

FINANCIAL REPORTING COUNCIL

Minutes of 64th Meeting

29 May 2012

Outcomes of the meeting held on 29 May 2012 at the offices of the Australian Accounting Standards Board, Level 7, 600 Bourke Street, Melbourne. The meeting commenced at 12:05 pm and concluded at 5:00 pm.

Attendance

<i>FRC Members</i>	Ms Lynn Wood (Chairman) Mr Michael Coleman Mr Bruce Brook Mr Mark Coughlin Mr Andrew Fleming Ms Belinda Gibson (by telephone until 4:00 pm) Dr Stein Helgeby Ms Noelle Kelleher Ms Merran Kelsall Mr Vas Kolesnikoff Mr Ian Laughlin Mr Kevin Lewis Mr Jim Murphy (by telephone until 3:25 pm) Mr Ian Purchas Mr Kevin Simpkins Mr John Stanhope (until 3pm) Mr Kevin Stevenson Ms Jan West AM
<i>Invitees</i>	Mr Ross Barker (Business Council of Australia) Mr Roger Burrows (Group of 100) Mr Scott Rogers (Australian Treasury)
<i>FRC Secretariat</i>	Mr Bruce Donald (Acting Secretary) Ms Darinka Zubovic
<i>Apologies</i>	Mr Grant Hehir Mr Les Pascoe (FRC Secretariat) Mr David Woods (Australian Treasury)

Item 1 – Introduction

(a) Welcome

The FRC Chairman welcomed Members and other attendees to the meeting. In particular, the Chairman welcomed Ms Gibson and Mr Purchas as new FRC Members following recent

announcement of their appointments. She also welcomed Mr Barker and Mr Burrows, who were attending the meeting as observers for BCA and G100 respectively, and invited them to introduce themselves to FRC Members.

The Chairman noted that this was the last meeting for Mr Brook and Mr Stanhope as they were both retiring from the FRC. She thanked them on behalf of all Members for their valuable work on the FRC, in particular as chairmen of the Managing Complexity and Integrated Reporting Task Forces respectively. Members wished them well in their future endeavours.

(b) Apologies

Apologies were received from one Member; see attendance list for details.

(c) Declarations of Interest

No new interests were declared by FRC Members.

(d) FRC Secretariat changes

Mr Rogers, Australian Treasury, informed the meeting of a number of changes to the staffing arrangements for the FRC Secretariat. He has now taken on the position of Manager of the Corporate Reporting and Accountability Unit. Mr Les Pascoe, the Council's Acting Secretary, will be finishing work with the Treasury in mid-June. Ms Zubovic will also be finishing work with the Treasury in June. Mr Donald will become FRC Secretary when Mr Pascoe finishes.

The meeting recorded a vote of thanks to Mr Pascoe and Ms Zubovic for their long and valued work for the FRC. It was noted that Mr Pascoe had attended the first meeting of the FRC, and his extraordinary length and quality of service to the FRC was acknowledged.

Item 2 – Matters for approval

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

The Minutes of the 63rd Meeting, held in Sydney on 9 March 2012, were approved.

Matters arising from the 63rd Meeting, and the actions taken in respect of them, were noted as follows:

- The Acting Secretary informed the meeting that the Chairman had extended an invitation to the Parliamentary Secretary to the Treasurer, the Hon. Bernie Ripoll MP, to attend FRC meetings, during her meeting with him in April 2012.
- The Acting Secretary informed the meeting that contact had been made with the Corporations and Markets Advisory Committee (CAMAC) establishing liaison between the FRC and CAMAC regarding their work on annual general meetings.
- The issue of Special Purpose Financial Reporting was to be discussed under agenda item 5(a)(iii).

- The Public Sector Financial Reporting Taskforce informed the meeting that they would report ideas on promoting the use of high quality public sector financial reporting standards internationally at the August FRC meeting.

One out-of-session vote was commenced prior to the meeting and was finalised at the meeting (see agenda item 7(a)).

