

Operations Policy No 1 – Bold Type Lettering – Issues Paper**Introduction**

1. This Issues Paper provides an overview of the comments received and related issues on the exposed *Operations Policy No 1 – Bold Type Lettering* (“Operations Policy”). The overview section summarizes common or significant comments received and the proposed response, and is intended to facilitate the discussion of issues by the IAASB. The related and other additional editorial changes made to the proposed Operations Policy is identified in the marked version thereof in Agenda Item 3–E. A listing of all comments received and the proposed disposition is included for informational purposes as Agenda Item 3-F.

Overview of Comments Received and Related Issues

2. A total of 23 comment letters were received on the exposure draft, *Preface and Operations Policy No 1 – Bold Type Lettering* during the exposure period.

General Comments and Response to Question (C) Posed in the Exposure Draft

3. Of the total comment letters received, 21 respondents addressed the question posed in the explanatory memorandum: “*Whether there is general support for retaining the distinction between bold and ordinary lettering?*”
4. A significant majority of the respondents (95%) expressed support for continued use of bold type lettering convention by the IAASB in the standards; 71% indicated strong support while 24% did not object to its continued use.
5. Six respondents; however, recommended that the IAASB clarify the authority of bold type and ordinary type lettering and establish, unequivocally, that both lettering have equal authority (similar to the statement adopted by the IASB). While some of these respondents were indifferent to the use of different type face to identify basic principles and essential procedures, these respondents strongly recommend that the text of standards be established with equal authority and that amending change in the language used in standards (i.e., use of the word “should”) be considered.
6. Appendix I contains a summary of respondents and their position on the subject. Appendix II contains a synopsis of comments by respondents.

The IAASB is asked to read the relevant comments in Agenda Item 3-F for a full understanding of the views expressed by respondents.

Authority

7. The issue to be addressed by the IAASB is whether to retain the distinction in authority between bold and ordinary type lettering, as presented in the exposed Preface and Operations Policy, or to express a statement therein that both types of lettering have “equal authority.”

DISCUSSION

8. Respondents recommending that the lettering of a standard should have “equal authority” argue that “equal authority:”
 - Eliminates ambiguity regarding the considerations and procedures that are required. The message on authority would be clearer and stronger if the Preface simply states that the paragraphs have equal authority.
 - Eliminate confusion regarding the authority of standards.
 - Is already used by IASB, and there is merit in both IASB and IAASB adopting a coherent system in standard setting.
 - Permits readers of the standards to more clearly ascertain what procedures are mandatory, thereby avoiding confusion as to which procedures are required in a quality audit.
9. Some respondents argued against “equal authority,” stating the view that the IASB environment is different from that of the IAASB due to the process-orientated nature of auditing, and that applying “equal authority” would detract from the clarity of the practical application of ISAs. The view was also expressed that the present approach allows the necessary flexibility in implementation and avoids an unwieldy, procedural, “rule book” approach to standard setting.

ALTERNATIVES

10. The IAASB may wish to consider the majority view of respondents and, accordingly, retain its present practice of bold type lettering using the authority described in the proposed Preface (paragraph 13) and Operations Policy. As noted above, there is merit in this approach given the approach of basic principles and essential procedures to standard setting adopted by the IAASB. This decision; however, would not address the concerns identified by certain respondents, nor address the current political environment that may influence the endorsement objectives of the IAASB.
11. Alternatively, the IAASB may decide to adopt a statement in the final Preface that the text of the standards has “equal authority.” The implications and related issues of a change to “equal authority” are set out below.

IMPLICATION OF A CHANGE TO EQUAL AUTHORITY

12. In considering effecting a change to “equal authority,” several aspects must be considered:
 - Extent of change necessary to existing standards;
 - Adoption timetable; and
 - Implementation of change.
13. Two of the respondents that recommend a change to “equal authority” did recognize the fact that such a change may have a significant impact on current practice. Before being in a position to state that the words of the standards have “equal authority,” the IAASB would have to undertake a project to consider the clarity of existing paragraphs presented in ordinary type lettering. To ensure a smooth transition, a plan would have to be devised, consisting of the performance of an overall review of the ISAs to consider what the implications of “equal authority” would be to the standards and to determine what, if any, wording changes are necessary to the ordinary type lettering, paying particular attention to the use of the words such as “should,” “ordinarily” and “may.”

