

## FINANCIAL REPORTING COUNCIL

Minutes of 63<sup>rd</sup> Meeting

9 March 2012

Outcomes of the meeting held on 9 March 2012 at the offices of the Australian Securities and Investments Commission, Level 5, 100 Market Street, Sydney. The meeting commenced at 9.10am and concluded at 2.10pm.

### Attendance

*FRC Members* Ms Lynn Wood (Chairman); Mr Michael Coleman; Mr Bruce Brook; Mr Mark Coughlin; Mr Andrew Fleming; 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; Mr Kevin Stevenson; Ms Jan West AM.

*Invitees* Ms Belinda Gibson (Deputy Chairman, ASIC); Mr Ian Mackintosh (Vice Chairman, IASB); Mr Steve Mitsas (Victorian Department of Treasury and Finance, representing Mr Grant Hehir) (by telephone); Mr Ian Purchas (Institute of Public Accountants); Ms Ronita Ram (Australian Treasury); Mr Jeffrey Lucy AM (Trustee, IFRS Foundation) (by telephone for item 5(a)); Ms Judith Downes (Member, IFRS Advisory Council) (by telephone for item 5(b)).

*FRC Secretariat* Mr Les Pascoe (Acting Secretary).

*Apologies* Mr Grant Hehir.

### Item 1 – Introduction

#### (a) Michael Dwyer

FRC Members noted the passing of Mr Dwyer on 2 March. The FRC Chairman, Ms Wood, expressed the FRC's deep regret at his passing and Members' strong appreciation of Mr Dwyer's contribution to the work of the FRC prior to his retirement from the Council in December 2011 and his subsequent contribution, as a non-FRC Member, to the work of the Managing Complexity Task Force.

#### (b) Welcome

The FRC Chairman welcomed Members and other attendees to the meeting. In particular, the Chairman also welcomed Ms Gibson and Mr Purchas, who were attending the meeting as observers for ASIC and IPA respectively, and invited them to introduce themselves to FRC Members.

#### (c) Declarations of Interest

No new interests were declared by FRC Members.

#### (d) FRC Secretariat changes

Ms Ram, of the Australian Treasury, informed the meeting of a number of changes to the staffing arrangements for the FRC Secretariat. Mr Michael Lim, the Council's Secretary, has moved to another position in Treasury's Markets Group. Mr Pascoe will occupy the position pending its permanent filling. In addition, the two members of staff who provided secretariat support for the Audit Quality and Integrated Reporting Task Forces have also moved to other positions within Markets Group. Other staff members have been made available to provide secretariat support for these Task Forces<sup>1</sup>.

Ms Ram also informed the meeting about a change to the Minister responsible for the FRC. On 5 March, the Hon David Bradbury was appointed Assistant Treasurer while the Hon Bernie Ripoll became Parliamentary Secretary to the Treasurer (PST) (which includes responsibility for the FRC). The meeting agreed that a standing invitation should be extended to Mr Ripoll to attend meetings of the FRC.

#### **Item 2 – Matters for approval**

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

The Minutes of the 62<sup>nd</sup> Meeting, held in Melbourne on 14 December 2011, were approved.

Particulars of matters arising from the 62<sup>nd</sup> Meeting, and the actions taken in respect of them, were noted.

- The Secretary informed the meeting that the decision to invite the Corporations and Markets Advisory Committee (CAMAC) to the meeting had not been acted upon. Ms Gibson, who is a Member of CAMAC, informed the meeting that while the PST's referral to CAMAC was about annual general meetings, there would be a focus on annual reports. In these circumstances, Members agreed that it would be appropriate for the FRC Chairman to contact the CAMAC Chairman to avoid duplication of effort.

One vote has been conducted by circular resolution since the last FRC meeting. Particulars of the vote are:

- On 27 February, the FRC's 17 Members were invited: to note the decision by the Remuneration Tribunal to increase sitting fees by 3 per cent with effect from 1 July 2011; and to approve an increase in sitting fees for AASB and AUASB members (other than the Chairs) from \$870 to \$896 per day for meetings held on or after 1 January 2012. Fifteen votes approving the increase in sitting fees were received prior to the voting deadline of 5 March.

##### (b) FRC Performance of Functions

The meeting considered proposed amendments to the FRC performance of functions document detailing how the FRC will perform its statutory functions under Part 12 of the ASIC Act.

