



**INTERNATIONAL FEDERATION
OF ACCOUNTANTS**

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Agenda Item

8

DATE: May 6, 2009
MEMO TO: Members, Technical Advisors and Observers of the IPSASB
FROM: Stephenie Fox & John Stanford
SUBJECT: Due Process and Handbook Format

ACTION REQUIRED

Members, Technical Advisors and Observers are asked to:

- **Consider and provide** preliminary views on the Rapid Response Process under development corporately at IFAC; and
- **Provide** preliminary views on the structure and format of IPSASs.

OBJECTIVE OF THIS AGENDA ITEM

The objective of this agenda item is to;

- Obtain preliminary views on a number of issues relating to the structure and format of IPSASs, in order to inform a review of the IPSASB Handbook of International Public Sector Accounting pronouncements (the IPSASB Handbook) that will be initiated later this year with a view to implementing changes; and
- Solicit Members' views and input on a process for amendment of IPSASB's authoritative pronouncements on a rapid response basis, specifically the circumstances under which such a mechanism might be used and the nature of the process to be followed.

STRUCTURE AND FORMAT OF IPSAS

For some time Staff has had concerns about differences in the format and structure of IPSASs and is of the view that high quality standards should have a common template, particularly for the arrangement of authoritative and non-authoritative material. Last year an external review of the IAASB Handbook was commissioned to identify variations in format and structure. IAASB Staff considered that this was a valuable initiative and that it led to an improvement in the quality of the 2009 IAASB Handbook. The IPSASB Technical Director has therefore made preliminary arrangements to engage the same individual, who carried out the IAASB review, to carry out a similar review of the IPSASB Handbook. It is therefore important to develop views on format and structure in order to inform this review.

Staff also acknowledges that some members expressed reservations about the differences in format and structure between some of the EDs in the recent raft issued in April and May 2009; in particular the positioning of "Definitions" and "Defined Terms". In EDs 36-41 the location of definitions has followed the approach in the International Accounting Standard (IAS) and International Financial Reporting Standard (IFRS) from

which the ED was primarily drawn. “Definitions” and “Defined Terms” have therefore been located in both the body of the text and in an Appendix in different EDs.

This section of the memorandum considers:

- Overall Structure
- Definitions and Defined Terms
- Core Principle v Objective
- Basis for Conclusions
- Due Process

This list is not exhaustive and Members, Technical Advisors and Observers may have other items which they wish to discuss.

Overall Structure

In IAS/IFRS authoritative material precedes the Basis for Conclusions. Non-authoritative material is then positioned after the Basis for Conclusions. The recent raft of EDs adopted a similar approach, whereas in IPSAS 21-26 the Basis for Conclusions is positioned immediately after all authoritative and non-authoritative material and before the “Comparison with IAS XX /IFRS XX.”

It is not possible or desirable to adopt a similar template for all IPSASs. Certain IPSASs, such as IPSAS 6, “Consolidated and Separate Financial Statements” and IPSAS 20, “Related Party Disclosures” deal with requirements related to disclosure or presentation rather than recognition and measurement, and other standards, such as IPSAS 13, “Leases”, address classification of arrangements and transactions in detail. In general, IPSASs that deal with recognition and measurement would likely include the following main sections and may include further authoritative and non-authoritative material:

Organization of Material in IPSASs
<i>Core of the Standard</i>
<ul style="list-style-type: none"> • Introduction • Objective • Scope • Definitions • Recognition • Measurement • Disclosure • Transitional Provisions (<i>where additional to IPSAS 3</i>) • Effective Date
<i>Authoritative Appendices (where appropriate)</i>
<ul style="list-style-type: none"> • A: Application Guidance • B: Consequential Amendments
Basis for Conclusions (non-authoritative) (<i>in all EDs and IPSASs</i>)
<i>Non-Authoritative Material (where appropriate)</i>
<ul style="list-style-type: none"> • C: Implementation Guidance
Comparison with IAS/IFRS (<i>in all convergence EDs and IPSASs</i>)

The distinctions between Application Guidance, Implementation Guidance and Illustrative Examples that have been used in IPSASs are sometimes ambiguous. Application Guidance is authoritative and therefore must be followed in applying a Standard. Implementation Guidance and Illustrative Examples are persuasive, but not authoritative. ED 38, “Financial Instruments: Recognition and Measurement” followed IAS 39 in including both an “Illustrative Example”, which provides a detailed example of a hedging accounting arrangement, including the accounting entries, and “Implementation Guidance”, which is in the form of answers to frequently asked questions, but also provides specimen accounting entries. IPSAS 26, “Impairment of Cash-Generating Assets” contains “Implementation Guidance”, although the material seems to be more in the nature of illustrative examples.

