

## FINANCIAL REPORTING COUNCIL

### Minutes of 68<sup>th</sup> Meeting

13 June 2013

Outcomes of the meeting held on 13 June 2013 at the offices of the Australian Accounting Standards Board, Level 7, 600 Bourke St, Melbourne. The meeting commenced at 9:00 am and concluded at 3:10 pm.

#### Attendance

<i>FRC Members</i>	Ms Lynn Wood (Chairman) Mr Michael Coleman (Deputy Chairman) Mr Ross Barker Mr Roger Burrows Mr Mark Coughlin Mr Andrew Fleming Dr Stein Helgeby (until 2:45 pm) Mr Grant Hehir Ms Noelle Kelleher Ms Merran Kelsall Mr Ian Laughlin Mr Kevin Lewis Mr Ian Purchas Mr Kevin Simpkins Ms Jan West AM
<i>PST (Agenda Item 4)</i>	The Hon Bernie Ripoll, MP, Parliamentary Secretary to the Treasurer Mr Winston Harris (Chief of Staff)
<i>Invitees</i>	Mr John Price (Australian Securities and Investments Commission) Mr Angus Thomson (Australian Accounting Standards Board) Ms Kerrie Cole (NZ XRB)
<i>FRC Secretariat</i>	Mr Bruce Paine Mr Bruce Donald (Secretary)
<i>Apologies</i>	Mr Jim Murphy Mr Kevin Stevenson Mr Ian Curry (invitee) Mr Jeffrey Lucy AM (invitee) Mr Charles Macek (invitee)

#### Item 1 – Introduction

##### (a) Welcome

The Chairman welcomed Members to the Meeting, noting that Mr Price and Mr Thomson were attending as invitees, and that Ms Cole of the NZ XRB was attending as an observer.

The FRC congratulated Kevin Stevenson for his selection by the University of Melbourne Centre for Accounting and Industry Partnerships to be inducted into the Australian Accounting Hall of Fame.

(b) Apologies

See attendance list for details.

(c) Declarations of Interest

The Declarations of Interest of FRC Members was updated before the meeting.

**Item 2 – Matters for approval**

(a) Minutes of previous meeting and out of session votes

The Minutes of the 67<sup>th</sup> Meeting, held in Sydney on 15 March 2013, were approved. No out-of-session votes were held since the last meeting.

(b) Matters arising

The matters arising from the 67<sup>th</sup> Meeting, and the actions taken in respect of them, were noted as follows:

1. The Secretary distributed a document from the AASB to the FRC Public Sector Committee (PSC) members in April 2013 as per the decision at the previous meeting that the AASB would ensure that the PSC was alerted to major developments.
2. The issue of MOUs between the FRC and its partners was progressed by the FRC Strategic Plan Committee (SPC) and FRC Audit Quality Committee (AQC) after the last FRC meeting and considered by the FRC again under Agenda Item 7(a).
3. FRC members and stakeholders had been sent copies of the revised FRC Strategic Plan 2013-16 on 8 April 2013, and the plan was considered under Agenda Item 2(c).
4. The SPC considered G20 resolutions relating to financial reporting at its meeting on 23 May 2013, and the PSC provided input on 15 May 2013. The FRC considered the matter further under Agenda Item 5(b).
5. FRC members and stakeholder bodies were requested to update the FRC Managing Complexity Task Force (MCTF) and FRC Board Education Task Force (BETF) reports, and the finalised reports were considered under Agenda Item 7(c).
6. A thank you letter was sent to the Australian Public Policy Committee (APPC) on 14 April 2013 regarding their offer of cooperation, including suggestions for work they may do that would be very helpful to the FRC.
7. An FRC submission to the IAASB Consultation Paper, *A Framework for Audit Quality* was made on 22 May 2013.
8. The FRC Nomination Committee (NC) considered revised skills matrices for the two Boards on 3 May 2013, and the matter was discussed under Agenda Item 7(c).
9. The FRC Financial Report Task Force (FRTF) considered a draft mapping of Australian financial reporting requirements at its meeting on 26 April 2013. The issue was considered further under Agenda Item 7(e).
10. The FRC Integrated Reporting Task Force (IRTF) considered the IIRC Draft Framework at its meeting on 10 May 2013. The issue was considered further under Agenda Item 7(f).
11. The PSC will meet before the next FRC meeting to provide input on the AASB workplan.
12. The FRC Secretariat had progressed plans for a Ken Spencer Memorial Lecture and this was considered under Agenda Item 5(b).
13. An acknowledgement letter from the FRC was sent to the Korean Financial Services Commission Chairman on 12 April 2013.
14. The FRC Secretariat has liaised with the IASB and IFRS Trustees regarding G20 issues.

