

## FINANCIAL REPORTING COUNCIL

Minutes of 59<sup>th</sup> Meeting

18 April 2011

Outcomes of the meeting held on 18 April 2011 at the offices of the Australian Securities Exchange, 20 Bridge Street, Sydney. The meeting commenced at 9.05 am and concluded at 12.15 pm.

### Attendance

*FRC Members:* Ms Lynn Wood (Chairman); Mr Bruce Brook; Mr Michael Coleman; Mr Mark Coughlin; Mr Michael Dwyer; Mr Grant Hehir; Dr Stein Helgeby; Ms Noelle Kelleher; Mr Vas Kolesnikoff; Mr Ian Laughlin; Mr Kevin Lewis; Mr Jim Murphy; Mr Kevin Simpkins; Mr Kevin Stevenson; Ms Jan West AM; and Mr Klaus Zimmermann.

*Invitees:* Mr Mark Sewell (Australian Treasury)

*FRC Secretariat:* Mr Michael Lim (FRC Secretary); and Mr Les Pascoe

*Apologies:* Mr John Gethin-Jones; Ms Merran Kelsall; and Mr John Stanhope

### Agenda Item 1 – Introduction

#### (a) Welcome to new Members

The FRC Chairman, Ms Lynn Wood, welcomed Members and other attendees to the meeting. In particular, Ms Wood welcomed Messrs Grant Hehir, Vas Kolesnikoff and Kevin Lewis as new Members of the Council.

#### (b) Apologies

Apologies were received from three Members (see attendance list above for details).

#### (c) Declarations of interest

No new changes to entries in the Register of Interest were notified by Members. In addition, no declarations of interest were raised by Members.

### Agenda Item 2 – Matters for approval

#### (a) Minutes of previous meetings and matters arising from those meetings

The Minutes of the 58<sup>th</sup> Meeting were approved, subject to the last sentence of Mr Dwyer's report under agenda item 3(c) being amended to read: 'Mr Dwyer also informed the meeting that the Commission has decided not to challenge the Financial Reporting Panel's decision in respect of the two matters in which the Panel agreed with the entities concerned.'

The Record of the Special Meeting held on 4 March 2011, to coincide with a visit to Australia by Sir David Tweedie, was approved.

Particulars of matters arising from the 58<sup>th</sup> and Special Meetings were noted. Specific issues discussed under this item included:

- The FRC Secretary should explore with the Parliamentary Secretary's office possible options for a meeting between the FRC and the Parliamentary Secretary.
- Mr Dwyer informed the meeting that on 11 March 2011 Mr D'Aloisio had responded to Mr Lucy's letter of 8 March 2011 indicating that discussions with the SEC on adoption of IFRS would continue on an informal basis.

Ms Kelsall (through the FRC Secretary) inquired what follow-up action had been taken in respect of the matters mentioned in the Finance Minister's letter of 18 November 2010 about the use within government requirements of the words 'audit' and 'assurance'. Dr Helgeby informed the meeting that draft advice (to Australian Government agencies) had been prepared and that the matter would also be raised at a meeting of the Heads of Treasuries Accounting and Reporting Advisory Committee.

#### (b) Nominations Committee - Membership

The FRC approved the appointment of Ms West as Chairman of the Nominations Committee.

#### (c) Remuneration of AASB and AUASB members

The FRC approved a Secretariat recommendation that sitting fees for AASB and AUASB members (other than the Chairmen) be increased from \$835 per day to \$870 per day for meetings commencing on or after 1 January 2011. In coming to this decision, the FRC noted the decision by the Remuneration Tribunal to increase sitting fees for office holders coming within its jurisdiction by 4.1 per cent with effect from 1 August 2010.

#### (d) Three year draft strategic plan

A Secretariat paper proposing a three year draft strategic plan for the FRC was considered and the plan was approved in principle. It was also agreed that the plan should be posted on the FRC's website when changes discussed at the meeting are agreed.

The FRC decided to establish the following task forces to address the priority issues set out in the strategic plan: integrated reporting; reducing complexity in financial reporting; promoting board education; monitoring of audit independence and other drivers of audit quality; public sector reporting, including evaluation of International Public Sector Accounting Standards; and development of FRC website.

Members were asked to provide their first and second preferences for a task force they would like to join to the FRC Secretary by close of business on 2 May.