Item 3 – Matters for discussion

(a) Review of FRC Strategic Plan

The FRC Strategic Plan provides that it is to be reviewed annually. The Chairman proposed that the Plan should be distributed to Members for review, based on input from the FRC Peer Review, to enable any possible changes to be considered at the FRC's next meeting. Members were agreeable to this proposal

(b) Integrated Reporting Task Force report

Mr Stanhope reported for the Integrated Reporting Task Force (IRTF), informing the meeting that the Task Force had met on 10 April and 22 May. He mentioned that Ms Kelsall and the AUASB are actively monitoring integrated reporting developments with a view to considering the assurance implications. He also reported to the FRC that discussions had been held with the International Integrated Reporting Council (IIRC) on whether ASIC's regulatory guidance [RG 230](#) might present an impediment to integrated reporting in Australia. Discussions with Professor Mervyn King and ASIC had concluded that RG 230 should not constitute an impediment in this regard. It was noted that Mr Stevenson is continuing work on the meaning of the term *financial reporting* and how that term should be interpreted in the context of integrated reporting (that is that an integrated report is something that is intended to incorporate, but not change the content of, financial statements or the applicability of accounting standards thereto.

The Business Reporting Leaders' Forum's (BRLF) Mr Michael Bray attended a Task Force meeting for the first time, and spoke about the use of integrated reports in South Africa and audit reports. NAB and bankmecu, two of the Australian entities participating in the IIRC's pilot program, made presentations at Task Force meetings. It was noted that directors of those companies signed off on their integrated report, which had been subject to limited assurance provided by their auditors.

In addition, the BRLF has held two meetings which have been attended by FRC members. At these meetings it has been agreed that a conceptual framework is needed for integrated reports, and that issues remain to be resolved regarding directors' liability and assurance. Additionally there is no apparent consensus as to the audience for integrated reports – whether it is investors or a broader group of stakeholders.

It was agreed by the meeting that the IRTF ought to encourage participation by other Australian firms in the pilot, particularly those from other sectors. It was also noted that Ms West has been appointed as interim chairman of the IRTF following Mr Stanhope's retirement from the FRC.

(c) Managing Complexity Task Force report

Mr Brook announced that the Managing Complexity Task Force (MCTF) had produced a report that would spur discussion of the issues, recognising that business can be complex, and financial reporting reflected that complexity. He thanked members of the MCTF for being an active and effective group and their contribution, particularly noting that the late Michael Dwyer had added a valuable perspective, and that Ms Jane Cheung of Australian Treasury had done a great job pulling together the report.

Mr Brook noted that he was not sure if the MCTF would continue in the same way in future, and that it may have reached a natural end with new streams of activity going forward. Some streams of work would more naturally fall to the AASB, or Treasury and ASIC. This will depend on responses to the report which have been requested by 31 July and which will be discussed at the next FRC meeting.

The meeting discussed ways to promote the report, in order for it to foster discussion amongst stakeholders. It was agreed that the report should be posted on the FRC website and that the Chairman and the Secretariat should co-ordinate with ASIC on publicising the report in the media.

(d) Board Education Task Force report

Mr Lewis reported that responses to the Task Force's surveys on the financial literacy of directors are still being received. It was intended to close the surveys shortly and to analyse and share the responses with the Task Force with a view to preparing a report for consideration at the next FRC meeting and for posting on the FRC website.

(e) Audit Quality Task Force report

Mr Coleman reported that the Audit Quality Task Force (AQTF) had met and decided that a survey of retail investors on their expectations of auditor communication would be a valuable contribution. This will complement the recent survey in New Zealand that focused primarily on more sophisticated users of audit reports. It was noted that International Auditing and Assurance Standards Board (IAASB) has postponed work on audit quality until July, and the results of this survey would also allow Australia to provide input to the IAASB on the audit quality project.