(c) FRC Strategic Plan 2013-2016

The FRC Strategic Plan 2013-16 was approved as circulated to members.

Members noted the need for the work of the FRC to be prioritised given further limitations on resources now available to the Secretariat.

**Item 3 – Report by FRC Secretary**

The meeting noted a report by the FRC Secretary which covered key events and meetings since the last FRC meeting.

It was agreed that the scheduled FRC October meeting would be cancelled in light of the requirement for the Secretariat to complete the FRC Annual Report by 31 October and the closeness to the November meeting.

**Item 4 – Parliamentary Secretary to the Treasurer (PST)**

The Chairman welcomed the PST, the Hon Bernie Ripoll, MP to the meeting noting that he had been present when the MCTF and BETF reports had been launched, and that this meeting marked the final update on the implementation of those reports.

The PST thanked members for the invitation to attend, noting that the FRC, and other Boards and Committees, did work that was vital to the operation of the financial sector, but whose work was often unrecognised. He noted in particular that he was very pleased with the way the FRC was progressing the issues it faced.

Mr Ripoll inquired of the views of the FRC relating to the G20, integrated reporting and the internationalisation of accounting standards.

The PST noted that the Government supported having the issue of convergence to a single high quality set of accounting standards on the G20 agenda, consistent with the focus on growth and jobs. The members noted that one way to encourage faster adoption of IFRS in non-IFRS jurisdictions included promoting voluntary adoption by companies. The members also suggested that promoting greater comparability of financial reporting in the public sectors of G20 members might also be usefully discussed at the G20.

Issues considered in the discussion relating to integrated reporting included: whether integrated reporting could be addressed within the framework of the [ASIC Guidance](#) on Operating and Financial Reviews (OFR, RG 247); the need to be aware of unintended consequences and avoid adding to the complexity and burden of reporting, and the issue of directors' liability regarding forward looking statements.

The PST undertook to keep the Treasurer and Finance Ministers informed of the views of FRC members.

**Item 5 – International Update**

(a) IFRS Trustees – update on international meetings

The Chairman reported on developments regarding the holding of an IFRS Trustees meeting in Sydney in 2014. She confirmed that they will hold a meeting in Sydney in the week commencing

Monday 7 April 2014, and noted that Jeffrey Lucy had played a key role in promoting Australia as a location for the Trustees to meet, reinforcing the role to be played by Australia in hosting the G20 in 2014.

It was also noted that Mr Hans Hoogervorst, chairman of the IASB, had agreed to present the Ken Spencer Memorial Lecture (KSML) in this week. It was agreed to hold the KSML on the evening of Thursday 10 April 2014, and to hold the FRC meeting on Friday 11 April 2014.

Trustees would be invited to observe the meeting, and a request would be made to the Chair of the IFRS Trustees to make a presentation to the FRC. It was noted that members could register to attend the open sessions of the IFRS Trustees meeting. It is expected that the Trustees would hold another event on Wednesday 9 April 2014.

It was also agreed to set the other two FRC meeting dates for 2014. In order to minimise the administrative burden on Members and the Secretariat, the FRC agreed to:

- Friday 20 June (Melbourne), and
- Friday 21 November (Sydney).

