



**International Federation of Accountants**

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## Agenda Item



**Committee:** Joint Session of the IAASB and IESBA Consultative Advisory Groups

**Meeting Location:** Barcelona

**Meeting Date:** March 2, 2010

### **Role of CAG and Public Interest Activity Committee (PIAC)-CAG Interaction**

#### **Objectives of Agenda Item**

1. To receive an overview of the following:
  - (i) The role of the IAASB CAG<sup>1</sup>;
  - (ii) Due process followed by the IAASB<sup>1</sup> in promulgating its international pronouncements; and
  - (iii) The interaction between the IAASB, the CAG and the Public Interest Oversight Board (PIOB) required under the amended PIAC Due Process and Working Procedures document provisionally approved by the PIOB.<sup>2</sup>

The presentations on the above will be based on the materials set out in Agenda Items O.1 to O.3, which will be referred to during the session. Materials in those Agenda Items are not open for debate, as they already have been subject to consideration by the PIACs, the CAGs, the IFAC Board and the PIOB.

2. To discuss the responsibilities of the CAG relative to due process and IAASB interaction with the CAG in the development of a final international pronouncement.

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<sup>1</sup> For purposes of this Agenda Item, reference is made only to the IAASB CAG and IAASB for convenience. The principles of discussion are however applicable to each of the PIACs and their CAGs for which the due process requirements outlined in this Agenda Item apply. These PIACs include the IAASB, the International Ethics Standards Board for Accountants (IESBA), and the International Accounting Educations Standards Board (IAESB), but not the International Public Sector Accounting Standards Board (IPSASB) and the Compliance Advisory Panel.

<sup>2</sup> During 2008 IFAC undertook its first triennial review of its PIACs' Terms of Reference and the PIAC Due Process and Working Procedures document, along with any consequential amendments to the CAGs' Terms of Reference. In April 2009 the PIOB reported that it had approved the proposed amendments to these documents as presented, subject to certain editorial changes. In November 2009, the IFAC Board approved these amended documents, and provided a final report back to the PIOB at its December 2009 meeting. It is anticipated that the PIOB will discuss the report back at its first 2010 meeting.

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##### I. Role of IAASB CAG

3. Representatives will receive a brief presentation addressing the role of the IAASB CAG. Agenda Item O.1 sets out the amended IAASB CAG Terms of Reference.<sup>2</sup> Agenda Item O.2 sets out the position of the CAG within the broader oversight structure of the PIOB and IFAC.
4. The CAG's attention is drawn to the following in Agenda Item O.1 in particular:
  - CAG objectives and scope of activities – **Refer to paragraph 3 of Agenda Item O.1.**
  - CAG Chair attendance at IAASB meetings – **Refer to paragraph 3 of Agenda Item O.1.**

##### II. Due Process

5. Representatives will receive a brief presentation outlining due process followed by the IAASB in promulgating its international pronouncements. Appendix 1 to this Agenda Item depicts key elements of this due process.<sup>3</sup>

##### III. CAG-Related Due Process and Working Procedures

6. Agenda Item O.3 sets out the amended PIAC Due Process and Working Procedures document. The CAG's attention is drawn to the following provisions that are relevant to CAG's interaction with the IAASB over the course of an IAASB standard-setting project and with the PIOB:
  - Strategy and work program development – **Refer to paragraph 17 of Agenda Item O.3.**
  - Project development, including reporting to IAASB and reporting back to CAG – **Refer to paragraphs 18-19 and paragraphs A32-A35 of Agenda Item O.3.**
  - Advising PIOB on IAASB-CAG interaction in accordance with due process – **Refer to paragraph 28 and paragraphs A45-A46 of Agenda Item X-3**
7. Appendix 2 to this Paper includes extracts of the above from Agenda Item O.3 that deal specifically with these provisions of due process. The Appendix should be read carefully in preparing for discussion of this Agenda Item.
8. In general, there are three key considerations in managing compliance with due process.
9. Firstly – Ensuring that all stages of development of a pronouncement-setting project (Standards and Practice Statements) are taken through the IAASB CAG to provide an opportunity for issues to be exposed and insight to be gathered. This means the “project

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<sup>3</sup> Details of due process followed by the IAASB are set out in Agenda Item O.3 – Amended PIAC Due Process and Working Procedures.