There was some discussion of the implications of recent corporate failures, and whether these had implications for Australia's audit quality framework. Mr Murphy informed FRC members that Treasury is undertaking a review of the issues, including whether there are any gaps in Australia's existing policy framework, and will keep the FRC informed as to the progress of this review. The review would coordinate with ASIC, APRA and the AUASB.

It was noted that the EU and US have similar issues on their agendas, and that the frameworks they adopt will inevitably influence developments in Australia. Mr Simpkins noted that any changes in Australia may require Trans-Tasman coordination. He suggested it is important that the two countries coordinate their contributions in this debate to maximise their impact.

(f) Public Sector Financial Reporting Task Force report

Dr Helgeby reported for the Public Sector Reporting Task Force (PSTF) that they were focusing on three outputs:

- circulating a paper in response to an FRC request about developing ideas for promoting the use of high quality public sector financial reporting standards internationally;
- providing commentary on an AASB agenda; and
- examining the future governance of the International Public Sector Accounting Standards Board (IPSASB) as a strategic issue. It was proposed that the Task Force would respond to the Monitoring Group and Public Interest Oversight Board (PIOB) reviews. Mr Simpkins noted that New Zealand would also make a submission.

Item 4 – Report by FRC Secretary

The meeting noted a report by the FRC Secretary which covered key events since the last FRC meeting and work scheduled to occur prior to the next Council meeting.

Item 5 – Oversight of Australian standards-setting arrangements

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

The FRC noted Mr Stevenson’s report, which provided an overview of significant recent developments and incorporated information on the AASB’s key projects. Mr Stevenson highlighted a number of key matters:

- that the AASB had been building its Not-For-Profit program since 2009 which was now producing results including:
 - a draft ED on not-for-profit income;
 - redeliberation of Phase 2 of GAAP-GFS harmonisation, a focus of the forthcoming AASB meeting;
 - draft guidance on control in the public sector;
 - progress towards finalising a standard on superannuation including consideration of the issues raised in submissions and roundtables; and
 - a project on concessions from the public sector which had generated interest from the states.
- that the second core area for the AASB covers four key IASB projects on which the AASB has been actively providing input, including informally:
 - the *revenue from contracts from customers* (likely to be finished in the first half of 2013);

- *financial instruments*, covering hedging, impairments and some reconsideration of classification and measurement. A revised ED is expected this year;
- *accounting for leases*, which is expected to lead to a revised ED this year; and
- *accounting for insurance activities* which is scheduled for a revised ED this year.
- regarding international engagement issues Mr Stevenson noted:
 - there had been considerable discussion of the arrangements for regional standards setters and their relationship with the IASB, including during a recent meeting in Kuala Lumpur;
 - he had attended a meeting recently designed to encourage adoption of IFRS by Saudi Arabia, which had been successful, and would have implications for the Middle East region as a whole; and
 - ongoing day-to-day harmonisation work with New Zealand.

(a)(ii) Australian Accounting Standards Board Strategic Plan

- The AASB Strategic Plan would be a key item of the AASB June meeting. The plan had been examined so far by sub-committees of the FRC and AASB. Members on the FRC sub-committee are Ms Wood, Ms West, Mr Coughlin and Mr Purchas. The timeframe of the plan (to 2016) is designed to fit with key parts of the IASB work plan.
- Issues raised by FRC members in the discussion of the plan included: the importance of succession planning; linkage to managing complexity; and liaison issues with the ACNC (and the financial reporting of charitable entities).
- It is expected that the near-finalised version of the plan will go to the sub-committees at the end of June.

(a)(iii) Special Purpose Financial Reporting

- Mr Stevenson reported preliminary results of research being undertaken for the AASB regarding special purpose financial reporting (SPFR). The research is designed to investigate the level of consistency in the application of SPFR.
 - The results indicate that a large proportion of Large Proprietary Companies (a population of over 5000 companies) in Australia use SPFR, with a concerning number not complying with ASIC guidance regarding recognition and measurement.
 - Further work is being done on the nature of the instances of non-compliance to assist assessment.

- The AASB will report on the outcome of the research which is expected to take some time to complete.