Members agreed to inform the FRC Secretary by Friday 21 June if these dates were manifestly unsuitable. The timing for future meetings was agreed as 10:00 am to 4:00 pm which obviates the need for travel the previous day.

It was noted that the KSML would not be held in 2013. The FRC had extended an invitation to European Commissioner Barnier to deliver the KSML, but he was unable to accept after initial interest.

The Chairman also updated the FRC, drawing on information provided by Mr Macek, on developments at the recent IFRS Advisory Council meeting, which had considered (among other things):

- the Conceptual Framework, noting that since this will influence standard setting for decades, it was vital that user groups, such as investors, provide input;
- Post-Implementation Reviews (PIRs);
- IFRS for SMEs; and
- XBRL.

The Chairman recently attended the IFRS Regional Policy Forum, and provided the FRC with an overview:

- Convergence to (Malaysia) and big bang adoption of (Australia, New Zealand) IFRS are both acceptable means of adoption.
- The IASB's current main priorities are:
  - The [conceptual framework](#); and
  - Completing work on the four main convergence projects with the US FASB (financial instruments, leases, revenue and insurance).
- Key issues discussed were:
  - Improving the usefulness of financial disclosures;
  - The effectiveness of audit committees (the IASB could engage audit committees more in contributing to the understandability of financial reports);
  - The need for improved valuation measures (noting that the Council, was now chaired by Sir David Tweedie which would be helpful in this regard); and

- An improved international regulatory framework (IFRS/IOSCO database used by over 50 jurisdictions to improve the consistency of the application of IFRS).
- Some acceptance that convergence with the US will take a long time, and less concern about this, given the increasing acceptance of IFRS by non-US jurisdictions.
- Increasing voluntary adoption of IFRS by companies in Japan and that this might be an approach that should be considered in the US and China.
- To help reduce complexity a summary of significant accounting policies could be stated on the web rather than in a note to the accounts and only mentioned where there is a change from the previous year.

It was also noted that US policy makers are influenced by the views of US business, and therefore the B20 is potentially an important forum for encouraging convergence.

Correspondence sent by the Chairman to the B20, G100 and G20 Division of Treasury concerning potential agenda items for the G20 covering financial reporting was noted.

#### (b) Process leading to the G20

The FRC discussed a paper prepared by the Secretariat which sought to elicit Member's views about the financial reporting issues that could be usefully discussed at the G20. Issues discussed included:

- The process for setting the agenda;
- Who discusses accounting standards issues;
- Which voices were heard most clearly;
- Consideration of why US investors and major listed companies are not pushing more forcefully for IFRS in light of globalisation. Mr Fleming offered to do some informal research for the FRC on this issue; and
- The call in the G20 Action Plan of 2008 that "The key global accounting standards bodies should work intensively toward the objective of creating a single high-quality global standard". The FRC discussed whether it might be possible to reframe this around encouraging jurisdictions that have not adopted IFRS to allow certain entities to satisfy their legal obligations by lodging financial reports using IFRS (without reconciliation to domestic GAAP).

### **Item 6 – Oversight of Australian standards-setting arrangements**

#### (a) Report of Australian Accounting Standards Board (AASB)

The FRC noted the AASB report, which reports against the AASB's strategic plan. Mr Thomson highlighted some key points for the FRC:

- The AASB had considered responses to its Exposure Draft (ED) proposing to adopt recent amendments made by the IASB to create an 'investment entity' exception from consolidation, and also proposing significant Australian additional disclosures. The AASB ultimately decided (with some AASB members indicating they will dissent) that staff should prepare a pre-ballot draft of an amending standard in line with the IFRS that does not include Australian additional disclosures.
- The IASB had issued its [ED/2013/3 Financial Instruments: Expected Credit Losses](#) on 7 March and the AASB issued ED 237, incorporating the IASB ED, shortly thereafter. There was some discussion of the features of the IASB's expected loss model, the US FASB's model and the existing incurred loss model used in Australia. The AASB plans to include in its submission to the IASB that the existing incurred loss model could be made to work internationally (and currently does) work in Australia.