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proposal,” “pre-exposure” and “post- exposure” stages. It does not mean a one-for-one match each time a topic is discussed at the IAASB within a particular stage.

10. Secondly – Tracking that CAG comments are aired with the IAASB, and monitoring the “report back” process. The “report back” process results in a rolling-check on whether significant comments received through the consultation with the CAG during the development of a draft international pronouncement have been brought to the IAASB’s attention. If there is a point not addressed in the report back at the immediately subsequent CAG meeting at which the project is to be discussed, it would be noted in the report back for a subsequent report back.
11. Thirdly – Reporting on compliance with CAG-related due process. The focus of managing and reporting on compliance with CAG-related due process deals only with the question whether the required IAASB interactions with the CAG in the development of a final international pronouncement have been followed effectively. Consistent with its mandate and current practice, the CAG is not asked to approve the content of a pronouncement, including the disposition of comments debated but not accepted by the IAASB. The responsibility for the content of the final pronouncements remains with the IAASB.
12. With the exception now of who is responsible for assessing whether CAG-related due process has been followed, which is discussed below, the amended due process and managing compliance with it is not significantly different than it is at present.

#### **DISCUSSION – COMPLIANCE WITH CAG-RELATED DUE PROCESS**

13. Up until now the Chair of the CAG has had the responsibility of judging, from the point of view of the CAG, whether CAG-related due process (i.e., due process relating to the IAASB interaction with the CAG in the development of a final international pronouncement) has been followed effectively.
14. Going forward, the CAG itself will now have this responsibility, as per the revised due process applicable to the IAASB. This change includes a passing of a responsibility to the Representatives, beyond their responsibility to make their own comments on any topic.
15. Specifically, on the occasion on which the CAG plans to discuss a draft pronouncement for the last time before it goes to the IAASB for final approval, the CAG will be asked to advise, based on appropriate documentation, whether it is satisfied that the IAASB has consulted it on, and has considered its comments in relation to, the development and finalization of the pronouncement. (Again, this consideration is in relation to the process followed. It is not intended that this be an opportunity to reopen debate on any technical content matters.)
16. The central matters therefore are: (i) the type of supporting documentation necessary at the point when this due process assessment has to be made by the CAG; and (ii) the procedure for that discussion.

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##### *Documentation*

17. It is proposed that a detailed checklist be used to record the history of the activities carried out in support of the required IAASB-CAG interaction. The checklist would show actions to date and links to where relevant material can be obtained. As necessary, references can be provided indicating relevant paragraphs within that material (e.g., in cases of report backs within an agenda item or sections of minutes). This type of checklist is similar to that used by IAASB staff for reporting to the PIOB. Appendix 3 of this Agenda Item provides an illustration of the proposed checklist.
18. At each key stage of project development (e.g., after “project proposal” approval, “pre-exposure” and “post- exposure”) the checklist would be presented as part of the CAG agenda material for the project, and CAG representatives asked for any indication of concern relative to due process to that point. (Updates to the checklist from the previous meeting would be highlighted for ease of reference.) This “ever-green” approach to monitoring the process should help ensure that the CAG is afforded timely opportunity to review interactions to date on individual projects. It also avoids a lengthy retrospective review, as would be the case if the checklist was presented only at the end of a project. Further, it should minimize the potential for due process concerns being raised at the end of the overall process.
19. Similar to the “report back” process this approach results in a rolling-check on whether CAG-related due process is being adhered to, throughout the life of each project. The process of asking the CAG whether it is satisfied as to due process should then largely be confined to matters arising relative to the meeting at which the CAG plans to discuss a draft pronouncement for the last time before it goes to the IAASB for final approval.
20. Commencing at the September 2010 CAG meeting, a checklist will be provided for each project documenting activities to date. There are no final international pronouncements planned for IAASB approval prior to that time.

