

FINANCIAL REPORTING COUNCIL

Minutes of 65th Meeting

28 August 2012

Outcomes of the meeting held on 28 August 2012 at the offices of the Australian Securities Exchange, 20 Bridge Street, Sydney. The meeting commenced at 9:05 am and concluded at 3:05 pm.

Attendance

<i>FRC Members</i>	Ms Lynn Wood (Chairman) Mr Michael Coleman (Deputy Chairman) Mr Andrew Fleming Ms Belinda Gibson Dr Stein Helgeby Mr Grant Hehir (from 9:15 am until 2:45 pm) Ms Noelle Kelleher (until 11:05 am) Ms Merran Kelsall Mr Vas Kolesnikoff (from 11:15 am) Mr Ian Laughlin (until 2:15 pm) Mr Kevin Lewis Mr Jim Murphy Mr Ian Purchas Mr Kevin Simpkins Mr Kevin Stevenson Ms Jan West AM
<i>Invitees</i>	The Hon. Bernie Ripoll, MP, Parliamentary Secretary to the Treasurer Mr Chris Condon, (Mr Ripoll's Chief of Staff) Mr Ian Mackintosh (Vice-Chairman, IASB) Ms Judith Downes (IFRS Advisory Council)
<i>FRC Secretariat</i>	Mr Bruce Donald (Secretary) Mr Redom Syed
<i>Apologies</i>	Mr Mark Coughlin Mr Jeffrey Lucy (IFRS Trustees)

Item 1 – Introduction

(a) Apologies

See attendance list for details.

(b) 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, matters arising from that meeting and out of session votes

The Minutes of the 64th Meeting, held in Melbourne on 29 May 2012, were approved.

Matters arising from the 64th Meeting, and the actions taken in respect of them, were noted as follows:

- The Secretary informed the meeting that the Chairman would be having individual discussions with Members following the peer review process, and the FRC Strategic Plan would be updated in light of these discussions.
- It was noted that the report of the Managing Complexity Task Force had been placed on the FRC website and comments invited. A number of submissions had been received and the task force report under item 7(c) would elaborate on further action by the FRC.

Two out-of-session votes were held prior to the meeting approving:

- The new FRC Nominations Committee Charter and guidelines; and
- The revised FRC Performance of Functions document.

Other matters for approval, relating to the reports of the Board Education Task Force and the Managing Complexity Task Force, were considered under items 7(b) and 7(c).

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 work scheduled to occur prior to the next Council meeting. Details were provided of the proposed trip by the Chairman and Secretary to meet key international stakeholders in London and Brussels in October.

Item 4 – FRC Peer Review and Strategic Plan

The Chairman provided an overview of the key findings of the peer review. The responses indicated that members were generally pleased with the FRC's direction, the FRC Strategic Plan and the current skill set of members. The operations of the task forces, in particular, attracted positive comments. Concerns were expressed about the resources available to the FRC, in particular through the Secretariat. Some noted that the FRC needs to exercise caution to ensure it remains within its mandate.

Item 5 – Oversight of Australian standards-setting arrangements

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

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

- The completion and implementation of a number of International Accounting Standards Board (IASB) projects, including providing a paper to the International Financial Reporting Standards (IFRS) Advisory Council on the regionalisation of standard-setting.
- Progressing public sector and not-for-profit financial reporting improvements including:
 - : Financial reporting for not-for-profit entities within the general government sector
 - : Control in the not-for-profit public and private sectors
 - : Financial reporting by superannuation entities
 - : Income from transactions of not-for-profit entities
 - : Related party disclosures by not-for-profit public sector entities
 - : Grantor accounting for service concession arrangements; and
 - : A staff paper on government accounting for the Australian carbon price.
- Regarding international engagement issues Mr Stevenson noted:
 - As Chair of the Asian-Oceanian Standard-Setters Group (AOSSG) he had been involved in an IFRS conference in the UAE, helping Nepal prepare to host the AOSSG in November, and advising the IFRS Trustees on regional issues.
 - Coordination by Australia and the European Financial Reporting Advisory Group (EFRAG) of efforts to bring together the various regional groupings of standard setters, including a global teleconference with the US Financial Accounting Standards Board (US FASB), Financial Reporting and Assurance Standards Canada, Pan-African Federation of Accountants (PAFA), Group of Latin American Accounting Standard-Setters (GLASS), Japan and Hong Kong.
 - Supporting the Australian nomination of Professor Keryn Chalmers (Monash University) to the IASB’s consultative group on field testing and effects analyses.
- Contributing to the work of the FRC Managing Complexity Task Force.