### **Agenda Item 3 – Matters for discussion**

#### (a) Report by FRC Secretary

The meeting noted a report by the FRC Secretary about:

- significant events since the last FRC meeting on 2 December 2010; and
- relevant matters and events that are ongoing or are expected to take place before the next FRC meeting due to be held on 22 June 2011.

During discussion of this report, Mr Murphy undertook to report back to the next FRC meeting about developments concerning auditors of self managed superannuation funds.

(b) 2011 Ken Spencer Memorial Lecture

The FRC Secretary informed the meeting that it has not been possible to finalise arrangements for the 2011 Lecture with the person originally identified as the preferred speaker.

The meeting identified two other potential speakers and instructed the FRC Secretary to contact them to ascertain if one of them would be available to present the 2011 Lecture in conjunction with the FRC's meeting in Sydney in September.

(c) Disclosing financial information other than in accordance with accounting standards

Prior to consideration of this item, Mr Dwyer informed the meeting that he would abstain from discussion and adjudication on this matter. He also noted that ASIC encouraged each of the Council Members to ensure their respective organisations made individual submissions and that ASIC would welcome the opportunity to discuss any issues of concern with individual Members of the FRC.

FRC Members noted:

- ASIC's consultation paper *Disclosing financial information other than in accordance with accounting standards* and the associated draft regulatory guide; and
- an outline of the issues that could be raised in a submission by the FRC about the consultation paper.

The meeting decided that a draft submission should be developed by the Secretariat in consultation with FRC Members.

(d) Mutual recognition by Australia and New Zealand of IFRS compliant financial reports

The FRC considered a proposal by Mr Stevenson and Ms Joanna Perry (Chairman of the New Zealand Financial Reporting Standards Board) for mutual recognition of the general purpose financial statements of 'Tier 1 for-profit entities' in Australia and New Zealand.

The meeting was informed that implementation of the proposal would require legislative amendments in New Zealand. It was envisaged that substantial benefits of the proposal would flow to entities that are required to prepare separate financial statements for subsidiaries and branches or sub-consolidations of their financial statements and subsidiaries.

The FRC endorsed the proposal.

(e) Oversight of Australian standards-setting arrangements – Reports of AASB and AUASB

The FRC noted the reports by Mr Stevenson on the work and other activities of the AASB and AUASB (the latter on behalf of Ms Kelsall) since December 2010. He noted that the report of the AASB contained an update on public sector developments, including those in the UK and Canada.

(f) Report of NZ ASRB

Mr Simpkins reported to the FRC about recent developments in New Zealand. Key developments included:

- the Minister of Commerce has announced the appointment of the members of the External Reporting Board, which is a reconstitution of the ASRB effective from 1 July 2011. The proposed appointment of a nominee from the FRC is currently being progressed;
- the ASRB is progressing the appointment of members of the NZ Accounting Standards Board and NZ Auditing and Assurance Standards Board;
- the NZ government is expected to make a decision about the end of April on proposals for changing the financial reporting framework; and
- the ASRB has concluded that NZ's new accounting standards framework should consist of two sets of accounting standards – one to be applied by entities with a for-profit objective, the other to be applied by public benefit entities. The ASRB will formally consult on the implementation of this proposal over the next few months.

(g) Members' items that require action by FRC

Matters raised by Members included:

- **ASX:** Mr Lewis informed the meeting that the paper on the review of the JORC Code<sup>1</sup> has been prepared and is expected to be released in June.
- **ASIC:** Mr Dwyer reported that a financial surveillance paper is to be released in the next couple of months. A report on the audit inspection program is also being prepared.
- **APRA:** Mr Laughlin advised the meeting that Basel III, a set of reform measures to strengthen the regulation, supervision and risk management of the banking sector, had been released. He also advised that work on the review of capital standards for general and life insurers is continuing.
- **ASA:** Mr Kolesnikoff identified related party transactions and the level of disclosure about them as an issue of concern.
- **AICD:** Mr Coleman noted growing interest in the issue of integrated reporting. This has been partly driven by a perception that compliance with Principle 7 of the ASX Corporate Governance Guidelines could be improved. Many believe that the concepts involved in integrated reporting could provide guidance that would assist greater conformance with Principle 7. However, this should be tempered by concerns that calls for increased financial reporting disclosures may lead to additional burdens on business.
- **DoFD:** Dr Helgeby indicated that the report by the UK Financial Reporting Council on 'cutting clutter from annual reports', which was released at the start of April, is being examined by the Department.