##### *Procedure*

21. For CAG meetings at key stages of project development (e.g., “pre-exposure”), the CAG will be asked for any indication of concern relative to due process to that point. This effectively can be effectively combined with consideration of the regular “report back” element of CAG discussions on a project. Should concern be raised, the IAASB and IAASB CAG Chair, together in consultation with the Executive Director and Technical Director and the individual(s) raising the concern, will seek an appropriate resolution within the development process for the pronouncement. If that cannot be the case, the provisions outlined in paragraph 30 of Agenda Item O.3 apply.<sup>4</sup>

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<sup>4</sup> Paragraph 30 of Agenda Item O.3 states: “If an issue over adherence to due process is raised formally with the PIAC (other than an issue that is clearly frivolous or vexatious), whether by a third party or otherwise, the

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22. At the meeting at which the CAG plans to discuss a draft pronouncement for the last time before it goes to the IAASB for final approval, the agenda material for that discussion will draw Representatives' attention to the question of due process and the CAG will be provided a copy of the completed checklist. The CAG can then take a decision on whether it is satisfied that due process relative to the required IAASB-CAG interaction has been met.
23. It is envisioned that that decision will be addressed through specific enquiry of the CAG as a whole as to whether it has any objection to the assertion that due process to that point has been followed. The outcome of that discussion will be recorded in the minutes and reported to the IAASB at the meeting at which the IAASB is asked to approve the pronouncement.
24. Then, as explained in paragraph 28 of due process and the related working procedures (see Appendix 2), the CAG Chair and staff act to consider whether significant comments received at the last meeting of the CAG have been brought to the IAASB's attention, and advise the PIOB on whether due process has been followed effectively.

#### **Matters for CAG Consideration**

Representatives are asked for their views on the proposal for monitoring, and the form of documentation necessary, to support formation of a view by the CAG on due process relating to IAASB interaction with the CAG in the development of a final international pronouncement. Representatives are also asked for input on any other considerations they believe should be taken into account.

#### **Material Presented – IAASB and IESBA CAGs PAPERS**

Agenda Item O.1	Amended IAASB CAG Terms of Reference
Agenda Item O.2	IFAC Oversight and Organization Chart
Agenda Item O.3	Amended PIAC Due Process and Working Procedures

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PIAC assesses the matter and seeks an appropriate resolution. The PIAC's decision on the matter is communicated to the party raising the matter. Alleged breaches of due process and the resolution thereof are communicated by the PIAC to the PIOB. The results of investigations of alleged breaches of due process are reported at a PIAC meeting open to the public."

