

FINANCIAL REPORTING COUNCIL

Minutes of 61st Meeting¹

7 September 2011

Outcomes of the meeting held on 7 September 2011 at the offices of the Australian Securities Exchange, 20 Bridge Street, Sydney. The meeting commenced at 9.05 am and concluded at 1.45 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; Ms Merran Kelsall; Mr Vas Kolesnikoff; Mr Ian Laughlin; Mr Kevin Lewis; Mr Jim Murphy; Mr Kevin Simpkins; Mr John Stanhope; Ms Jan West AM; and Mr Klaus Zimmermann.

Special Guest: Hon David Walker (Founder, President and Chief Executive Officer, Comeback America Initiative)

Invitees: Mr James Chisholm (Australian Treasury); Mr Mark Sewell (Australian Treasury); Mr Angus Thomson (Australian Accounting Standards Board); Mr Ian Mackintosh (Vice Chairman, International Accounting Standards Board); and Mr Warren McGregor (past member, International Accounting Standards Board).

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

Apologies: Mr Kevin Stevenson

Item 1 – Introduction

(a) Welcome

The FRC Chairman, Ms Lynn Wood, welcomed Members and other attendees to the meeting.

In conjunction with her welcoming comments, the Chairman also took the opportunity to thank FRC Members for their attendance at the Ken Spencer Memorial Lecture held the previous evening and for contributing to the success of the function.

(b) Declarations of interest

Mr Coleman advised that a minor correction is needed to his entry in the Register of Interests.

For the purposes of the discussion on the FRC annual report, Ms West informed the meeting that she is the Chairman of the ICAA's Professional Conduct Tribunal.

¹ The 60th Meeting, scheduled to be held in Melbourne on 22 June, had to be cancelled due to flight disruptions caused by a cloud of volcanic ash over south-eastern Australia. The meeting was replaced by a telephone conference of the FRC Chairman and the Chairmen and Secretaries of the FRC's Task Forces.

Item 2 – Matters for approval

(a) Minutes of previous meeting, matters arising from that meeting and out-of-session votes

The Minutes of the 59th Meeting were approved, subject to agenda item 3(d) being amended to omit any reference to legislative amendments being needed in Australia.

In addition, particulars of matters arising from the 59th Meeting, and the actions taken in respect of them, were noted.

Three votes have been conducted by circular resolution since the FRC meeting on 18 April 2011. Particulars of these votes are:

- On 27 June, the FRC's 18 members were invited to approve the Nomination Committee's recommendations for: the Chairs of the NZ Accounting Standards Board (NZ ASB) and the NZ Auditing and Assurance Standards Board (NZ AuASB) to be appointed to the AASB and AUASB; and the Chairmen of the AASB and AUASB to be nominated for appointment to the NZ ASB and the NZ AuASB. Fifteen votes approving the recommendations were received prior to the voting deadline of cob Thursday, 30 June.
- On 27 June, FRC members were asked to approve the format for the FRC/AASB/AUASB peer review and, if the format is approved, to circulate the document to FRC/AASB/AUASB members for completion. Eleven votes approving the format and agreeing to the circulation of the document were received prior to the voting deadline of cob Friday, 1 July.
- On 30 August, FRC members were asked to approve amendments to the Nominations Committee's Charter and the 2011 Guidelines for the FRC Nominations Committee in considering potential vacancies. Fifteen votes approving the amended Charter and Guidelines were received prior to the voting deadline of cob Thursday, 1 September.

(b) Annual Report

FRC Members considered a draft of the 2010-11 annual report that had been prepared by the Secretariat. During discussion of the report, Members identified a number of editorial and technical changes that should be made to the report.

The meeting agreed that Members should provide any comments they had about the report to the FRC Secretary in accordance with a timetable to be circulated after the meeting. The meeting also decided that, at the end of the comment period, a further version of the report should be circulated to Members with all changes made since the meeting clearly identified.

Item 3 – Matters for discussion

(a) Nominations Committee report

The FRC noted Ms West's report on recent work of the Nominations Committee. Matters mentioned by Ms West in her report included that:

- the Nominations Committee Charter and guidelines have been updated (with the amendments being approved out of session);
- the Committee has completed 2011 Peer Reviews of the FRC, AASB and AUASB. Ms West acknowledged the effort by Marcus McKillop and his team in undertaking this work;

- it is envisaged that the FRC Chairman will discuss the results of the FRC Peer Review with FRC Members during November; and
- the Committee has commenced the AASB and AUASB Board member appointment process, with positions scheduled to be advertised on 10 September.

