

**Framework for Rapid Authoritative Responses to Emerging
and Urgent Issues
Discussion Paper**

This Paper has been prepared by Staff for discussion purposes only.

I. Objective

1. The objective of this Paper is to explore a framework that would enable the IAASB and IFAC's other standard-setting Public Interest Activity Committees (PIACs) to issue rapid authoritative responses to emerging or urgent issues in the public interest.

II. Need for a Framework

2. The IAASB is expected to follow due process when issuing new or revising existing Standards, Practice Statements and other authoritative pronouncements which includes broad consultation, responsiveness to input received and public interest oversight. The full application of due process is seen to be in the public interest but has the consequence of a relatively long development cycle for authoritative pronouncements – often measured in years.
3. Emerging or urgent issues, by nature, arise quickly and often require a rapid response if a response is to be effective. It is therefore also in the public interest that the IAASB should be able to clarify or supplement its pronouncements in advance or in lieu of a full revision thereof to appropriately direct the profession in response to emerging or urgent issues. The ability to do so would provide an essential mechanism to assist in the consistent application of the IAASB's pronouncements by professional accountants in a timely manner. There is at present, however, no mechanism by which the IAASB can revise or amend its authoritative pronouncements to respond to an emerging or urgent issue.
4. Central to addressing emerging issues is the ability to issue an authoritative response in a manner more expeditious than the current operating practices of the IAASB permit. The main issue to be resolved is the trade-off between the timeliness with which a response can be issued and the authority and due process that should attach to it. This issue is made more difficult by the fact that different views exist as to the sources from which a document may derive its authority – the authority of the body issuing the document or the process followed in development – and the consequences thereof. If the view that authority and due process attach is accepted, the question is whether any form of abbreviated due process is acceptable while maintaining the authority of a document; this has raised different reactions from different stakeholders.
5. Recent events with the International Accounting Standards Board and the interpretation issues discussed at the December 2008 IAASB meeting regarding certain of its clarified ISAs provide examples where a rapid response mechanism would have been useful. On the other hand, there is the view that no steps should be taken outside the well-established and supported standard-setting structure of the IAASB to amend its standards. Accordingly, if a

framework is put in place to address urgent circumstances if and when they arise, it should be sufficiently stringent in the public interest.

6. The resolution of the way forward, in whatever form, ultimately depends on the specifics of how a mechanism for rapid authoritative responses might work and whether it is acceptable and appropriate in the public interest. The following framework is intended to assist in this regard.

III. Framework Components

7. The following identifies five general components of a framework for responding to emerging or urgent issues:
 - i. Early Issue Evaluation and Consideration of Need for an Authoritative-Type Response
 - ii. Justification for a Rapid Response Requiring Departure from Full Due Process
 - iii. A Modified Due Process that Accelerates Decisions while Maximizing Input
 - iv. Flexibility in Form of Output
 - v. Public Interest Oversight

Each of these components, and their implications, are discussed below.

EARLY ISSUE EVALUATION AND CONSIDERATION OF NEED FOR AN AUTHORITATIVE-TYPE RESPONSE

8. Whether an issue qualifies as one requiring an urgent response is often subjective. In some cases, the determination is relatively straight forward; in others, the issue is less clear. Further, in some cases the issue relates to the application of standards to, and may be circumscribed by, national circumstances where the national standard-setting body, rather than the IAASB, is best positioned to address the matter. It is therefore a matter of consideration whether an issue warrants an authoritative response, let alone a *rapid* response, or instead further monitoring of developments.
9. Nevertheless, emerging or urgent issues, by nature, arise quickly and often require a rapid response if it is to have effect. Early consideration is therefore essential to allow a maximum period for determination of whether a response needs to be considered, the appropriate form of response – whether authoritative, non-authoritative, or not at all – and its development, as necessary.

Implications

- **The IAASB should establish an early evaluation mechanism.** While it would be possible to leverage the IAASB's Steering Committee, the most effective approach may be for the IAASB to establish a standing "IAASB Emerging Issues Task Force" – a small team of IAASB members, appointed by the IAASB Chair, charged with evaluating urgent issues and developing (or overseeing the development of) recommendations for consideration by the IAASB. Its role could include appropriate liaison with relevant IFAC committees such as the Small and Medium Practices Committee and Transnational Auditors Committee, though the onus should be on such groups to bring issues forward as necessary. Terms of reference for the Task Force would be developed and it would be required to report to the IAASB on its activities.

JUSTIFICATION FOR A RAPID RESPONSE REQUIRING DEPARTURE FROM FULL DUE PROCESS

10. The most critical decision to be made is whether a rapid response is in fact required and in the public interest. The general presumption should be that full due process is appropriate unless the IAASB can demonstrate justification for departure. Further, there should be a clear expectation that departures from full due process are generally to be an exception rather than the norm, with steps taken to avoid creating an expectation in the user community that emerging issues will be addressed more frequently and more comprehensively by the IAASB than perhaps intended or possible. Some form of criteria or guidelines, and general agreement that such criteria have been met, are therefore essential.