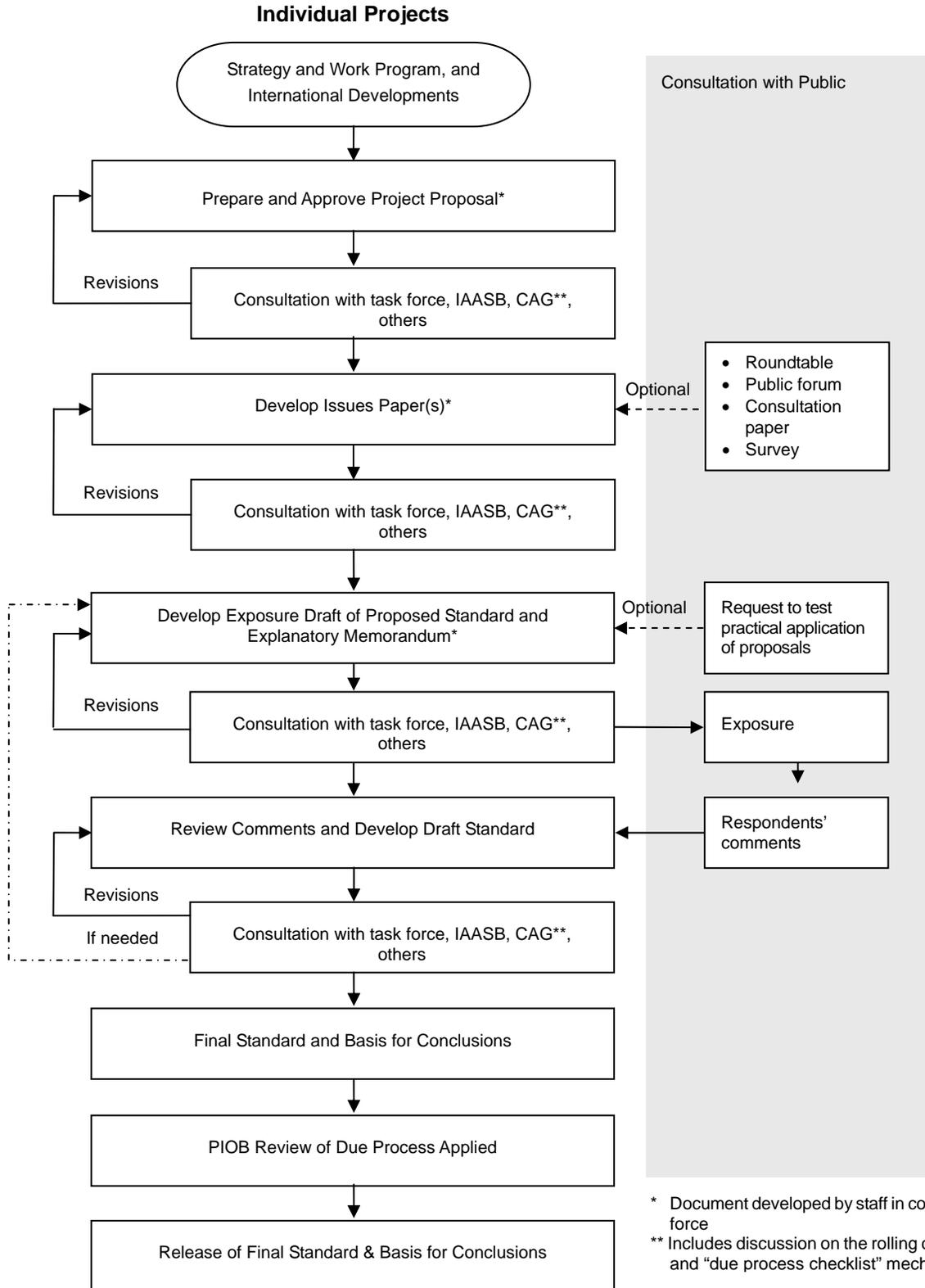


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## Appendix 2

### Extracts of CAG-related Due Process from Agenda Item O.3 – PIAC Due Process and Working Procedures

#### “Interaction with the PIAC’s Consultative Advisory Group

17. The PIAC is responsible for consulting with the PIAC’s Consultative Advisory Group (CAG) on the identification and prioritization of projects to be undertaken by the PIAC. In particular, the PIAC’s CAG is consulted on the PIAC’s strategy and work program, including project priorities and any changes therein, to help establish their appropriateness. Where the PIAC’s CAG has recommended a project for consideration by the PIAC, the Chair of the PIAC informs the PIOB and the PIAC’s CAG of the decisions of the PIAC.
18. The PIAC is also responsible for consulting with the PIAC’s CAG during the development and finalization of an international pronouncement. In particular, the PIAC’s CAG is consulted on: (i) Proposals to start new projects; (ii) Significant issues relating to the development of an international pronouncement; and (iii) Significant issues raised in comment letters on exposure drafts and the PIAC’s related response.
  - *All stages in the development of an international pronouncement are taken through the PIAC’s CAG to provide an opportunity for issues to be exposed and insight to be gathered. In consulting with the PIAC’s CAG, the PIAC may bring forward significant issues on which it seeks the input of the PIAC’s CAG. The PIAC’s CAG is also afforded the opportunity to bring forward matters for consideration by the PIAC. Significant points arising in PIAC’s CAG discussions are included in the minutes of the meeting of the PIAC’s CAG.*
  - *The meetings of the PIAC’s CAG are attended by the Chair of PIAC and the senior staff member of the PIAC, and where appropriate, by a representative of the Project Task Force, usually the chair.*
19. The Chair of the PIAC or the Project Task Force is responsible for bringing to the PIAC’s attention significant comments received through the consultation with the PIAC’s CAG. The Project Task Force reports back to the PIAC’s CAG the results of the PIAC’s deliberations thereon.
  - *Minutes of the meetings of the PIAC’s CAG, or a draft thereof, relating to significant points arising in the PIAC’s CAG discussion on a draft international pronouncement are sent to the relevant Project Task Force for consideration. The Project Task Force produces a “report back” document for the PIAC’s CAG, referring to each item noted in the PIAC’s CAG minutes and commenting as to whether a point has been accepted or not by the PIAC, and if not the reasons. While the “report back” document addresses the points made in relation to each item noted in the PIAC’s CAG minutes, it is not intended that there be a reconciliation in the “report back” of every view on every point. Each “report back” is discussed at a subsequent meeting of the PIAC’s CAG. The*