In addition, Ms West advised the meeting that the following changes have occurred to the membership of the Committee:

- Mr Laughlin has joined the Committee; and
- Mr Zimmermann has resigned from the Committee. Ms West thanked Mr Zimmermann for his contribution to the work of the Committee over an extended period of time.

(b) Report by FRC Secretary

The meeting noted a report by the FRC Secretary about significant events since the last FRC meeting on 18 April 2011 and the outlook for the period until the next meeting. Matters mentioned included:

- the IFRS Regional Policy Forum, which was held in Bali, Indonesia, from 23-24 May 2011;
- a visit to key international stakeholders by the FRC Chairman and Secretary in October. The trip will include attending a meeting of the IFRS Foundation's trustees in Paris and visits to stakeholders in Brussels, London, New York, Washington and Hong Kong. Upon the Chairman's return to Australia, it is envisaged that there will be a round of meetings with domestic stakeholder bodies; and
- the IASB's release of its agenda consultation paper, which requests submissions in relation to the strategic direction and overall balance of the IASB's work plan, as well as the priority of individual projects or agenda areas over the next three years. The meeting noted the FRC Secretary's view that the FRC's submission should address only the question about the IASB's strategic priorities and how it should balance them over the next three years. It was agreed that the FRC would prepare a submission to the IASB, and that Members would provide suggestions for ideas and matters to be included.

The meeting also had an initial discussion about the 2012 Ken Spencer Memorial Lecture, including the format of the event and the preferred speaker or speakers.

(c) ASIC CP 150 (Disclosing financial information other than in accordance with accounting standards) update

Mr Dwyer provided the meeting with a report on its consideration of submissions on consultation paper 150. He indicated that ASIC is still in consultation with stakeholder groups. However, it hopes to issue its guidance by the end of November.

Mr Dwyer informed the meeting that, following consideration of the public submissions, ASIC had concluded that the expression 'alternative profit' was preferable to the term 'underlying profit'. Nevertheless, discussions with stakeholder groups were continuing and the use of terminology such as 'non-conforming financial information' is still under consideration.

Council Members advised that they felt stakeholders had appreciated the engagement by ASIC to date and encouraged further consultation during the ongoing process.

(d) Liaison with Australian/NZ members of international organisations

The FRC noted a report by Mr Simpkins about the Council's interaction with Australian and New Zealand representatives on international bodies related to financial reporting.

The meeting agreed that the Secretariat should review the arrangements with existing international representatives with the Chairmen of the AASB and the AUASB and report back to the next meeting of the FRC.

(e) FRC website

FRC Members were briefed on the steps that have been taken over the last six months to update the appearance of the of the FRC website and to remove old and out-dated material. The principal changes included:

- adoption of blue as the 'corporate colour', replacing the maroon that had been in use since the early 2000s;
- adding a new page for material about the FRC's strategic plan;
- making copies of submissions the FRC makes to national and international bodies available on the 'reports' page of the website; and
- placing a photograph of each current FRC Member on the page listing the Council's members.

FRC Members also agreed that the Minutes of all FRC Task Force meetings held after the date of this meeting should be placed on the website.

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

Australian Accounting Standards Board

Mr Thomson reported to the FRC on recent activities of the AASB.

He also reported that later this year Mr Stevenson is expected to be chairman of the Asian-Oceanian Standards Setters Group (AOSSG) for a period of one to two years. AOSSG, in which the AASB has a significant involvement, is increasingly seen as a regional counter-weight to the United States and Europe in providing comments to the IASB.

The meeting also noted that a Commonwealth Financial Accountability Review is being undertaken by the Department of Finance and Deregulation. Dr Helgeby is to provide a report about this project to the next meeting of the FRC.

Auditing and Assurance Standards Board

Ms Kelsall's report on recent and current activities of the AUASB was noted by the meeting. Ms Kelsall also informed the meeting that a paper on audit quality that is being prepared by the IAASB is scheduled for release in mid 2012.

