

## FINANCIAL REPORTING COUNCIL

### Minutes of 69<sup>th</sup> Meeting

28 November 2013

Outcomes of the meeting held on 28 November 2013 at the offices of the Australian Accounting Standards Board (AASB), Level 7, 600 Bourke St, Melbourne. The meeting commenced at 10:00 am and concluded at 4:00 pm.

#### Attendance

##### *FRC Members*

Ms Lynn Wood (Chairman)  
Mr Roger Burrows  
Mr Mark Coughlin  
Mr Andrew Fleming  
Ms Noelle Kelleher  
Ms Merran Kelsall  
Mr Ian Laughlin (until 3:45 pm)  
Mr Kevin Lewis  
Mr John Price  
Mr Kevin Simpkins  
Ms Jan West AM

##### *Invitees*

Ms Diane Brown (Treasury)  
Mr Rob Elliot (AICD, by teleconference), agenda item 9  
Mr Robert Keys (AASB)  
Mr John Kluver (CAMAC), agenda item 6  
Mr Jeffrey Lucy AM (IFRS Trustee, by teleconference), agenda item 4a  
Mr Charles Macek (IFRS Advisory Council), agenda item 4b  
Ms Joanne Rees (CAMAC), agenda item 6  
Ms Nicola Steele (AICD, by teleconference), agenda item 9

##### *FRC Secretariat*

Mr Bruce Donald (Secretary)  
Ms Erin Flynn

##### *Apologies*

Mr Michael Coleman  
Mr Ross Barker  
Dr Stein Helgeby  
Mr Ian Purchas  
Mr Kevin Stevenson

#### Welcome

The Chairman welcomed Members to the Meeting, noting that the FRC Annual Report was tabled in Parliament on 31 October 2013 (available at [http://www.frc.gov.au/reports/2012\\_2013/downloads/FRC%20Annual%20report%202012-13.pdf](http://www.frc.gov.au/reports/2012_2013/downloads/FRC%20Annual%20report%202012-13.pdf) ).

## **Item 1 – Introduction**

### (a) Apologies

See attendance list for details. Mr Grant Hehir, Heads of Treasuries Accounting and Reporting Advisory Committee (HoTARAC), resigned from the FRC from 25 October 2013.

### (b) Declarations of Interest

The Declarations of Interest of FRC Members was updated before the meeting. Ms Wood noted that she had recently stepped down from her directors' positions with Committee for Economic Development of Australia (CEDA) and GPT Funds Management Ltd, and had been appointed as an IFRS Foundation Trustee from 1 January 2014. The FRC recorded its congratulations to the Chairman on her appointment as a Trustee.

## **Item 2 – Matters for approval**

### (a) Minutes of previous meeting and out of session votes

The Minutes of the 68<sup>th</sup> Meeting, held in Melbourne on 13 June 2013, were approved. No out-of-session votes were held since the last meeting.

### (b) Matters arising

The matters arising from the 68<sup>th</sup> Meeting, and the actions taken in respect of them, were noted. In addition:

- the FRC discussed follow-up from the AASB and Auditing and Assurance Standards Board (AUASB) regarding their commitment at the previous meeting to consider appropriate action to work towards simplifying accounting policy notes:
  - the AASB, ASIC and AUASB undertook to consider whether to place appropriate guidance material on their websites on this matter. This is in line with the recommendation from the Managing Complexity Taskforce report that the FRC “encourage a more coordinated approach between different agencies of government when considering accounting disclosure requirements”.

The Chairman thanked Kevin Simpkins for his long contribution to the FRC, which will conclude before the next FRC meeting as he steps down as New Zealand's External Reporting Board (XRB) Chair. Mr Simpkins wished fellow members and the FRC well for the future.

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

The FRC approved an increase in the remuneration of AASB and AUASB members in line with a Remuneration Tribunal determined increase of 2.4%. Sitting fees for AASB and AUASB members (other than the Chairs) will be increased from \$923 per day to \$945 per day, for meetings commencing on or after 1 January 2014.

### (d) Approval of AASB and AUASB appointments and Nominations Committee report

The FRC noted the Nominations Committee report and thanked the Committee for its intensive work since the previous meeting. The Nominations Committee noted in particular that:

- the peer reviews had revealed no significant problems with the operations of the two Boards;
- although there was some concern regarding resourcing levels for the offices of the AASB and AUASB in future years; and
- the success of the Boards was reflected in the fact that each position (except one) was contested by at least two high quality candidates.