In some IPSASs such as IPSAS 3, “Accounting Policies, Changes in Accounting Estimates and Errors” the term “Guidance on Implementation” has been used rather than “Implementation Guidance”.

In general Staff thinks that a proliferation of different terms for similar guidance is confusing to users and would prefer that a small number of common terms are used and therefore that the term “Implementation Guidance” is used for non-authoritative guidance with sub-headings for particular subjects.

Staff Proposal

Do you **agree** with the Staff proposal that:

- The terms Application Guidance and Implementation Guidance should be used to encapsulate and distinguish authoritative and non-authoritative guidance and examples.

Definitions and Defined terms

The approach throughout the initial raft of IPSASs (IPSAS 1-IPSAS 26) was to include defined terms within the body of the standard on an alphabetical basis in a “Definitions” section. For IPSASs with requirements for recognition and measurement the section on “Definitions” has followed the section on “Scope” and precedes the sections on “Recognition” and “Measurement”. Approximately 6-7 years ago the format was changed slightly, so that a term is defined in the first IPSAS in which it appears, and in subsequent IPSASs there is a reliance on reference to the “Glossary of Terms”, which contains all IPSASB defined terms. This avoids repeating the definition of a frequently used defined term in a number of IPSASs.

In IFRSs issued following the establishment of the IASB in 2001 defined terms have been located in an authoritative Appendix rather than in the body of the standard. Defined terms in standards in the series IAS 1-IAS 41 were included in the core of the text with grey letter commentary following black letter definitions. There were certain variations in approach; for example IAS 41, “Agriculture” distinguished “Agriculture-related definitions” and “General definitions”, and IAS 39 categorized the definitions into sub-sections in accordance with the subsequent format of the Standard so that, for instance, all definitions relating to hedge accounting were grouped together.

EDs 36-41 have followed the format of the IAS/IFRS from which the ED was primarily drawn, rather than reflecting a standard format. Thus ED 36, “Agriculture” retained the distinction between “Agriculture-related Definitions” and “General Definitions”, ED 38, “Financial Instruments: Recognition and Measurement” grouped the definitions within the body of the text using the categorizations in IAS 39 and ED 39, “Financial Instruments: Disclosures” presented the definitions in an authoritative Appendix.

Going forward, the Staff view is that definitions should be included in the body of the Standard, because the definitions are an essential and integral part of the Standard. It is important that readers’ attention is directed to the definitions at an early stage of the text, so that they are aware of the meaning of particular terms as they arise later in the Standard. Staff believes that inclusion in the body of the text is more conducive to this objective than location in an Appendix.

Staff Proposal

Do you **agree** with the Staff proposal that:

- Defined terms should be located in the body of the Standard rather than in an authoritative Appendix;

Core Principle v Objective

In IFRS 8, “Operating Segments” the IASB introduced a “Core Principle” paragraph instead of the “Objective” section that has been a feature of most IAS/IFRS. The “Core Principle” approach adopts a more active tone by stating, in black letter, the primary requirement of the standard as it impacts on reporting entities, rather than the more discursive general objective of the standard, which had been drafted in grey letter. The use of the “Core Principle” approach was retained in the 2007 revision of IAS 23, “Borrowing Costs”, from which ED 35, “Borrowing Costs” was primarily drawn. In finalizing ED 35, Members made a decision to follow the approach in IAS 23 (revised), rather than the format in IPSAS 5, “Borrowing Costs.”

Staff remains of the view that all IPSASs should have an ‘Objective’ section rather than a “Core Principle” section (it should be noted that certain IPSASs, such as IPSASs 6-8, do not have an “Objective” section because there is no such section in their IAS/IFRS counterparts). This is because of both consistency- it is inappropriate for IPSASs issued in close proximity to each other, to have different opening paragraphs, dependent upon the format of the IAS/IFRS from which they are primarily drawn-and also because “Objective” is a clearer term than “Core Principle.”