(g) Report of NZ External Reporting Board (XRB)

Mr Simpkins reported on developments following the restructuring of New Zealand's standards-setting arrangement. Key changes include:

- all meetings of the NZ ASB and the NZ AuASB held on or after 1 September will be open to the public; and
- those parts of meetings of the XRB considering standards strategy also will be open to the public.

(h) Members' items that require action by FRC

Matters raised by Members included:

ASX: Mr Lewis informed the meeting that the public consultation paper on the review of the JORC Code² has been delayed and is now not expected to be released until October 2011, at the earliest.

ASIC: Mr Dwyer reported that two documents had been released recently: the audit inspection program public report for 2009-10; and the results of ASIC's review of financial reports for the year ended 31 December 2010 and its focus areas for 30 June 2011 financial reports. He advised the changed composition of the Commission with Mr Greg Medcraft being the new Chairman and the recent resignation of Mr Shane Tregillis. He also provided an overview of the Commission's priorities and structure.

AICD: Mr Coleman advised that the report of the ASIC Working Group on expectations gaps in the financial reporting cycle is nearing completion and that consideration is being given to what should be done with the paper. During the subsequent discussion, Mr Dwyer indicated that the report would be provided to the ASIC Chairs Committee (which oversees the Working Group), after which it could be provided to the FRC.

Item 4 – Matters for noting

(a) Audit Quality in Australia: A strategic review

Mr Murphy informed the meeting that, during August, Treasury submitted an exposure draft of the Corporations Legislation Amendment (Audit Enhancement) Bill 2011 to the Parliamentary Secretary to the Treasurer (PST) with a recommendation that he agree to release the Bill for a six week consultation period.

The PST's office has advised Treasury that the PST is currently considering the Bill and, subject to any issues that the PST may raise with the Treasury, it is expected that he will agree to release the Bill before the end of September.

(b) Remuneration reporting

Mr Murphy advised the meeting that, in May 2011, the Corporations and Markets Advisory Committee (CAMAC) publicly released its report on executive remuneration. The report contained a number of specific recommendations in relation to simplifying remuneration reporting.

Mr Murphy also indicated that the PST has been briefed about CAMAC's recommendations and that the PST is currently considering this briefing.

² 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.

(c) G20 and Financial Stability Board (FSB) issues

Mr Murphy reported to the meeting on relevant G20 and FSB activities occurring since the FRC meeting in April. Mr Murphy indicated that:

- the G20 is mainly concerned with work by the IASB and US FASB on the convergence of the key accounting standards on financial instruments;
- the FSB is also keeping a close watch on this work; and
- the FSB is also considering whether there is a role for it to undertake work on audit issues of banks and insurance-type bodies.

(d) Water accounting and auditing

Mr Lim informed the meeting that, since the FRC last considered this subject in September 2009, the principal developments have been:

- the publication of an Exposure Draft of Australian Water Accounting Standard 1 *Preparation and Presentation of General Purpose Water Accounting Reports* (ED AWAS 1); and
- an agreement between the Water Accounting Standards Board (WASB) and the AUASB to work jointly on the development of an assurance standard for water accounting.

Ms Kelsall advised the meeting that the joint AUASB/WASB paper referred to in Mr Lim's report was issued at the start of September.

(e) Not-for-profit entities

Mr Lim briefed the meeting on the reforms for the not-for-profit sector announced by the Government as part of the 2011 Budget. Matters mentioned in Mr Lim's report included:

- an independent statutory office – the Australian Charities and Not-for-Profits Commission (ACNC) – is to be established by 1 July 2012;
- an Implementation Taskforce, chaired by Ms Susan Pascoe (a former Commissioner with the Victorian State Services Authority), has been formed within Treasury:
 - to ensure the ACNC is ready for operation by 1 July 2012; and
 - to consult on a single general reporting framework and information portal requirements.

The meeting agreed that Ms Pascoe should be invited to address the December meeting of the FRC.

Item 5 – Matters for discussion – strategic plan

(a) FRC Task Force Charter

The FRC noted that the Task Force Charter has been finalised following receipt of comments from all Task Forces.