The FRC approved the following appointments:

*To the AASB for three years each (from 1 January 2014):*

- reappoint Anna Crawford; and
- appoint:
  - Regina Fikkers;
  - Steve Mitsas;
  - Taryn Rulton;
  - Marc Smit;
  - Ann Tarca

*To the AUASB:*

- reappoint:
  - Neil Cherry for three years from 1 July 2014; and
  - John Gavens for 18 months from 1 January 2014; and
- appoint for three years from 1 January 2014:
  - Robin Low; and
  - Caithlin McCabe.

The FRC thanked the retiring AASB members for their contributions: Victor Clarke; Jayne Godfrey, Liane Papaalias, Roger Sexton, and Robert Williams. The FRC also prospectively thanks Michele Embling who finishes her term on 30 June 2014, when she will step down as New Zealand Accounting Standards Board (NZASB) Chair.

The FRC also thanked the retiring AUASB members for their contributions: Jon Tyers and Kristen Wydell.

(e) Taskforce charters

The revised taskforce charter was approved by the meeting with a few minor amendments.

(f) Strategic Planning Committee

The FRC discussed the proposed charter and the scope of the work of the SPC, which covers the Strategic Plan and governance matters.

The revised charter for the Strategic Plan Committee was approved by the meeting with a few minor amendments (including renaming the committee the Strategic Planning Committee).

(g) Memoranda of Understanding (MoUs)

The meeting agreed to terminate the existing MoUs with APRA, ASIC and ASX.

Ms Liz Stamford of ICAA has prepared a draft letter for the professional bodies to share in common with the FRC.

(h) Dormancy of IRTF and PSC

The FRC agreed to designate the Integrated Reporting Taskforce (IRTF) and Public Sector Committee (PSC) as dormant. The IRTF may be reactivated after the International Integrated Reporting Council (IIRC) Framework is released. The PSC may be reactivated after a new chairman is agreed for it.

The FRC congratulated Grant Hehir for the great work achieved by the Public Sector Committee under his leadership.

**Item 3 – Report by FRC Secretary**

The meeting noted a report by the FRC Secretary which covered key events and meetings since the last FRC meeting.

A list of members' allocation to taskforces and committees was tabled for members as requested at the previous meeting.

**Item 4 – International**

(a) IFRS Trustees, IASB

Mr Lucy noted that his term as IFRS Foundation Trustee was coming to completion, and that the FRC Chairman would replace him. The Chairman thanked Mr Lucy for his long-standing contribution on Australia's behalf.

Mr Lucy noted that the US Trustees had met the new Securities and Exchange Commission (SEC) chair, and that she seemed to have a different approach than her predecessor, in the sense that she was prepared to come to a decision regarding US adoption of International Financial Reporting Standards (IFRS) rather than avoiding making a decision. He also noted that the successful adoption of IFRS in Canada was an important matter for US decision-makers.

The FRC discussed G20 issues, including Business Council of Australia (BCA) and G100 efforts to keep the adoption of a single set of high quality global accounting standards on the G20/B20 agenda.

The Chairman thanked Mr Fleming for the research he had conducted with top international analysts and fund managers considering why US investors and major listed companies are not pushing more forcefully for IFRS in light of globalisation. A summary of this research was made available.

The FRC indicated its support for keeping the matter on the G20 agenda.

The FRC discussed the International Accounting Standards Board's (IASB) recent decision not to pursue clarification or provide additional guidance on the definition of going concern.

(b) IFRS Advisory Council

Mr Macek provided background on the activities of the IFRS Advisory Council drawing attention to the continued importance of achieving convergence on impairment, and the importance of changes in Japan expanding the set of companies eligible to apply IFRS (with potential to cover a high proportion of Japan's market capitalisation).

**Item 5 – Oversight of Australian standards-setting arrangements**

(a) Report of Australian Accounting Standards Board

The FRC noted the AASB report, which reports against the AASB's strategic plan. Mr Keys highlighted some key points for the FRC:

- Key issues stakeholders have raised and noted in the FRC agenda papers that are also matters being considered by the AASB include: disclosure overload; effects of the discount rate used in the employee benefit standard; stapled entities; the IASB's draft revised conceptual framework; and Review of AAS25 (Financial Reporting by Superannuation Plans).
- Differential Reporting: The AASB contributed to the IASB review of the IFRS for SMEs package. The review anticipates few changes in order to maintain a stable platform. The AASB is still of the view that the reduced disclosure regime (RDR) is preferable. RDR became formally operative as of 1 July 2013, and the AASB intends to conduct a post-implementation review in the second half of 2014.
- There was some discussion of the AASB research on special purpose financial reporting. Mr Keys undertook to inform the FRC of the nature of the questions being addressed in the research, and particularly whether the research includes contacting the companies being researched and asking why they used the reporting methodology that they had chosen.