- Differential Reporting: Continued research on the use of special purpose financial reports, and participation in the AOSSG contribution to the review of IFRS for SMEs (Small and Medium-Sized Entities).
- International work on public sector financial reporting: supporting the signing of a Memorandum of Understanding (MOU) between the IASB and the International Public Sector Accounting Standards Board (IPSASB), and meeting a Japanese Institute of Certified Public Accountants delegation to Australia.
- Completing a post-implementation review of AASB 1049 (Whole of Government and General Government Sector Financial Reporting), and contributing to the work of the IASB review of IFRS 8 Operating Segments, and IFRS for SMEs.
- Matching AASB responsibilities with human and other resources, including preparing for likely future needs.
- Largely completing the trans-Tasman harmonisation work by the AASB, while working with the New Zealand Accounting Standards Board to move toward the Australian reduced disclosure regime (RDR).
- Improving AASB accessibility, including improving mobile access to its website.

(a) (ii) AASB Summary Work Program

The AASB provided a list of topics for which it anticipates that a Consultative Document and or a new or revised standard will be issued in the short term. This document is available from the AASB website at

http://www.aasb.gov.au/admin/file/content102/c3/M126_3.1.1_2012_August_Summary_AASB_Work_Program.pdf

(a) (iii) AASB Strategic Plan 2012-2016

- Mr Stevenson reported on the AASB strategic plan which identifies the following ten key strategic areas, (with top priority assigned to the first two in particular and with the projects expected to be completed, if not standards applicable, by June 2014):
 - Completion and implementation of the current core convergence standards on financial instruments, revenue, leasing and insurance;
 - Completion and implementation of the current domestic public sector and not-for-profit private sector projects on the current AASB agenda, along with the project on accounting requirements for superannuation;
 - Assisting with regional and global standard-setting initiatives;
 - Contributing to a reduction in complexity in financial reporting;

- Differential reporting; reviewing special purpose reporting and monitoring the implementation of the reduced disclosure requirements (RDR);
- Encouraging rationalisation of international standards between sectors;
- Engaging in post-implementation reviews;
- Ensuring that the AASB’s resources, including human resources are commensurate with responsibilities;
- Maintaining trans-Tasman harmonisation of reporting requirements (for for-profit entities); and
- Improving AASB communication and accessibility.

FRC members agreed with the AASB executive summary of the strategic plan and thanked the AASB for sharing it with them before its publication.

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

Ms Kelsall reported on highlights of international developments in standard setting and regulation of the assurance profession together with the AUASB’s progress on its key Business Plan strategies.

Key international developments include:

- The US Public Company Accounting Oversight Board (PCAOB) is expected to finalise its proposed auditing standard related to communications with audit committees (addressing certain areas for which there are no corresponding international auditing standards) in 2012.
- The Audit and Assurance Council of the UK FRC is analysing responses to its proposed changes to corporate governance of listed entities with a view to implement the proposals on effective company stewardship, including reporting, under the UK Corporate Governance Code.
- Article 23 of the proposed European Commission (EC) regulation for public interest entities envisages a long-form report from auditors to the audit committee.
- The EC Social Justice Commissioner has questioned the analysis behind the purported benefits in terms of audit quality of the original EC green paper proposals.
- The Federation of European Accountants (FEE) issued a discussion paper in June – *the Functioning of Audit Committees* – which seeks comments on proposals to improve the operations of audit committees.
- The International Auditing and Assurance Standards Board (IAASB) issued ISAE 3410 in June, which dealt with limited and reasonable assurance engagements undertaken by a practitioner to report on an entity’s greenhouse gas statement. The AUASB has issued an equivalent standard based on the international standard.

- The IAASB has issued a consultation paper on its work to enhance the communicative value of the auditor's report on financial statements, *Invitation to Comment: Improving the Auditor's Report*. The AUASB will host roundtables in Australia on 11 and 13 September.

The AUASB released two Bulletins in August – *Auditing Considerations in a Prolonged Uncertain Environment* and *Professional Scepticism in an Audit of a Financial Report* – aimed at reminding auditors to stay alert to issues that may arise in the current environment.