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

In her overview Ms Kelsall stated that as Australia is a relatively small capital market it can attempt to influence debates and regulatory policies, however, it would need to remain in line with policy in major overseas markets.

Ms Kelsall drew attention to four streams of work relevant to the AUASB:

- at its March meeting, the IAASB approved for issue, subject to confirmation by the PIOB, a new International Standard on Assurance Engagements ISAE 3410 Assurance Engagements on Greenhouse Gas Statements. ISAE 3410 is effective for assurance reports covering periods ending on or after 30 September 2013. The AUASB will be adopting this standard soon for use in Australia as ASAE 3410 and prepare guidance to link the standard with NGER legislation and CER requirements;
- the AUASB is working on a project to revise the publication *Audit Committees – A Guide to Good Practice* – to be issued jointly with the AICD and Institute of Internal Auditors-Australia (IIA-A). A final version will be considered at the 4 June AUASB meeting;
- the IAASB has released a Q&A publication that re-emphasises to auditors the importance of an attitude of professional scepticism when performing their role. The AUASB will be issuing similar guidance in the near future, tailored for the Australian market and incorporating and adapting the guidance from IAASB, Canada and the UK; and
- the AUASB continues to work closely with the NZAuASB to facilitate greater convergence and harmonisation of auditing and assurance matters in Australia and New Zealand. Both Boards are finalising a joint trans-Tasman policy statement outlining the principles of convergence with international auditing standards and harmonisation of Trans-Tasman standards.

(b)(ii) AUASB Strategic Plan

Ms Kelsall drew the Council's attention to the draft AUASB strategic plan. She noted that the document was deliberately succinct and focused for the FRC's consideration. She suggested the final plan may have a larger focus on local issues regarding policy settings and the audit regulation process. It has been discussed by a committee of the FRC including Ms Wood, Ms Gibson, Mr Brook and Mr Fleming and the Committee will see the final plan before it is published.

Item 6 – Reports by stakeholders

(a) 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 put forward recommendations for a tier-based accounting standards strategy to their Minister, approved in April, with two ongoing tiers for for-profit entities and using a reduced disclosure requirements approach for entities without public accountability (as defined);
- the XRB has established an Occasional Lecture Series with the first lecture given in March by Professor Stephen Zeff of Rice University, Houston, Texas; and
- the essential parts of the new New Zealand model are now set and the rapid pace of XRB work in the recent past should be behind them.

(b) Members' items that require action by FRC

Matters raised by Members included:

AICD: Mr Coleman said that the AICD was close to finalising an update to its Audit Committee Guide as per the AUASB report.

APRA: Mr Laughlin reported that APRA had a number of intensive work streams at the moment including new capital requirements for banks through the Basel process; new insurance requirements; a superannuation review; and the IMF's Financial Sector Assessment Program (FSAP) review of Australia.

ASA: Mr Kolesnikoff indicated the ASA was conducting an internal policy review to ensure they focus on more than executive remuneration issues; and that they had made a submission to the ASX and ASIC calling for a wider review of the Corporations Act to facilitate rights issues.

ASFA: Ms Kelleher discussed two key issues facing ASFA: commenting on ED 223, an AAS 25 rewrite, regarding which ASFA has had good roundtable meetings with the AASB; and APRA's outcomes reporting standards. The second issue generated some interest with a discussion of APRA's outcomes reporting standards and their interaction with the accounting standards. It was agreed that APRA would arrange a meeting to discuss the issues with FRC stakeholders. FRC Members should let Mr Laughlin know through the FRC Secretariat if they wish to attend this meeting and indicate issues they believe should be considered.

ASIC: Ms Gibson informed the meeting of ASIC's work regarding three issues:

- in its ongoing review of financial reporting ASIC has examined 120 financial reports and a number of non-IFRS reports, which have elicited the normal concerns regarding issues such as going concern, and inconsistent non-IFRS reporting. ASIC is in dialogue with about 12 entities regarding these issues. Regarding auditing issues ASIC had undertaken 14 auditor surveillance inquires, with one audit independence issue before a magistrate, and three matters resolved by enforceable undertaking.
- ASIC is working closely with the ICAA and CPA regarding ongoing surveillance, and in a few months hopes to be able to include IPA.