Change to Existing Standards

Ordinary Type Lettering

14. It may be argued that the proposed Preface already establishes an authority of the text of a standard that closely resembles “equal authority.” The proposed Preface requires professional accountants to read the bold and ordinary type lettering together and in conjunction when determining the obligations of the professional accountant. A change to “equivalent authority” therefore may not impose undue or additional onerous obligations on professional accountants. However, the IAASB would still need to undertake a complete review of ISAs to consider what the implications of “equal authority” would be to the standards and to determine what, if any, wording changes are necessary in order to avoid imposition of inappropriate obligation on professional accountants.

Use of the Word “Should”

15. Two respondents, both of which also advocate a change to “equal authority,” recommended that the prohibition of the use of the word “should” in the ordinary type lettering be eliminated. That is, a change to “equal authority” may need to be accompanied by reconsideration of using the word “should” in the explanatory and other material to allow the IAASB to more clearly indicate what procedures are expected to be performed. A similar view was expressed by one other respondent as a means to clarify what actions an auditor must undertake, although this recommendation was not made in conjunction with a change to “equal authority.” IAASB staff agrees with these views and believes a review of the use of the word “should” may need to accompany a change to “equal authority.”

Appendixes

16. IAASB staff is presently developing an Issues Paper for IAASB consideration to address and clarify the issue of the authority and intended usage of appendixes to standards. If a change to “equal authority” is made, further consideration of the authority and use of appendixes may be required in this context.

Transition

17. IAASB may need to consider a transition plan so that auditors have sufficient time to ensure that their audit methodologies appropriately take the guidance presented in ordinary type lettering into further consideration.

Adoption timetable

18. It is recommended that any change to “equal authority” be considered and effected before, if possible, adoption of ISAs in the EU. This would mean that a full review be conducted prior to June 2004. A decision on whether changes are substantive enough that exposure would be required would need to be determined on a case-by-case basis. A decision to undertake a full review of ISAs prior to June 2004 would also need to be considered in light of the IAASB’s current work plan.

Implementation of change

19. As described above, the implications of a change to “equal authority” would need to be carefully analyzed and addressed. To provide sufficient time for a full review and revision of standards and for any necessary change in methodologies, one option may be to adopt the use of “equal authority” but to establish a specific effective date for this aspect of the Preface. Paragraph 13 in the proposed Preface would be amended by a proviso that, when effective: “The basic principles and essential procedures, identified in bold type lettering, and the explanatory and other material have equal authority.”

IAASB task forces responsible for revising existing standards or developing new standards would be responsible for ensure that the wording of the ordinary type lettering in new or revised standards consider the anticipated change in authority. The Revisions Committee could be charged with a review of existing standards, with the goal of completing the review of as many standards as possible prior to the effective date of the change in authority.

20. A second option would be to establish an effective date for the Preface in its entirety at a point which would accommodate a full review of the standards. This option however may cause undue delay in effecting other changes established in the proposed Preface and therefore is not recommended.
21. A third option would be to issue the Preface indicating that the standards issued after a specified date, say June 2004, are written with “equivalent authority” attaching to the basic principles and essential procedures and explanatory material. A statement would be made that standards with an earlier effective date were not written in the context of “equal authority” and are therefore applicable under the previously described authority; these ISAs would then be reconsidered during the normal cycle of review of ISAs. This codification process may create confusion and therefore is not recommended.

Given the views expressed by respondents, as summarized in paragraphs 8-9 above and Agenda Item 3-C, and IAASB staff observations noted in paragraphs 10-21 above, how does the IAASB wish to respond to the principle of establishing “equal authority” to the text of its standards?

If a change to “equal authority” is considered appropriate, does the IAASB agree with the implementation recommendation in paragraph 18-19 above?

No Change in Authority – Other Comments on the Exposed Preface and Operations Policy

22. Should the IAASB decide to retain its present practice of using bold and ordinary type letter with the authority presently described in the Preface and Operations Policy (that is, not to adopt “equal authority”), the following summarizes additional concerns identified by respondents with respect to the exposed Preface and Operations Policy.
23. ***Purpose and Authority of the Operations Policy.*** Some respondents were unclear as to the purpose and authority of the exposed Operations Policy, and how that document relates to the exposed Preface. One respondent suggested that the substance of the Operations Policy be placed in the Preface, and not to publish a separate Operations Policy.