The AUASB reported on its strategic objectives from its strategic plan which was agreed in principle at the previous FRC meeting:

- Formulate and maintain legally enforceable Auditing Standards – issued an Explanatory Guide on 31 May – *Opening Balances*; approved a revision at its June meeting to Foreword to AUASB Pronouncements, and agreed that information on AUASB functions and process will be documented separately and considered at its September meeting.
- Formulate and maintain other auditing and assurance standards – issued a Standard on Related Services ASRS 4450 *Comfort Letter Engagements* on 30 May, and continues to work on an assurance standard for corporate fundraisings, and commenced work on revising AUS 810 *Special Purpose Reports on the Effectiveness of Control Procedures*. Two key pieces of work are: ASAE 3410 *Assurance on Greenhouse Gas Statements* issued on 28 June, operative for reporting periods commencing on or after 1 July 2012, to coincide with the carbon pricing mechanism; and relating to work with the Water Accounting Standards Board to develop an assurance standard on water accounting reports.
- Issue new and revised guidance statements - the AUASB is working on guidance statements including to link National Greenhouse and Energy Reporting requirements with ASAE 3410; regarding APRA regulated areas; and self-managed superannuation funds, and potentially in relation to managed investment schemes (if ASIC regulations change).
- Contribute to the development of, and converge with, one set of robust international auditing standards - The AUASB Chairman and Executive Director attended the IAASB meeting in Edinburgh in June 2012, and the AUASB Chairman is a member of IAASB task forces on Auditor reporting, audit quality and ISA Implementation Monitoring. Another IAASB member participates in the IASB project on Review Engagements. The IAASB Chairman (Professor Arnold Schilder) will visit Australia in October.
- Harmonise Australian and New Zealand auditing standards - at its 23 July meeting the AUASB approved a joint trans-Tasman policy statement on standards which outlines the principles of convergence with ISAs and harmonisation of trans-Tasman standards.
- Promote thought leadership and engage with stakeholders - as mentioned above the AUASB issued two bulletins and revised a good practice guide. In addition the AUASB had presentations from the AASB and Standard Business Reporting Unit (Australian Treasury) at Board meetings. The AUASB has held meetings with the Australian Securities and Investments Commission (ASIC), the Australian Prudential Regulatory Authority (APRA), professional accounting bodies and other stakeholders.

Item 6 – Visit by Parliamentary Secretary to the Treasurer

(a) Welcome by Chairman

Ms Wood welcomed the Hon Bernie Ripoll, MP to the meeting, noting his Parliamentary career and in particular his work as chair of the Joint Committee on Corporations and Financial Services (the Committee), prior to his appointment as a Parliamentary Secretary. The Committee had inquired into financial products and services in Australia following the collapse of Storm Financial, Opes Prime, and others, affecting thousands of investors. In 2009, following a nine-month inquiry, nearly 400 submissions from investors, financial advisers, financial services dealer groups and representative organisations, and public hearings in Canberra, Sydney, Melbourne, Brisbane, Townsville and Cairns, Mr Ripoll had tabled the Committee's report. The report's recommendations had a considerable impact on subsequent debate on the appropriate response to these failures. She also noted the Minister's keen interest in matters of financial literacy and drew his attention to the report of the Board Education Task Force and its survey as matters of interest.

(b) Comments by the Parliamentary Secretary

Mr Ripoll thanked the Chairman for her introduction and indicated his enthusiasm in attending the FRC meeting, listening to its work, and meeting its members. He noted that he was keenly interested in matters of financial literacy and drew the attention of the Council to the work of the MoneySmart initiative.

ASIC's MoneySmart website, in particular, has proved a huge success in helping people take action to improve their finances since it was launched in 2011, and the website is continually reviewed and updated. He also noted that the following week, commencing 3 September, was officially MoneySmart week.

Item 7 – Matters for Discussion

(a) FRC Performance of Functions document

Members noted that the revised Performance of Functions document had been approved in an out-of-session vote the previous week. A number of follow-up items were discussed, including:

- Replacing the Audit Quality Task Force with the Audit Quality Committee, to be chaired by Michael Coleman.
- The Charter of the new Committee will be agreed between the Chairman, the Chairman of the Committee and the FRC Secretariat.
- The withdrawal of the existing Memoranda of Understanding between the FRC and ASIC and APRA would be formalised by the next meeting.
- The members of the Audit Quality Task Force were thanked for their contribution in revising the document.

The FRC commented favourably on the effect of having Members from differing backgrounds work together on this project to achieve an output quickly and collegially. Members discussed ways of ensuring that the functions of the FRC were well understood, and means of achieving the goals given the limited resources of the Secretariat and Council. It was agreed that there would be a report back to the FRC in March 2013 on the achievement of the Performance of Functions tasks by the Chairman with the Secretariat.