Implications

- **Criteria should be established against which a decision on the need for a rapid response is to be made and evaluated.** Such criteria could take the following form, for example:

“Situations in which a rapid response by the IAASB may be appropriate include a new circumstance that is not addressed by current pronouncements, or where the current pronouncements address the circumstance in principle but a requirement or guidance material requires amendment for further clarification, elaboration or explanation, or similar such circumstance, and all of the following are met:

 - The issue to be addressed is clearly defined and specific to a new and unique circumstance not previously deliberated by the IAASB, and has broad public interest relevance (as evidenced, for example, by confirmation of such by two or more regulatory or public oversight bodies);
 - A new pronouncement, or the revision or amendment of an existing one, is necessary to the effectiveness and proper and consistent application of the pronouncements of the IAASB;
 - The issue is one that requires change to the IAASB’s pronouncement within a period shorter than that which can be accommodated by following full due process, including taking advantage of the provision for a shorter than normal exposure period, in order for the change to have the intended effect; and
 - The anticipated response is limited to the identified issue and there is no indication that the response will have potential unintended consequence.”
- **The IAASB should obtain the Public Interest Oversight Board’s (PIOB) approval, expedited as appropriate, that such criteria have been met in principle in advance of any standards-setting activity.¹**

¹ Arrangements acceptable to the PIOB for an expedited process outside its normal meeting schedule would need to be agreed.

A MODIFIED DUE PROCESS THAT ACCELERATES DECISIONS WHILE MAXIMIZING INPUT

11. IAASB deliberations need to be informed, the quality of its output maintained, and its activities subject to appropriate oversight. The main contributor to the length of the current pronouncement-development cycle, however, is the process of exposure and consideration of responses. Only by forgoing this process can there be any significant acceleration in the decision-making. Nevertheless, an authoritative response needs to be seen and accepted as authoritative by regulators, oversight bodies, firms and others, even though it may have been developed following a different form of due process.
12. Whatever the process followed, the responsibilities of the IAASB in undertaking a rapid response should be absolutely clear. The establishment of a modified form of due process, design to enhance the timeliness of a response while maximizing input and due care in decision making, is therefore essential.

Implications

- **The current Due Process and Working Procedures of the IAASB and other PIACs should be amended to allow for a modified due process when the criteria for a rapid response has been met.** The aim of the modified process should be to facilitate (in a best case scenario) the development and issue of a response in the time between one meeting of the IAASB and the next.
- **The modified due process should require at least the following:**
 - Notification at least 30 days in advance on the IAASB website, and directly to members of the IAASB Consultative Advisory Group and the PIOB, of the intent of the IAASB to discuss a proposal in response to an emerging or urgent issue, together with an invitation for comment in advance of the IAASB meeting.
 - Circulation of comments received directly to IAASB members, with members familiarizing themselves with the issues raised.
 - IAASB deliberation in a physical meeting open to the public.
 - Unanimous approval by the IAASB that the criteria for rapid response have been met.
 - Approval, in accordance with the IAASB's terms of reference, of the content (or revised content) of the proposed response.
 - After approval of the revised content of the response, voting by the IAASB on whether there have been any significant concerns raised such that exposure is considered necessary. An affirmative vote in accordance with the IAASB's terms of reference would be necessary in order to issue an exposure draft.
 - The communication of the basis of the IAASB's decisions together with the approved change to a pronouncement, if any.

FLEXIBILITY IN FORM OF OUTPUT

13. The IAASB issues different pronouncements within its terms of reference. An authoritative response to an emerging issue would therefore be in the context of such pronouncements, with the same authority attaching.

14. In terms of the precise form of output in response to an emerging or urgent issue, it would appear appropriate for the IAASB to retain as much flexibility as possible until it gains further experience in dealing with such matters and has had an opportunity to determine through practice what is most effective in different circumstances. For example, one of the following methods may be most suitable, depending on the circumstances, with an immediate or relatively short effective date:
- Amendment of, or inclusion of a footnote in, a pronouncement (accompanied by a press release);
 - An addendum to a pronouncement, labelled as an “Interpretation” (following the practice of the International Ethics Standards Board for Accountants); or
 - The issue of a separate pronouncement.

PUBLIC INTEREST OVERSIGHT

15. Confirmation by the PIOB that modified due process has been met would be required. Arrangements acceptable to the PIOB for an expedited process outside its normal meeting schedule would need to be agreed.

Matters for Discussion

- 1. Recognizing that the need for a rapid response to an emerging or urgent issue through an authoritative pronouncement is likely to be rare (though possible), do you agree that a rapid response process should be developed in the public interest?**
- 2. What is the risk to the IAASB in adopting this type of rapid response process, and how might perceptions of the quality of the standards be affected? How could such risks be mitigated?**
- 3. The criteria that need to be met and the modified due process suggested in the framework are intended to establish fairly stringent parameters around when and how a rapid response may occur. In your view, are they appropriate, too restrictive, or should greater flexibility be allowed?**
- 4. To what extent, if any, should there be formal consultation on the approach?**