Staff Proposal

Do you **agree** with the Staff proposal that:

- Standards should include an initial “Objective” section rather than a “Core Principle” section.

Basis for Conclusions

All IPSASs from IPSAS 21, “Impairment of Cash-Generating Assets” have included a “Basis for Conclusions”. The “Basis for Conclusions” has assumed increasing importance in explaining the rationale for the IPSASB adopting a particular approach, especially departures from IAS/IFRS. Staff considers that the “Basis for Conclusions” should be linked to the tabular “Comparison with IAS” that concludes an IPSAS, so that, at a minimum, all items highlighted in the “Comparison with IAS” are discussed in the “Basis for Conclusions.”

For IPSASs developed in accordance with the IFRS convergence component of the IPSASB strategy there is an issue as to whether the “Basis for Conclusions” should be limited to departures from the IAS/IFRS. Staff is of the view that there should be no such constraint and that where a potential departure from IAS/IFRS has been identified in a rules of the road analysis and has generated considerable discussion at IPSASB meetings, consideration should be given to the inclusion of an explanation for the decision not to depart from IAS/IFRS in the Basis for Conclusions.

Staff Proposal

Do you **agree** with the Staff proposal that:

- For convergence projects, the “Basis for Conclusions” should identify and explain the rationale for all material departures from IAS/IFRS, but should not be limited to such a purpose.

Due Process

Staff does not think that, in general, modifying the format of IPSASs so that existing sections are renamed or relocated, without affecting their authoritative/non-authoritative status, necessitates a formal due process involving a consultation period. However, there is undoubtedly a due process issue in inserting new and previously unexposed material in an existing IPSAS.

Staff Proposal and Action

Do you **agree** with the Staff view that:

- The reformatting of IPSASs, so that existing sections are renamed or relocated without affecting their authoritative/non-authoritative status does not necessitate a formal due process involving a consultation period.

Other issues

Members, Technical Advisors and Observers are asked to consider whether there are other issues on which views need to be developed to inform the forthcoming review of IPSASB Handbook.

Action requested

Can you **identify** any further items relating to the format and structure of IPSASs on which decisions need to be made?

RAPID RESPONSE PROCESS

There is currently no established process by which any of IFAC's standard setting boards can revise or amend authoritative pronouncements on a rapid response basis other than through the application of the full due process. Recent events at the International Accounting Standards Board (IASB) and the International Auditing and Assurance Standards Board (IAASB) have raised this as an issue and consideration of a potential process across the IFAC boards is underway. The main issue to be resolved is the trade-off between the timeliness with which a response can be issued and the process that should be followed in its development to maintain quality.

A discussion paper that was prepared by IAASB staff for the March IAASB meeting is attached at Appendix A. All of IFAC's standard setting boards are in the process of holding initial discussions on the issue to obtain views and input for further development. This is a work in process and thinking is continuing to evolve. The attached paper should not be interpreted as anything more than an initial discussion of the issues developed by the IAASB staff for discussion by the IAASB and is provided for the IPSASB's information.

The process is a way to define a very limited set of circumstances that could justify a rapid response. Such a rapid response process would be intended to apply only to an amendment of an existing standard, not to the development of a full standard and would be generally considered to be an exceptional circumstance that could be called upon in a crisis situation.

At this stage there is a need for some preliminary thinking as to the following:

1. **Clear criteria for use of a rapid response mechanism**– there is a need to ensure that the criteria for when a rapid response would be allowed are well established. It is expected that it would be a rare situation. The bar must be set high to ensure that its application is limited.
2. **Public exposure** - while the period for consultation may be shorter, there is a general view within IFAC that some sort of exposure is mandatory. Preliminary thinking is that it should be no less than 30 days.
3. **Existing due process** – there is a well established due process at IFAC that should be used for the development of any standards including amendments of existing standards. The process is rigorous and well understood. For amendments of an existing standard there may be exemptions from certain provisions of the due process that are appropriate for a rapid response mechanism.

View Required

What criteria should apply to the use of a rapid response mechanism and what exposure requirements and other “due process” should be applied to such a mechanism?

Stephenie Fox, Technical Director
John Stanford: Deputy Technical Director

Appendix A

Framework for Rapid Authoritative Responses to Emerging and Urgent Issues Discussion Paper Prepared by IAASB Staff

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**

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

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

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, labeled 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?**