(b) Board Education Task Force report

Mr Lewis noted that a report on the Board Education Task Force survey of directors and financial reporting professionals, and a press release, would be released the following week. The task force then intended to:

- Write to appropriate training organisations to advise them of the relevant feedback from survey respondents.
- Write to ASIC to draw to their attention various relevant recommendations, and views expressed by survey respondents.
- Write to the Australian Securities Exchange (ASX) Corporate Governance Council regarding the recommendations to change the Corporate Governance Principles and Recommendations.
- Once these tasks are complete the function of the task force will be regarded as completed from an FRC perspective.

The FRC agreed to the proposed actions subject to editorial changes agreed by the Chairman, the Deputy Chairman, and the Task Force Chairman, and thanked the Board Education Task Force for their excellent work on this project.

(c) Managing Complexity Task Force report

Mr Coleman noted that following the release of the Task Force's report in May, the Task Force had received 15 submissions, and had now organised these responses into some key findings. He noted that the task force intended to:

- Issue its findings and a press release at a time following the release of the Board Education Task Force report;
- Place the submissions received on the FRC website;
- Write to organisations thanking them for their submissions; and
- Once these tasks are complete the Task Force's function will be considered to have been completed from an FRC perspective.

The FRC agreed to the proposed actions subject to editorial changes agreed by the Chairman and the Task Force Chairman and thanked the Managing Complexity Task Force for their excellent work on this project.

(d) (i) Audit Quality Task Force report

Mr Coleman reported that the Audit Quality Task Force had:

- revised the FRC Performance of Functions Document;
- met twice since the last FRC meeting, and had welcomed Belinda Gibson as a member;
- discussed the IAASB Invitation to Comment *Improving the Auditor's Report*, and would make a submission prior to the 8 October deadline; and
- is finalising a survey of the expectations of retail investors of auditor communication, with the results to provide input to the IAASB project on the quality of the audit report.

(d) (ii) Update from Treasury on Audit Quality Issues

Mr Murphy sought feedback from FRC members on issues regarding Australia's audit framework, drawing out issues that could be put to Government as strategic policy advice. He noted that Treasury is consulting on the adequacy of the existing audit framework including any need to address a perceived 'audit expectation gap'.

- There was consensus that Australia would need to stay in line with the emerging frameworks put in place in Europe and North America. Major pieces of work by the IAASB in addition to proposals by regulatory authorities were discussed.
- It was emphasised that the behaviour of the various participants in the audit space was crucial, and this was the primary focus, rather than legislative change. It was likely that focusing solely on the governance of external auditing would prove too narrow, and the interactions were important.
- In the case of recent failures in Australia, the key role of liquidity was noted, although it was considered unlikely that these failures represent evidence of systemic failure. It was emphasised that any changes would need to have benefits that exceed the costs.

Treasury undertook to keep the FRC informed in future as its consultation and considerations developed.

(e) Public Sector Task Force report

Mr Hehir spoke to a paper titled *Supporting Improved Financial Reporting by Governments – Recommendations for the FRC's Role* which recommended:

- Advocating better public sector financial reporting through international organisations as the opportunities arise, and making a statement available on the FRC website;

- Greater strategic involvement with international organisations to improve the international public sector standards setting process;
- Publicising the key features of the Australian public sector reporting framework;
- Discussion of possible cooperative initiatives by the Chairman and the Chairman of the New Zealand External Reporting Board (XRB); and
- Using the FRC website to support the information required to support these strategies.

The recommendations were agreed by the FRC. Mr Hehir also provided a report on the work of the Public Sector Task Force in light of its recent meeting:

- The task force had been able to conclude that the relationship between the AASB and other public sector stakeholders had strengthened, and there was a commonality of agenda as to the key issues, while there was comfort around where the International Public Sector Accounting Standards Board was, and the relationship of International Public Sector Accounting Standards with Australian accounting standards.
- The task force was intending to provide written material to assist the promotion of Australia's framework internationally, including on the FRC website.
- Once the papers the PSTF was producing were finalised the task force would only need to meet once a year to undertake an environmental scan to report to the FRC and have an input in the AASB's review of its business plan. However it was planned to retain the task force structure.

(f) Integrated Reporting Task Force report

Ms West reported for the Integrated Reporting Task Force and noted they had met twice since the last FRC meeting and:

- Had prepared a paper *What do we mean by the term "Financial Reporting" especially in relation to Integrated Reporting*, which will be posted on the FRC website;
- Ms West had become the Task Force's interim chairman and that John Stanhope had re-joined the taskforce as an external member;
- The Task Force continued to monitor international developments, and domestic developments with the BRLF (Business Reporting Leaders Forum) and the participants in the International Integrated Reporting Council's (IIRC) pilot, with the plan being to move to a less active phase, with less frequent meetings.