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<sup>1</sup> Australasian Code for Reporting of Exploration Results, Mineral Resources and Ore Reserves, prepared by the Joint Ore Reserves Committee of The Australian Institute of Mining and Metallurgy, Australian Institute of Geoscientists and Minerals Council of Australia.

#### **Agenda Item 4 – Matters for noting**

##### (a) Strategic reviews by IFRS Foundation Trustees and Monitoring Board

The FRC Secretary informed the meeting that the FRC's submission on issues raised in the IFRS Foundation Trustees' Strategy Review was provided to the Chairman of the Foundation on 14 December 2010.

In addition, the FRC's submission on issues raised in the Monitoring Board's Consultative Report on the Review of the IFRS Foundation's Governance was provided to the Monitoring Board on 8 April 2011.

##### (b) Issues arising from Corporate Reporting Reform Act

Mr Murphy informed the meeting that, since the FRC's December meeting, the Parliamentary Secretary to the Treasurer has decided that a discussion paper should be prepared canvassing options for addressing stakeholder concerns, especially in the case of the dividends test.

##### (c) Audit Quality in Australia: A strategic review

Mr Murphy reported that Treasury has submitted a report to the Parliamentary Secretary on the outcomes of the consultative process and is seeking policy approval for a number of legislative reforms which reflect the outcomes from the roundtable discussions with stakeholders.

The matters raised for possible legislative reform are: auditor rotation; rationalisation of FRC's auditor independence function to eliminate duplication with ASIC's audit inspection program; giving ASIC the ability to issue public audit inspection reports and to communicate directly with audit committees on issues arising from its regulatory functions on audit; and annual audit firm transparency reports.

##### (d) European Commission (EC) Green Paper: Audit policy – Lessons from the crisis

Following the FRC's December meeting, the then FRC Chairman wrote to Commissioner Barnier on 14 December 2010, drawing the EC's attention to Treasury's audit quality paper which addressed many of the issues discussed in the EC's Green Paper. Subsequently, on 9-10 February 2011, the EC hosted a high level conference on the Green Paper in Brussels. Treasury will continue to monitor the issue for any further developments.

##### (e) G20 issues and FSB strategic review

Mr Murphy reported to the meeting on relevant G20 and FSB activities occurring since the FRC meeting in December. These activities include:

- A meeting of the Financial Stability Board (FSB) in Rome on 5 April 2011, where one agenda item was a proposal from the World Bank (supported by the EU) to add auditing issues to the FSB's work agenda.
- The FSB has warned the G20 the current self-imposed deadline of the IASB and US FASB of June 2011 for the reforms to the financial instruments standard is looking increasingly unlikely to be achieved.
- One of the major current initiatives the G20 is pursuing is an international agenda to reduce corruption and to this end G20 members are developing a G20 Anti-Corruption Action Plan.

While the development of the Action Plan is a complex process, the Extractive Industries Transparency Initiative, already singled out at the G20 Pittsburgh Summit, is being strongly promoted. The G20 was scheduled to consider this issue at the meeting held in Washington on 15-16 April. In addition, initiatives to promote the protection of whistleblowers revealing corruption are also being pursued under the aegis of the Action Plan.

(f) Sovereign Fiscal Responsibility Index 2011

The meeting noted a paper 'Sovereign Fiscal Responsibility Index', prepared by a team of four students as part of their master's thesis project at Stanford University. The goal of the project was to provide a simple but comprehensive analytic tool and framework to use in understanding sovereign fiscal responsibility and sustainability.

The project found that the two top-performing countries are Australia and New Zealand and virtually every developing country finishes in the top half of the 34 nations included in the project. Conversely, many traditional powers are near the bottom of the list.

**Agenda Item 5 – Other business**

Mr Stevenson informed the FRC that a meeting of the Asian-Oceanian Standards Setters Group will be held in Melbourne on 23-24 November 2011, with a formal dinner on 23 November. In addition, an IASB Regional Conference will be held on 25 November. FRC Members were asked to note the dinner in their diaries as it was planned to involve the FRC and AASB in the proceedings at the dinner.

Mr Zimmermann asked the Secretariat to provide the next meeting of the FRC with an update on water accounting issues. Ms Kelsall has also informed the Secretariat that she will provide an update on water assurance to the next FRC meeting.

**Agenda Item 6 – Next meeting**

The next meeting of the FRC will be held in Melbourne on 22 June 2011.