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

Ms Kelsall reported on the AUASB key Business Plan strategies, and drew attention to:

Work on the International Auditing and Assurance Standards Board (IAASB) auditor reporting project:

- The opportunity to provide comment on the Exposure Draft (ED) closed in late November and a preliminary update was provided to the IAASB at its December meeting. A large number of submissions had been received, but it is expected the IAASB will consider submissions and a revised ED at its March meeting and approve final changes and standards at its June meeting.
  - In Australia there was a very broad consultation process, with mixed views.
  - The final standard will not just affect auditors - it raises important public policy matters:
    - : Might the standard require the auditor to provide information regarding the entity that is not disclosed in the accounts?
    - : Broader consideration of the respective roles of directors, the audit committee and auditors.
  - Stakeholders should be aware that the AUASB has limited flexibility via its mandate and IAASB guidelines and would adopt International Standards on Auditing (ISAs) unless prevented from so doing by local law or regulation; otherwise the AUASB can only *add* requirements.

The IAASB would likely approve in December the Framework on Audit Quality document, addressing inputs, outputs, contextual factors and interactions between those involved in financial reporting. The Framework addresses the composition of:

- Individual quality audits; and
- Audit quality at a systemic level.

Local developments:

- The AUASB chairman outlined some options available to the AUASB to enhance its efficiency.

#### **Item 6 – CAMAC**

The FRC received a verbal update from the Corporations and Markets Advisory Committee (CAMAC) Convenor, Ms Joanne Rees, and Mr John Kluver, Executive Director, focused on annual reports as a segment of its work on annual general meetings. There was considerable discussion of CAMAC's work and the input it had received on this matter including in relation to the business judgment rule.

CAMAC has a sub-committee led by Ian Ramsay which examines various issues, bringing in expertise as required. CAMAC would welcome the input of FRC members if they would like to join the sub-Committee to offer further suggestions. Mr Burrows expressed interest and it was agreed that CAMAC would liaise through the FRC Secretary after discussion with Mr Ramsay.

#### **Item 7 – Matters for Discussion**

##### (a) Strategic Planning Committee (SPC) report

The SPC report was noted. Agenda item 2 included matters approved based on recommendations by the SPC after reviewing the 2013 FRC Peer Review results.

It was agreed that the Secretariat works with the Chairs of the FRC as well as its Committees and Taskforces to develop a calendar that sets out the agenda items for discussion at each meeting. The importance of appropriate outcomes was raised as well as the need for discussion such that members are informed about relevant financial reporting matters.

##### (b) Audit Quality Committee (AQC) report

Mr Burrows updated the FRC on AQC developments including:

- The outcomes of the AQC meetings held on 4 September and 20 November 2013;
- On 21 August 2013 the AQC received further correspondence from the Australian Public Policy Committee (APPC) to assist the FRC in relation to audit quality;
- The AQC submitted a response to the IAASB ED on Auditor Reporting on 22 November. In preparing this response the Committee Chairman and the FRC Chairman personally interviewed three audit committee chairmen who provided useful perspectives on the main issues to be considered (available at <http://www.frc.gov.au/reports/#Submissions> ).

The meeting discussed a number of matters relating to the AQC:

- It was agreed that the FRC would add an Occasional Papers series to its website, and that the APPC paper (once revised to a suitable format by the APPC) would be added;

- The work of the AQC was discussed and it was noted that the AQC would invite the professional bodies and ASIC to give presentations to the AQC. The ICAA has made the first of these presentations.
- It was noted that the FRC Chairman is participating on a panel at the ASIC Annual Forum on 24 March 2014 titled “Assuring the Quality of Audits – What is the Solution?”
- Given that regulation of audit in other important jurisdictions, including the EU, could be amended in 2014, appropriate ways of consulting on possible ramifications for Australia were discussed. It was agreed that consultation would occur through the AUASB and that the FRC, through the AQC, would be involved in deciding on its involvement in the process.

(c) Nominations Committee (NC) report

The NC report was included under item 2(d).