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*conclusion of this discussion is recorded in the minutes of the CAG meeting.*

- *The “report back” documents and the discussion by the PIAC’s CAG on them result in a rolling-check on whether significant comments received through the consultation with the PIAC’s CAG during the development of a draft international pronouncement have been brought to the PIAC’s attention. Nevertheless, on the occasion on which the PIAC’s CAG plans to discuss a draft international pronouncement for the last time before it goes to the PIAC for final approval, the PIAC’s CAG is asked to advise, based on minutes of previous meetings, whether it is satisfied that the PIAC has consulted it on, and has considered its comments in relation to, the development and finalization of the international pronouncement. The conclusion of this discussion is recorded in the minutes of the PIAC’s CAG meeting.*

#### Release of a Final International Pronouncement

28. The senior staff member of the PIAC is responsible for advising the PIOB on whether due process has been followed effectively and with proper regard for the public interest in the development of the final international pronouncement. The Chair of the PIAC’s CAG is responsible for advising the PIOB on whether due process relating to the PIAC’s interaction with the PIAC’s CAG in the development of the final international pronouncement has been followed effectively.

- *The Chair of the PIAC’s CAG provides the PIOB with a written report outlining the basis for the conclusion on whether due process relating to the PIAC’s interaction with the PIAC’s CAG in the development of the final international pronouncement has been followed. In forming this conclusion, the Chair of the PIAC’s CAG considers the conclusion of the PIAC CAG’s discussion as described [above (re: due process up to the last CAG meeting)], and whether significant comments received at the last meeting of the PIAC’s CAG, as recorded in the minutes, or draft minutes, of the meeting, have been brought to the PIAC’s attention. For this purpose, the senior staff member of the PIAC prepares, at the conclusion of the meeting at which the PIAC approves a final pronouncement, a “report back” document (as described [above]) together with other relevant documents as may be necessary for consideration by the Chair of the PIAC’s CAG.”*

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### Appendix 3

#### Illustration of Due Process Checklist

Project: [Title]

##### Project Discussion History

	CAG Meeting	IAASB Meeting
Project Commencement	[March 20X1]	[March 20X1]
Development of Proposed International Pronouncement	[September 20X1]  [March 20X2]	[June 20X1] [September 20X1] [December 20X1] [March 20X2]
Exposure		[March 20X2]
Consideration of Respondents' Comments on Exposure	[March 20X3]  [September 20X3]	[December 20X2]  [June 20X3] [September 20X3]*Final approval