(b) Reports by FRC Task Forces

Reports were presented to the FRC meeting by the Chairmen of the FRC's five Task Forces:

- Integrated Reporting Task Force (IRTF) (presented by Mr Stanhope);
- Reducing Complexity Task Force (RCTF) (Mr Brook);
- Board Education Task Force (BETF) (Mr Lewis);
- Audit Quality Task Force (AQTF) (Mr Coleman); and
- Public Sector Financial Reporting Task Force (PSFRTF) (Mr Hehir).

Matters raised in respect of these reports during either their presentation to the FRC or the subsequent discussion of them included that:

- the IRTF should prepare submissions to: the IASB, the IIRC (in respect of its 7 September consultation paper) and the Minister (outlining preliminary views that could be taken to the next G20 meeting);
- integrated reporting material should go in the annual report and not the financial statements;
- the RCTF is aiming to provide a report to the FRC in the first half of 2012 including recommendations for a set of short-term measures on reducing complexity in financial statements, as well as a section on possible longer-term initiatives;
- the BETF questionnaire should be redesigned, with its primary target group being company directors, and accountants and auditors being used to validate the self-assessments provided by directors. It was also noted that there would be advantages if the survey could be completed on-line;
- Mr Lee White of the ICAA has accepted an invitation to join the AQTF as a non-FRC member; and
- the PSFRTF has taken over the work of the Working Group proposed by the FRC on the monitoring of IPSAS developments. It is anticipated that the PSFRTF will report to the FRC at its 14 December 2011 meeting on the outcomes of its monitoring activities in relation to IPSAS.

Item 6 – Matters for discussion - other

(a) America's prospects

Mr Walker, who presented the Ken Spencer Memorial Lecture on 6 September, was invited to attend the FRC meeting. In response to an invitation by the FRC Chairman to address the meeting, Mr Walker made a number of high level observations about the fiscal situation in the United States.

(b) IASB update

Mr Mackintosh, who became Vice Chairman of the IASB on 1 July 2011, acknowledged the significant contribution Mr McGregor had made to Australian and international standards setting over a period of 30 years.

In addition, Mr Mackintosh informed the meeting that:

- after six year's work, convergence with the FASB is nearly there. He expected that the four outstanding projects should be completed by the end of 2012, for application in 2015;
- the US is expected to make a decision this year on the adoption of IFRS; and
- the IASB has published its 2011 agenda consultation paper. Mr Mackintosh said that this is a once in a decade opportunity to influence the agenda and Australia should make its views known.

(c) Reflections on the role of the FRC in increasing Australia's influence internationally

Mr McGregor, who retired as an Australian-based member of the IASB at the end of June 2011, made the following observations about his time as a member of the IASB and the role Australia can play in international standards-setting, including:

- the IASB, under the chairmanship of Sir David Tweedie, had been unable to complete four major projects that he had hoped to see completed before his and Sir David's terms ended in June. This was primarily a result of the level of resources needed for work on IASB/FASB convergence;
- Australia is regarded as a thought leader on reporting by private sector for-profit companies and can provide good feedback on matters such as IFRS implementation;
- AOSSG is viewed as providing a valuable balance on IFRS issues to the views of the US and Europe;
- Australian nominations for positions on the IASB and its related bodies have been of a high quality;
- with no IASB member now resident in Australia, we need to give consideration to how we can maintain or achieve a greater IASB presence in Australia;
- there continues to be a misconception (especially in Europe) that Australia is not fully compliant with IFRS, at least partly as a result of the decision to use the designation Australian Accounting Standards for what are essentially IFRS. As a consequence, we are not getting full value out of our decision to adopt IFRS;
- in the area of public sector reporting, Australia and New Zealand are world leaders. It would be a logical extension to the standards-setting arrangements for the IPSASB to come under the umbrella of the IFRS Foundation. The FRC and XRB need to press this issue with the Trustees of the IFRS Foundation.

Item 7 – Other business

No matters of other business were raised at the meeting.

Item 8 – Next meeting

The next meeting of the FRC will be held in Melbourne on Wednesday, 14 December 2011.

The FRC has approved the following meeting dates for 2012: Friday, 9 March; Tuesday, 29 May; Tuesday, 28 August; and Wednesday, 5 December. It is envisaged that the March and August meetings will be held in Sydney while the others will be held in Melbourne.