It was also noted that the IIRC Chairman, Professor Mervyn King had accepted an invitation to attend the next FRC meeting on 5 December.

(g) Nominations Committee report

Ms West reported for the Nominations Committee and noted they had met once since the last FRC meeting and:

- Have completed the FRC, AASB, and AUASB peer reviews
 - Noted the FRC Chairman had already updated the Council regarding the FRC results
 - Informed the meeting that the Nominations Committee was satisfied that the AASB and AUASB results indicate good performances and raised no major areas of concern
- Have commenced work on the AASB and AUASB member appointment process, with positions already advertised and interviews to be conducted in November, which will be informed by a skills matrix provided by the AASB and AUASB chairs.

Item 8 – Reports by stakeholders

(a) IFRS Advisory Council Report

Ms Downes, Member of the IFRS Advisory Council, informed FRC Members of recent developments. She noted that her next meeting would be her last on the IFRS Advisory Council, and she was still happy to report back to the December FRC meeting. She indicated her belief that over her period of membership the IFRS Advisory Council had increased its ability to pronounce on items of use to the IASB and IFRS Trustees.

(b) International Accounting Standards Board Report

Mr Mackintosh gave a comprehensive overview of developments in key IASB work, including the convergence project with the US FASB. He noted that the US Securities and Exchange Commission had recently published a [staff report](#) on incorporating IFRS within the US financial reporting system. This had given no indication of a decision, nor of the timing on any decision. Mr Mackintosh also reported that once the current set of convergence projects were complete the relationship between the IASB and US FASB would alter, with US FASB being regarded then as a national standard setter. He reported that there were still obstacles to achieving a converged standard for the four projects being pursued under G20 monitoring and that these had already been running for over a decade. He also indicated that the IASB was considering setting up a panel with key national standards setters for feedback on technical matters. Regarding the agenda consultation Mr Mackintosh indicated that there was now a need to work with the IPSASB, to do further work on regulated industries, agriculture and to conduct a post implementation review of IFRS for SMEs after it had been in place 3 years.

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

Mr Simpkins, Chairman of the NZ XRB, informed FRC Members of recent developments in New Zealand. Mr Simpkins drew attention to a second tranche of legislative reforms that were in progress, clarifying the reporting and assurance requirements of most entities in New Zealand but in addition addressing a range of other matters related to financial reporting generally. One specific provision potentially allows the XRB's powers to be extended, if appropriate, for example in relation to matters such as integrated reporting.

(d) Members' items that require action by FRC

Matters raised by Members included:

AICD: Mr Coleman indicated that the Australian Institute of Company Directors (AICD) was conducting a survey on business deregulation.

ASA: Mr Kolesnikoff indicated the ASA was somewhat at a loss to explain why few companies had seen reasons to impair assets in the current reporting cycle, somewhat at odds with the general picture held of many businesses.

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

- A paper on the Operating and Financial Review, to be circulated to FRC members for comment.
- Reinforcing the message that the ability under the new legislation to extend audit partners' engagements from 5 to 7 years was intended to be exceptional rather than routine.
- Investigating ways to leverage the quality of the significant amounts of reporting that insolvency practitioners provided.

ASX: Mr Lewis noted the recently introduced listing rule changes enabling small and medium sized listed entities to place an additional ten per cent of their securities with shareholder approval and foreshadowed rules for mining and oil and gas entities. He also mentioned that the ASX Corporate Governance Council was about to commence a targeted review of principles 6, 7, and 8 of its Corporate Governance Principles and Recommendations.

DoFD: Dr Helgeby indicated some concerns with the impact of bond rates for superannuation liabilities.

FSC: Mr Fleming indicated that the Financial Services Council was making a number of submissions including to Treasury on the Future of Financial Advice reforms and to the Productivity Commission on small and medium enterprises, while they were also conducting a consultation of governance.

IPA: Mr Puchas reported that the Institute of Public Accountants (IPA) acknowledged the work of the task forces especially the Board Education Task Force, and noted the IPA offers online CPE sessions of relevance to directors. He indicated the IPA supports the reduction in complexity to, amongst other things, enhance readability and reduce presentation costs (which have become increasingly burdensome on the SME sector). He further noted the IPA's concerns around the issue of IFRS for SMEs, and support of the monitoring of integrated reporting, but not at the cost of efforts to achieve convergence.

Item 9 – Other Business

No matters of other business were raised at the meeting.

Item 10 – Next meeting

The next meeting of the FRC will be held on Wednesday 5 December at the offices of the Australian Accounting Standards Board, Level 7, 600 Bourke Street, Melbourne commencing at 9:00 am.