##### Due Process Checklist

Due Process Element		Reference or Comments
<b>Project Commencement</b>		
The IAASB has consulted the IAASB CAG on the project proposal.	<b>Yes</b>	<u>March 20X1</u> See IAASB CAG meeting material: <i>[link to CAG agenda material addressing the project proposal]</i> See CAG meeting minutes (in paragraph/section X of the following material): <i>[link to CAG agenda material containing minutes of CAG discussion on the proposal]</i>

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Due Process Element			Reference or Comments
	The IAASB Chair or the Project Task Force Chair has brought to the IAASB's attention significant comments received through the consultation with the IAASB CAG, and the Project Task Force has reported back to the IAASB's CAG on the results of the IAASB's deliberations thereon.	Yes	See report back on March 20X1 CAG meeting (in paragraph/section X of the following material): <i>[link to CAG agenda material containing report back on CAG comments received on the proposal]</i>
<b>Development of Proposed International Pronouncement</b>			
	The IAASB has consulted the IAASB CAG during the development of the proposed international pronouncement.	Yes	<p><u>September 20X1</u></p> <p>See IAASB CAG meeting material: <i>[link to CAG agenda material addressing the project issues]</i></p> <p>See CAG meeting minutes (in paragraph/section X of the following material): <i>[link to CAG agenda material containing minutes of CAG discussion on project issues]</i></p> <p><u>March 20X2</u></p> <p>See IAASB CAG meeting material: <i>[link to CAG agenda material addressing the project issues and draft pronouncement]</i></p> <p>See CAG meeting minutes (in paragraph/section X of the following material): <i>[link to CAG agenda material containing minutes of CAG discussion on project issues and draft pronouncement]</i></p>
	The IAASB Chair or the Project Task Force Chair has brought to the IAASB's attention significant comments received through the consultation with the IAASB CAG, and the Project Task Force has reported back to the IAASB's CAG on the results of the IAASB's deliberations thereon.	Yes	<p>See report back on September 20X1 CAG meeting (in paragraph/section X of the following material): <i>[link to report back to CAG agenda material containing report back on CAG comments received on the project issues]</i></p> <p>See report back on March 20X2 CAG meeting (in paragraph/section X of the following material): <i>[link to report back to CAG agenda material containing report back on CAG comments received on project issues and draft pronouncement]</i></p>

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Due Process Element		Reference or Comments
<b>Consideration of Respondents' Comments on Exposure</b>		
<p>The IAASB has consulted the IAASB CAG on significant issues raised in comment letters on the exposure draft and the IAASB's related response.</p>	<p><b>Yes</b></p>	<p><u>March 20X3</u>            See IAASB CAG meeting material: <i>[link to CAG agenda material addressing the significant issues raised in comment letters on the exposure draft and IAASB's proposed response]</i></p> <p>See CAG meeting minutes (in paragraph/section X of the following material): <i>[link to CAG agenda material containing minutes of CAG discussion on the issues raised on exposure and IAASB's proposed response]</i></p> <p><u>September 20X3</u>            See IAASB CAG meeting material: <i>[link to CAG agenda material addressing issues raised and the draft revised pronouncement]</i></p> <p>See CAG meeting minutes (in paragraph/section X of the following material): <i>[link to CAG agenda material containing minutes of CAG discussion on issues raised and the draft revised pronouncement]</i></p>
<p>The IAASB Chair or the Project Task Force Chair has brought to the IAASB's attention significant comments received through the consultation with the IAASB CAG, and the Project Task Force has reported back to the IAASB's CAG on the results of the IAASB's deliberations thereon.</p>	<p><b>Yes</b></p>	<p>See report back on March 20X3 CAG meeting (in paragraph/section X of the following material): <i>[link to report back to CAG agenda material containing report back on CAG comments received on the issues raised on exposure]</i></p>