

IAASB CAG PAPER

IAASB CAG Agenda (September 2009)

Agenda Item H.1

Proposed IAASB Rapid Response Mechanism

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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. IAASB standard-setting projects are developed following a rigorous due process that involves extensive consultation with the IAASB Consultative Advisory Group (CAG), relevant stakeholders, and the public.
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.
3. The following sets forth the procedures of the IAASB in the event it is called upon to address an issue on a rapid response basis. The intent is to use this rapid response mechanism sparingly to avoid an undesirable proliferation of documents or changes to pronouncements developed outside IAASB's normal due process.

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

4. The IAASB is responsible for decisions about whether a rapid response is required for an emerging and urgent issue.¹ 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

5. 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.

¹ The IAASB may charge its Steering Committee responsibility to address issues raised and to formulate recommendations for IAASB consideration.

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6. 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.

RELATIONSHIP OF THE ISSUE TO IAASB PRONOUNCEMENTS

Issues that Do Not Affect IAASB Pronouncements

7. 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.
8. The following describes the intended role of Staff Publications for purposes of a rapid response:²

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.³ 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.

² 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.

³ 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.

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Staff Publications 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, and are not used in cases where a matter is expected to require substantive IAASB involvement because of a significant divergence of views on the issue.

Issue that Affect IAASB Pronouncements

9. 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).
10. 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.
11. 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 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

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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 rapid 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

12. 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.
13. 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.
14. For each Publication, the IAASB Chair, in consultation with the Steering Committee and IAASB Technical Director, appoints a small group of IAASB members, and others as appropriate, 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.
15. 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 pronouncement to which it relates.
16. 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.
17. 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.

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III. Process for Developing a Limited Amendment to a Pronouncement on a Rapid Response Basis

18. The decision to undertake the development of a proposed amendment to a pronouncement on a rapid response basis is made in a public meeting and only once the IAASB has concluded that the specified criteria have been met.
19. The IAASB obtains the Public Interest Oversight Board's (PIOB) approval⁴ that a response following an accelerated due process is both essential and appropriate in the circumstance.
20. 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.

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 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.

⁴ 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.

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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.⁵

21. 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. As appropriate, the IAASB may actively engage key stakeholders on the issues to allow input from interested parties at an early stage.
22. 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

⁵ 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.

⁶ 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.

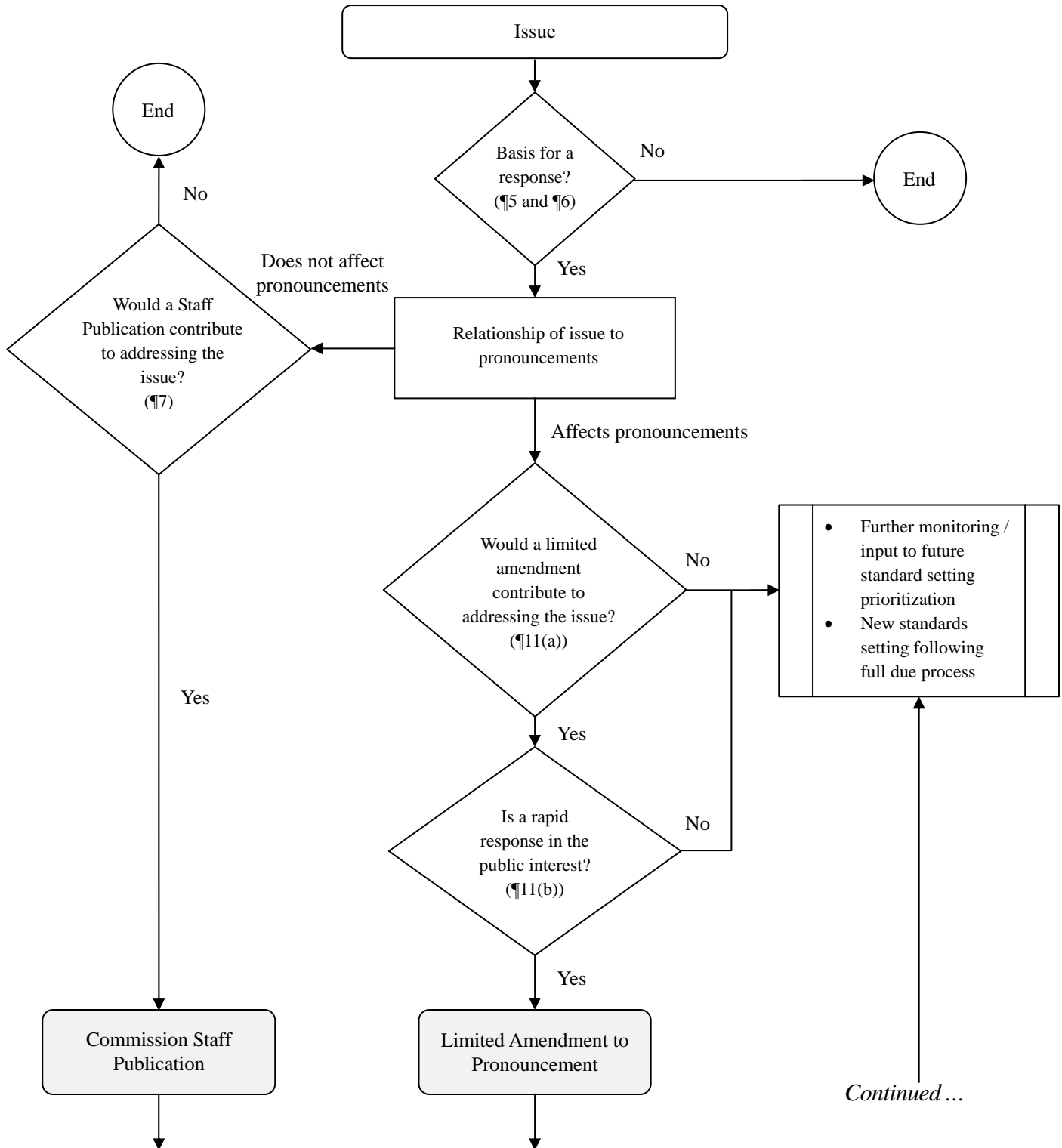
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Illustrative Flow Chart of IAASB Rapid Response Mechanism



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