(d) Public Sector Committee (PSC) report

The report was noted.

(e) Financial Report Task Force (FRTF) report

Ms Kelsall reported that the FRTF had been considering its role and the work for the coming year. The taskforce was currently mapping existing reporting and auditing requirements facing various types of entities. PwC had volunteered to do some further work and would report back to the FRTF Chairman, and this would inform the work of the taskforce.

It was agreed that any work suggesting potential simplifications to the current system should match government priorities. Treasury undertook to report on Government commitments regarding mandatory reporting.

It was agreed that the FRTF should develop its workplan with the aim of producing an output by the end of 2014.

(f) Integrated Reporting Task Force (IRTF) report

Mr Burrows noted that the IRTF was now dormant. The FRC had recently received a response from the IIRC regarding its submission on the draft framework (this will be made available on the FRC website at [www.frc.gov.au](http://www.frc.gov.au) early in 2014). This had applied some clarification that in Australia an Operating and Financial Review (OFR) report could be used as an integrated report. A number of FRC stakeholders had met Mr Druckman from the IIRC in his recent visit to Australia and key messages from those meetings were:

- ASIC: No change to the OFR was contemplated;
- Treasury: interested in the concept, but noted that mandating of integrated reporting would not be considered in Australia;
- FRC Chairman: the IIRC had listened to and responded to Australian stakeholders’ concerns though its reply to the FRC’s submission; and
- AUASB had discussed the issues regarding obtaining assurance on integrated reports, and the Chairman has reiterated to the IIRC that there would be benefit from a paper on these matters.

(g) FRC submission on IASB Conceptual Framework update

The FRC considered a preliminary draft submission to the IASB. It was agreed that FRC members would provide comments by 20 December and a revised draft circulated for approval out of session.

**Item 8 – 2014 Calendar for FRC**

The draft calendar of activities for each FRC meeting next year was approved. Dates have been set for most Committee and Taskforce meetings as well as the FRC meetings.

It was agreed that the FRC would send out a save the date invitation to the KSML before the end of 2013.

**Item 9 – Reports by Stakeholders**

Matters raised by Members included:

**AICD:** Mr Elliott and Ms Steele drew attention to the participation of Mr Colvin and Mr Coleman in the then upcoming meeting of the IIRC, and at which the AICD is currently a Council member.

- In response to a question Mr Elliott reported that the directors' financial literacy quiz to be put on the web as a follow up to the FRC Financial Literacy survey last year had been deferred as the feedback from (non-accounting) directors had been that they found the questions to be too technical. It was noted that the quiz, being based on IFRS, has potential for use internationally.

**ASX:** Mr Lewis drew attention to the draft Corporate Governance Code which had been out for comment from August to November. It was expected that the final version would be released early in 2014.

**APRA:** Mr Laughlin noted the increasing attention APRA was paying to risk governance and culture, and that it was engaging with boards, management and auditors on these issues.

**ASIC:** Mr Price noted a number of aspects of ASIC's work including:

- The current Parliamentary Inquiry into ASIC's performance, on which there had been very few financial reporting related submissions; and
- Discussions with the Professional Standards Council regarding its insurance requirements and liability capping schemes for the professional accounting bodies.
- It was agreed that ASIC would consider giving more prominence to Directors' Financial Literacy by placing relevant information under the financial reporting heading on its website. The FRC should also be identified on the page e.g. by a link to the media release on the FRC's Survey on the financial literacy of directors (available at [http://www.frc.gov.au/press\\_releases/2012/01.asp](http://www.frc.gov.au/press_releases/2012/01.asp) )

**ASFA:** Ms Kelleher noted:

- The impact of a number of APRA, AUASB and AASB standards and guidance affecting reporting by superannuation funds.

**BCA:** Mr Barker provided notes on BCA's *Action Plan for Enduring Prosperity* projects:

- An optimal tax system;



- Expenditure priorities;
- Competition policy;
- Workplace relations;
- Strategic energy policy;
- Vocational education; and
- Rethinking regulation.

**CPA Australia:** Mr Coughlin noted CPA Australia’s work on:

- the Directors Financial Literacy Project;
- its Charities Guide to financial reporting and assurance requirements;
- its submission to the ASIC inquiry; and
- panel sessions on better understanding professional scepticism.