- Mr Thomson also drew the FRC's attention to the work of the AASB, through the AOSSG, in establishing the Centre of Excellence in IFRS in Nepal, to help in its efforts to adopt IFRS. The first session of a three-part train-the-trainer series is to be conducted in Nepal in the third week in June.
- There was also some discussion of the IASB London Forum on Disclosure. The AASB is encouraging the IASB to hold a similar Forum in the Asia-Oceania region. It was noted that a framework for disclosure would encourage principles to be applied to this element of standard setting. The AASB Chairman had presented a paper on objective based disclosure at the IFRS Regional Policy Forum in Hong Kong.

(b) Report of Auditing and Assurance Standards Board (AUASB)

Ms Kelsall reported on the AUASB's progress on its key Business Plan strategies, and drew attention to:

Key international developments:

- The UK and Canada are both putting forward proposals placing more emphasis on the role of the audit committee. These may affect the public policy direction on audit at the European Union level and globally.
- The Institute of Chartered Accountants of Scotland has issued a discussion document *Balanced and Reasonable*, which envisages a new "moderate" level of assurance on management commentary (available from <http://icas.org.uk/Auditing/Publications/>).

Local developments:

- The AUASB and NZAuASB are working toward a joint meeting of the two Boards in September.
- The AUASB is working with ASIC and the Accounting Professional and Ethical Standards Board (APESB) on the Australian implementation of the IAASB standard relating to use of the internal audit function, and more particularly, direct assistance from internal auditors.
- The AUASB is working with ASIC and APRA, and other regulators, on a number of matters that may require guidance statements from the AUASB.

**Item 7 – Matters for Discussion**

(a) Strategic Plan Committee (SPC) report

As noted above, the FRC Strategic Plan 2013-16 has now been approved.

(b) Audit Quality Committee (AQC) report

Mr Coleman reported that the AQC had met the preceding week and had focussed on the requirements set out in the *ASIC Act*:

- In the first instance the AQC will focus on producing a report for inclusion in the annual report (although there could also be advice direct to the Government). In this regard, the AQC will be contacting the three professional accounting bodies with the objective of obtaining information for the report.

- Subsequently the AQC will turn its focus on other audit quality related matters.
  - In this work it will liaise with the APPC and the three accounting bodies, to consider matters such as “what audit can do to facilitate market understanding of the risk factors that might lead to potential corporate failure”.

It was noted that ASIC had issued a [media release](#) about the action plans being prepared by each of the six largest audit firms to respond to ASIC’s comments about the need to improve audit quality.

(c) Nominations Committee (NC) report

Ms West requested the FRC approve the NC Charter, and this was done. It was also agreed that the peer reviews would now focus on AASB and AUASB members, and on the direction of the FRC. The FRC further agreed that the timing of the NC processes would be brought forward and completed if possible by October.

(d) Public Sector Committee (PSC) report

Mr Hehir noted that the PSC was now planning its annual meeting, which would focus on:

- The priorities in relation to public sector financial reporting in Australia;
- A conversation about the AASB workplan, which might include reference to the budgetary reporting framework;
- Other “hot issues”, including possibly the impacts to the public sector of the accounting standard treatment of superannuation; and
- IPSASB developments.

It was noted that the PSC had prepared a letter for the FRC to the General Manager of the Treasury G20 Division regarding the issue of public sector financial reporting comparability as a potential G20 agenda item.

(e) Financial Report Task Force (FRTF) report

Mr Barker noted that the FRTF had prepared a draft Terms of Reference (TOR) for its work. Some changes were suggested to the TOR and it was agreed that a statement of the primary objective of the FRTF be included on the FRC website, and that the amended TOR be used by the FRTF internally. The AASB also agreed that Mr Ahmad Hamidi would assist in the mapping of existing financial reporting requirements in Australia.