The proposed amendments to the functions document were concerned with the FRC's oversight of the accounting and auditing standards setting processes. The meeting noted that consideration of how the new audit quality-related functions (which will replace the function of monitoring the

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<sup>1</sup> Secretariat support for the Task Forces is provided by Sarah Alland (Audit Quality), Jane Cheung (Integrated Reporting) and Les Pascoe (Board Education, Managing Complexity and Public Sector Financial Reporting).

effectiveness of the auditor independence regime) should be performed will be addressed by the Audit Quality Task Force based on the draft legislation amending the FRC's functions.

Issues raised by FRC Members during the Council's consideration of this item included the need for some editorial changes and the way in which the FRC ensures that it has performed its functions.

In addition, the FRC Chairman expressed the hope that the legislation containing the amendments to the FRC's functions with regard to audit quality would be enacted prior to 30 June 2012 to avoid continuing unnecessary work under the existing legislation.

The FRC:

- approved the revised performance of functions document with suggested changes;
- agreed that an annual check of the performance of functions be conducted by the Secretariat;
- agreed to the publication of the document on the FRC's website; and
- noted that the paragraphs of the document dealing with the performance of the FRC's auditor independence functions will be revised following the enactment of the legislation amending the FRC's functions.

### **Item 3 – Report by FRC Secretary**

The meeting noted a report by the FRC Secretary which covered key events since the last FRC meeting and an outline of significant events scheduled (or expected) to occur prior to the next Council meeting.

#### (a) Ken Spencer Memorial Lecture 2012 (update)

The FRC noted a Secretariat paper providing an update on preparations for the 2012 Lecture.

Principal developments since the last FRC meeting include:

- Mr Warren McGregor has proposed the following title for the Lecture: 'Setting International Accounting Standards: Politics, Processes, Philosophies and Personalities';
- KPMG has confirmed that its lecture theatre at 147 Collins Street, Melbourne, is available for the Lecture; and
- the preparation of a list of invitees for the 2012 Lecture has commenced, with the first draft being based on the acceptances for the 2011 Lecture. All FRC Members were invited to provide the Secretariat with the names of up to five colleagues or other people who they believe would be interested in attending the Lecture.

FRC Members are welcome to promote the event in their publications, subject to noting that it is by invitation only.

## **Item 4 – Oversight of Australian standards-setting arrangements**

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

The FRC noted Mr Stevenson's report, which provided a brief summary of significant recent developments and incorporated information on the AASB's key projects. In his introductory comments, Mr Stevenson informed other FRC Members that he would like their feedback on the report, as the structure of the report has changed over time: initially a compliance focus, then strategic and now both.

Matters raised during the presentation of the report and the associated discussion included:

- the conduct of post-implementation reviews of new standards by standards-setters. Mr Stevenson indicated that a program of post implementation reviews is a normal part of a standards-setter's operations;
- accounting for superannuation funds. Mr Stevenson noted that, to date, Australia has continued with its proposals for reforming superannuation reporting requirements. Round tables are planned; and
- financial reporting by private companies and other non-publicly accountable entities. Mr Stevenson reported that the three academics engaged to undertake research into Special Purpose Financial Reporting are expected to deliver their report to the AASB in April or May. He said that their research was likely to raise issues concerning policy, enforcement and regulation in respect of financial reporting. The meeting noted that these could potentially be significant issues for the FRC and it was agreed that financial reporting by SMEs should be included on the agenda for the next FRC meeting.

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

The FRC noted Ms Kelsall's report, which focussed on major international developments (including European Commission proposals for auditor regulation and IAASB developments) and the AUASB's progress in fulfilling its key 2011-12 Business Plan strategies for the three months to 29 February 2012. It was noted that the IAASB is allocating resources to complete projects which are close to finalisation (GHG, Reviews and three-year Strategic Plan), but deferring others including Audit Quality for six months, in order to work on Auditor Reporting as the key project until mid-year. Ms Kelsall is a member of the Auditor Reporting task force and chairs one of its sub-committees.

FRC Members were requested to note that the IAASB Chairman, Professor Arnold Schilder, will visit Australia during the first week in October. Council Members will be invited to an AUASB lecture by Prof. Schilder and function in Melbourne on Tuesday, 2 October. Other outreach activities will be arranged with individual organisations and round-tables hosted by AUASB, CPA Australia and ICAA on the topic of Auditor Reporting.