- ASIC is planning to issue draft regulatory guidance concerning Management Discussion and Analysis (MD&A). The draft will explore views on including more material currently included in analysts' briefings, as well as risks relating to the entity's business model. It is believed that this information may be useful if a corporate bond market is advanced under a term sheet/prospectus disclosure model in Australia. The paper will likely be open for a long consultation period. A draft of the paper will be circulated to FRC members by the Secretariat.

ASX: Mr Lewis reported that he will be suggesting to the Corporate Governance Council that it considers the Managing Complexity Report when it is released and look to allow greater disclosure of corporate governance practices on a listed entity's website rather than require this in its annual report.

BCA: Mr Brook thanked FRC Members for their support, and Task Force members for their excellent work. Ross Barker reported for the BCA that they had recently revised their various Task Forces. The Efficient Regulation Committee (which, inter alia, would deal with financial reporting) had not met since the revision. On other matters, he noted that there existed some concern with the different standards of corporate governance for managed investment schemes compared with companies.

CPAA: Mr Coughlin nominated a CPAA Superannuation Reporting paper (due for June or July); the Future of Financial Advice package; and the regulation of self-managed superannuation fund auditors as the CPAA's key issues of interest to the FRC.

FSC: Mr Fleming informed the meeting that the FSC was examining changes to superannuation announced in the Budget, superannuation mergers, the evolution of a corporate bond market and unfair allocations.

G100: Mr Stanhope also thanked FRC Members for their support and Task Force members for their excellent work. Roger Burrows reported for the G100 a number of issues of ongoing interest: managing complexity and integrated reporting; participation in developing a corporate bond market; standardising bank covenant terminology (APLMA); consultation with ASIC; and discussions with the Accounting Professional and Ethical Standards Board (APESB) on a collaborative project for a CFO code of conduct.

ICAA: Ms West identified that the application date for the ACNC has been postponed until 2014.

IPA: Mr Puchas noted the IPA's interest in the MCTF report and will likely provide relevant feedback when given the opportunity, and BETF survey –in particular the responses received from the accounting professionals.

He also noted that the IPA has ongoing correspondence with the AASB regarding the reduced disclosure regime.

Mr Puchas suggested that the FRC develop a definitions page (in particular with respect to the acronyms used) on the website to assist viewers and in Council papers to assist Members. It was agreed the Secretariat would look at providing such material.

Item 7 – Matters for noting

(a) Nominations Committee Report

- The meeting approved the 2012 peer review formats which will now be sent out to Members of the three organisations.
- Ms West noted that a number of revisions are being made to the Charter following the annual review, and it will soon be circulated to Members for approval and posted on the website.
- The Meeting was informed that advertisements for positions on the two Boards would appear in early September, preferably in *The Australian Financial Review*, although budgetary considerations may impact the final placement.

(b)-(e) Treasury reports

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

- *Audit Enhancement Bill*: The Bill had been approved by the House of Representatives, was now in the Senate, and is likely to be considered at the sittings starting 18 June.
- *Corporate Reporting Reform Act follow-up amendments*: The submissions to the 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 mainly support a solvency test as a way to change the dividends test. It was noted that this had the potential to interact with ATO rulings.
- *Executive Remuneration*: The legislation went through the House of Representatives the week before the meeting and it was planned that it be passed in the current sittings of Parliament.
- *CAMAC References*: CAMAC was drafting an issues paper on annual general meetings, including annual reports, and plans to begin consultations. No final report date had been decided. It also had a discussion paper out on managed investment schemes with a final paper due out by the end of June.

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 held at the Offices of The Institute of Chartered Accountants in Australia, 33 Erskine Street, Sydney on 28 August 2012, commencing at 9:00 am.