Staff Comment: If the use bold type lettering is retained, the proposed Operations Policy appears to be the appropriately place to provide the necessary additional guidance on its intended use. The material in the proposed Operations Policy provides useful additional guidance on the use of bold type lettering in an expanded manner that may not be appropriate to the style in which the proposed Preface is written.

IAASB staff also believes that the establishment of a mechanism (the Operation Policies) to communicate, in the interest of transparency, present and future IAASB’s operating policies on specific working procedures and practices is, in and of itself, useful.

To clarify the purpose and objective of Operations Policies, IAASB staff has added a proposed description of the nature and purpose of Operations Policies in the proposed Preface (paragraph 24).

Does the IAASB agree with the proposed change and the position taken?

24. **Use of the Term “Black Lettering”.** One respondent recommended the consistent use of either the term “black lettering” or “bold type lettering” throughout the document. One respondent also noted potential difficulty in translation and suggested the terms “bold face” and “light faced” lettering.

Staff Comment: The colloquial term “black lettering” has been removed from the document and replaced with “bold type lettering.”

Does the IAASB agree with the proposed editorial changes?

25. **Codification.** Some respondents were unclear as to the purpose and value of the paragraphs dealing with the codification of standards and recommended it be removed.

Staff Comment: IAASB staff agrees with the observations and has deleted paragraphs 4-5.

Does the IAASB agree with the proposed elimination of paragraphs 4-5?

Appendix I: Summary of Respondents' Position on the Subject of Bold Type Lettering

Respondent	Supports bold type lettering	Does not object	Objects	Suggests equal authority
FEE	√			
JICPA	√			
ACCA	√			
CPA Australia	√			
CNCC	√			
FAR	√			
HK Society	√			
ICANZ	√			
INCPC	√			
PAAB/SAICA	√			
PwC Global	√			
UK APB	√			
Moore Int'l	√			
AuASB	√			
KPMG	√			√*
AICPA		√		√
DTT		√		√*
Grant Thornton		√		√
IOSCO		√		√
Basel		√		√
FACPCE			√	
Total 21	15 (71%)	5 (24%)	1 (5%)	6 (28%)

* Recommends transition period.

Appendix II: Summary of Comments

A summary of positions taken supporting the proposed position regarding bold type lettering follows:

<ul style="list-style-type: none"> • Allows flexibility in implementation and avoids an unwieldy, procedural, ‘rule book’ approach to standard setting (ACCA) • Basic principles and essential procedures should be clearly separated (CPA Aus) • Good description of the interpretation of how to use the standards (FAR) • Helpful in focusing practitioners on the key principles of the standards (Grant Thornton). • Easily distinguishes the principles and essential procedures from explanatory material (ICANZ) • Very useful to understand and analyze certain topics (INCPC) • Auditing is not a mechanical exercise and relies on professional judgement, supported by a principles based approach. Distinction between principles and procedures and explanatory guidance is consistent with the principles-based approach to standards (PwC, UK APB, FEE). • Many std setters and regulators have successfully used such a distinction (PwC) • Improves readability and provides logical structure (PwC, JICPA) • IASB environment is different from IAASB due to the process orientation of auditing. Applying equal authority would detract from the clarity of their practical application (Moore)

A summary of positions taken opposing the proposed position regarding bold type lettering follows:

Comment highlights
<ul style="list-style-type: none"> • Coded language (‘should’) (IOSCO) • Distinction between basic principles and essential procedures is ambiguous (IOSCO) • Readers of the standard must be able to clearly ascertain what procedures are mandatory; avoids confusion of which procedures are required in a high quality audit (IOSCO, Basel)

A summary of positions taken for “equal authority” follows:

Comment highlights
<ul style="list-style-type: none"> • Issue is not about typeface, but rather that there should be no ambiguity regarding the considerations and procedures that are required. Message about authority would be clearer and stronger if the Preface simply states that the paragraphs have equal authority (AICPA). • Equal authority already used by IASB (Basel, AICPA, DTT, IOSCO, KPMG) • Eliminate the prohibition of the word ‘should’ in grey lettering to allow the IAASB to more clearly indicate which procedures are expected to be performed (Grant Thornton) • Merit in both IASB and IAASB to adopt a coherent system in std setting and avoid confusion (IOSCO) • Imperative that standards be precisely drafted so that all the content of a particular standard has the same status, with the bold simply highlighting that which is a basic principle or essential procedure (KPMG)

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