## **Item 5 – Reports by stakeholders**

### (a) IFRS Foundation report

Mr Lucy, a Trustee of the IFRS Foundation, briefed FRC Members on a range of issues including progress with: an appointment to the IASB to fill the vacancy left by the recent resignation of a European Member; and the appointment of new Trustees to the Foundation. Mr Lucy also informed the meeting that he had recently moved from the Foundation's audit committee to its nominations committee.

In other observations, Mr Lucy drew attention to:

- issues raised by the IASB Chairman in a recent speech in Mexico (including the need for calm in the pace of standard setting and close dialogue with national and regional standards setters);
- the strategic review of the Foundation conducted by the Trustees has now been completed and the results have been published; and
- a loss of confidence by the investing community overseas in financial reporting, especially in the areas of material financial fraud and valuation issues associated with determining whether an entity is a going concern.

(b) IFRS Advisory Council report

Ms Downes, a member of the IFRS Advisory Council, briefed FRC Members on the Advisory Council meeting held in London on 20-21 February 2012. In presenting her report, Ms Downes informed the meeting that she had had an opportunity to put context around the *Australian Financial Review* article of 6 February, in which several prominent CFOs from Australia were quoted with criticisms of IFRS. She also reported that the Council had received presentations on a number of projects that addressed, in different ways, the current disclosure over-burden and considered a summary of the responses received to the IASB's agenda consultation process.

(c) International Accounting Standards Board report

Mr Mackintosh, Vice-Chairman of the IASB, was welcomed to the meeting by the FRC Chairman. Mr Mackintosh provided FRC Members with a candid assessment of issues currently being dealt with by the IASB, including: work associated with the convergence of IASB/FASB accounting standards; work arising out of decisions taken at G-20 Leaders' Meetings; and the outcomes of the IASB's agenda consultation process.

(d) Report on NZ External Reporting Board (XRB) activities

Mr Simpkins, Chairman of the NZ XRB, informed FRC Members of recent developments in New Zealand. Matters mentioned by Mr Simpkins included:

- the XRB is nearing the end of its consultation period for proposed changes to the NZ financial reporting framework. The XRB is likely to put forward recommendations for a tier-based strategy, with two-tiers for for-profit entities using a reduced disclosure regime-type approach;
- in the case of auditing standards, the XRB will be seeking to achieve international/trans-Tasman alignment of standards; and
- the XRB has established an Occasional Lecture Series. Mr Simpkins suggested that in the future there may be scope for co-ordination of these Lectures with the FRC's Ken Spencer Memorial Lectures.

(e) Not-for-profit reform agenda

A Department of Finance and Deregulation (DoFD) paper, providing an update on the not-for-profit reform agenda, was noted by FRC Members. It was suggested that these reporting tiers should be consistent with those used for financial reporting (that is, largest organisations in top tier).

(f) Commonwealth Financial Accountability Review

FRC Members also noted a DoFD paper containing an overview of the current Commonwealth Financial Accountability Review. The review, which is being conducted over several years, explores options for modernising the Commonwealth's financial framework and improving performance. A discussion paper has been prepared to facilitate consultation and public discussion and is scheduled for public release in March 2012.

(g) Members' items that require action by FRC

Matters raised by Members included:

- AICD:** Mr Coleman said issues of interest to the AICD included the need for a principles-based integrated reporting regime, and directors' liability in respect of financial reporting as well as the need for an associated business judgement rule.
- APRA:** Mr Laughlin reported that work on the review of capital standards for general and life insurers is nearing completion. He also informed the meeting that Australia is currently undergoing a Financial Sector Assessment Program review conducted by the International Monetary Fund.
- ASA:** Mr Kolesnikoff indicated that issues of interest to the ASA included the tendency of non-IFRS reporting to report more positive numbers; the need to ensure the overall transparency of reporting; aspects of remuneration reporting; and disclosure issues associated with the retail bond market.
- ASIC:** Ms Gibson informed the meeting that Mr Niven was working with the ICAA and CPA Australia to coordinate their respective audit surveillance/inspection programs.
- ASX:** Mr Lewis reported that the review of the JORC Code<sup>2</sup> is continuing, with the first round of consultations complete. Further meetings are to be held with ASIC and the JORC Committee.
- FSC:** Mr Fleming informed the meeting that the FSC has announced a Corporate Governance Policy which will require its Member companies from the retail and corporate superannuation sectors to meet new standards of transparency and governance in the way they operate their superannuation funds. The policy focusses on the independence of superannuation chairmen and directors, the disclosure of remuneration, conflicts of interest, environmental, social and corporate governance considerations and proxy voting.
- G100:** Mr Stanhope said that issues of current interest to the G100 included reporting tax uncertainties, preparation of a guide for chief finance officers to deal with Centro findings and the development of a retail bond market.
- ICAA:** Ms West identified the role of audit committees, a project to support the adoption/use of IFRS and the closure of the Financial Reporting Panel as issues of interest to the ICAA.