(f) Integrated Reporting Task Force (IRTF) report

Mr Burrows reported that the IRTF had met on 10 May 2013 and outlined to the FRC the range of views expressed at the meeting on the recently released International Integrated Reporting Council (IIRC) [Draft Framework](#). He noted that Mr Mervyn King and Mr Paul Druckman from the IIRC had recently visited Australia and suggested that the final Framework might well look very different to the draft.

Key comments regarding the Draft Framework included:

- That the FRC had recommended the IIRC develop such a framework and that the FRC welcomed this development;
- That there was some vagueness to the Draft Framework;

- That the Draft Framework did not provide much of a vision of what integrated reports would look like; and there were concerns that the reports would not be short;
- There had been discussion of whether the OFR framework in Australia could be utilised to produce integrated reports (noting positive feedback from the recent G100 conference on this possibility); and
- That the process of fostering integrated thinking was likely to be a long journey.

It was agreed that the FRC submission to the IIRC on the Draft Framework should reflect the breadth of views from the members of the FRC.

It was also agreed that after the FRC lodges a submission to the IIRC on the draft framework, there is probably little it needs to do until after the next IIRC Framework is released.

#### (g) MCTF and BETF update reports

The Chairman led a discussion of developments relating to the implementation of the recommendations of the Board Education Task Force (BETF) and Managing Complexity Task Force (MCTF) reports. It was noted that the final reports on implementation would be included in the FRC Annual Report.

#### BETF

A number of key developments were noted including the second edition of [Audit Committees: A guide to good practice](#) developed by the AUASB, AICD and Institute of Internal Auditors, and launched by the PST; and a page being developed by ICAA, CPA and AICD for the ASIC website listing resources for directors to improve their financial literacy and possibly a short quiz to test their understanding of financial reports.

#### MCTF

Key matters discussed relating to the MCTF report included:

- an AUASB project to look at guidance to auditors of grant acquittals (including collating new requirements being imposed by government agencies);
- a re-emphasis that the key accounting policies part of the notes in a financial report need only report where judgement had been exercised and where changes in the policy were being made.
  - Representatives of the AASB and AUASB attending the meeting undertook to discuss how to consider the content and issue of accounting policy notes and how they could be simplified and better understood, reporting only what's required, and avoiding following templates rather than exercising judgement.
  - ASIC noted that its forthcoming release on the focus it would have on 2012-13 financial reports was likely to emphasise the need to supply meaningful and useful information to users.
- It was agreed that CAMAC would be invited to make a presentation at the next FRC meeting on its annual general meeting and shareholder engagement review to consider complexity issues relating to the totality of the reporting burden.



Mr Simpkins recorded his view that the MCTF report had been one of the FRC's best pieces of work, and noted it had been used in the ongoing IASB project on Disclosure.

### **Item 8 – Reports by stakeholders**

Matters raised by Members included:

**ASIC:** Mr Price drew the meeting's attention to a number of issues on which ASIC had been working, including:

- Updating [guidelines](#) (RG 34) for auditors reporting contraventions of the Corporations Act;
- The release of a [Consultation Paper](#) on ASIC's approach to auditor resignation, removals and replacements; and
- [Mandatory sunseting](#) under the *Legislative Instruments Act* was providing some rigour to reviewing unnecessary regulations.

**ASX:** Mr Lewis noted the joint seminars conducted by the ASX, ASIC and the Joint Ore Reserves Committee (JORC) over April and May on the 2012 JORC Code and ASX's new listing rules for reporting mineral resources and ore reserves, and that seminars on ASX's new oil and gas reporting requirements would take place in July.

**BCA:** Mr Barker noted BCA work on:

- An economic blueprint for Australia; and
- Efficient regulation, reflecting concerns about the working of the system for Regulatory Impact Statements.

### **Item 9 – Other Business**

It was agreed that given the changes being made on a continuing basis to the composition of Task Forces and Committees that an agenda paper on their composition would be circulated for each meeting.

### **Item 10 – Next meeting**

The next meeting of the FRC is scheduled to be held on Thursday, 28 November 2013 at the offices of the Australian Accounting Standards Board, Melbourne commencing at 10:00 am and finishing at 4:00 pm.