue
   - Basis for a response? (¶4 and ¶5)
     - No → End
     - Yes → Relationship of issue to pronouncements

2. Relationship of issue to pronouncements
   - Affects pronouncements
     - No → Does not affect pronouncements
       - Would a Staff Publication contribute to addressing the issue? (¶6)
         - No → End
         - Yes → Commission Staff Publication
     - Yes → Would a limited amendment contribute to addressing the issue? (¶10(a))
       - No → Limited Amendment to Pronouncement
       - Yes → Is a rapid response in the public interest? (¶10(b))
         - No → Limited Amendment to Pronouncement
         - Yes → Further monitoring / input to future standard setting prioritization

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Agenda Item 10
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Rapid Response Mechanism
IAASB Main Agenda (June 2009)

Commission Staff Publication

IAASB input on matters relevant to development, and appointment of advisory group

Development

Opportunity for IAASB to consider and comment

Technical Director approval, in consultation with IAASB Chair

IAASB approval of amendment

PIOB approval of due process

IAASB elections pertaining to due process

Development, with advance public notification of IAASB discussions

PIOB approval to follow accelerated due process

Limited Amendment to Pronouncement

Amended Pronouncement

Communications