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<sup>2</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.

## Item 6 – Matters for discussion (strategic plan)

### (a) Task Force Reports

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

- Integrated Reporting Task Force (IRTF) (Mr Stanhope);
- Managing Complexity Task Force (MCTF) (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 Mitsas).

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

- Mr Stanhope reported on the meeting of the IRTF held on 2 March. He informed the meeting the Task Force believes it has a legitimate role in monitoring international developments in integrated reporting. Other observations made by Mr Stanhope included that: integrated reporting should not be inside the financial report; it may be appropriate to expand the membership of the Task Force to include representatives of one or two of the firms participating in the trials of integrated reporting; and the completion of these trials may be an appropriate time to wind-up the Task Force.
- Mr Brook said the MCTF aims to complete its report as soon as possible, with Mr Coleman agreeing to assist with the work the late Michael Dwyer was to have done.
- Mr Lewis outlined revised versions of the company director financial literacy survey (one for directors, the other for financial professionals) and invited FRC Members to provide feedback on the drafts and the possible recipients. Mr Lewis also said that FRC Members would have one week to test the survey before it is distributed to its target groups.
- Mr Coleman reported on the work of the AQTF. In particular, he informed the meeting that in order to assist the debate about auditor reporting, the Task Force would work with Ms Kelsall to prepare questions for a survey to be undertaken with ASA and ASFA members to obtain their views on expectations of the audit report.
- Mr Mitsas reported that the PSFRTF is broadly comfortable with the public sector work being undertaken by the AASB. He said the Task Force had agreed to pursue four matters:
  - International Public Sector Accounting Standards Board developments;
  - the public sector overlay and how it has worked out in practice;
  - the role of non-financial reporting in the public sector (the Task Force has invited the FRC Chairman to attend the next Task Force meeting to discuss this issue); and
  - requirements for small public sector entities. The majority of jurisdictions consider the AASB's work on the reduced disclosure regime may not assist these entities.

(b) Promoting use of high quality public sector financial reporting standards internationally

The FRC Chairman asked the PSFRTF to develop ideas about promoting the use of high quality public sector financial reporting standards internationally and to report back to the next meeting of the FRC. She also suggested that the idea of a financial report of the Australian Government be considered, similar to the US report, in addition to the budget report.

**Item 7 – Matters for noting**

Mr Murphy briefed FRC Members on a number of matters being either monitored or progressed by the Australian Treasury. Comments made by Mr Murphy included:

- *Audit Enhancement Bill*: The Bill was introduced into Parliament on 29 February 2012, with the Parliamentary debate on the Bill expected to commence in mid-March.
- *Corporate Reporting Reform Act follow-up amendments*: A discussion paper relating to the test for the payment of dividends under section 254T of the Corporations Act, parent entity reporting requirements and the conditions for changing the financial year of a company was released on 28 November. Twenty-eight submissions had been received by the end of January and these are currently being analysed for the purpose of preparing a briefing for the PST.
- *Executive Remuneration*: On 21 February, the Government announced a number of reforms to the executive remuneration framework, with the measures including:
  - providing greater accountability on a company’s policy to clawback remuneration where there has been a material misstatement in a company’s financial statements. Companies will be required to explain their clawback policy to shareholders and if shareholders are not satisfied, they can use their powers under the ‘two-strikes’ rule to vote down the remuneration report and potentially spill the board;
  - removing unnecessary disclosure requirements in the remuneration report to make it easier for shareholders to understand; and
  - exempting many unlisted companies from the requirement to prepare a remuneration report.
- *Financial Reporting Panel*: On 7 February, the then PST announced that the Panel will be wound up. In coming to this decision, the PST noted that while the concept of the Panel as an alternative dispute resolution mechanism was a worthy one, the demand for the mechanism has proven to be too low to justify its continued operation.

**Item 8 – Other business**

No matters of other business were raised at the meeting.

**Item 9 – Next meeting**

The next meeting of the FRC will be in Melbourne on 29 May 2012, commencing at the later time of 12.00pm (the 2012 Ken Spencer Memorial Lecture will be held in the early evening following the Council meeting).