**New Zealand XRB:** Mr Simpkins reported that:

- New Zealand was close to finalising all the elements of its new accounting framework, with all the development work now done;
- convergence to international auditing and assurance standards is almost complete and harmonising with Australian Tier 1 and Tier 2 standards, applicable to for-profit entities, mostly completed;
- the XRB is in the process of developing a strategic plan 2014-2109; and noted
- that he would not seek reappointment as chairman of the XRB when his term finishes in February 2014 and similarly Ms Embling, Chair of the NZASB, would step down in June 2014.

He provided a concise summary of the current status of the New Zealand accounting standards framework:

#### Summary of the New Zealand Accounting Standards Framework

	For-Profit Sector	PBE - Public Sector	PBE – Not-for-profit Sector
<b>Tier 1</b>	<b>NZ IFRS</b> Exists – no change New Standards Suite issued Nov 2012	<b>PBE Standards</b> Standards Issued May 2013 Effective periods beginning: 1 Jul 2014	<b>PBE Standards</b> Issue ED: Q4, 2013 Issue Standard: Q4, 2014 Effective date: 1 Apr 2015
<b>Tier 2</b>	<b>NZ IFRS RDR</b> Standards Issued Nov 2012 Effective periods beginning: 1 Dec 2012	<b>PBE Standards RDR</b> Standards Issued May 2013 Effective periods beginning: 1 Jul 2014	<b>PBE Standards RDR</b> Issue ED: Q4, 2013 Issue Standard: Q4, 2014 Effective date: 1 Apr 2015
<b>Tier 3</b>	<b>NZ IFRS Diff Rep</b> Exists – no change New Standards Suite issued Nov 2012  [This interim tier will be withdrawn once the transition to the new Accounting Standards Framework is complete.]	<b>Simple Format (Accrual)</b> ED issued: Dec 2012 Issue Standard: Q4, 2013 Effective date: 1 Jul 2014	<b>Simple Format (Accrual)</b> ED issued: Dec 2012 Issue Standard: Q4, 2013 Effective date: 1 Apr 2015
<b>Tier 4</b>	<b>Old GAAP</b> Exists – no change [This interim tier will be withdrawn once the transition to the new Accounting Standards Framework is complete.]	<b>Simple Format (Cash)</b> ED issued: Dec 2012 Issue Standard: Q4, 2013 Effective date: 1 Jul 2014	<b>Simple Format (Cash)</b> ED issued: Dec 2012 Issue Standard: Q4, 2013 Effective date: 1 Apr 2015

**Department of Finance:** Two items were noted:

- The new Commission of Audit, with terms of reference at [http://www.financeminister.gov.au/docs/NCA\\_TERMS\\_OF\\_REFERENCE.pdf](http://www.financeminister.gov.au/docs/NCA_TERMS_OF_REFERENCE.pdf); and
- The possibility for increased divergence arising between accounting standards and national accounts due to the interpretations of standards, and prospective changes to standards such as those on leases and expected credit losses.

**FSC:** Mr Fleming drew attention to the Financial Services Council's:

- policy priorities for 2013-16 available at <http://www.fsc.org.au/downloads/file/PublicationsFile/FSC-POLICYPRIORITIESnocrops.pdf>); and
- publications, reports and submissions.

**G100:** Mr Burrows raised concerns about:

- The accounting standard relating to employee benefits, particularly in relation to the discount rate;
- The volume and detail of disclosure; and
- Efficient regulation, with the G100 seeking information from members on instances and costs of unnecessary and excessive regulation.

**ICAA:** Ms West provided information about:

- The merger between the ICAA and NZICA, with the new leadership team coming into place from 1 December 2014;
- The Directors Financial Literacy Project;
- an ICAA guide on practical ways to apply and document professional scepticism; and
- submissions to the ASX Corporate Governance Code and the ASIC inquiry.

**Treasury:** Ms Brown noted that the Assistant Treasurer, Senator the Hon. Arthur Sinodinos AO is now the Minister with responsibility for the FRC.

It was agreed that having short written reports from FRC members regarding issues related to financial reporting was useful and stakeholder bodies should be reminded that the reports should be submitted to the FRC Secretariat two weeks before each meeting.

### **Item 10 – Other Business**

There was no other business.

### **Item 11 – Next meeting**

The next meeting of the FRC is scheduled to be held on Friday, 11 April 2014, in Sydney at the offices of the ICAA, commencing at 10:00 am and finishing at 4:00 pm. The Ken Spencer Memorial Lecture will be held on the evening of 10 April 2014, with Mr Hans Hoogervorst, Chairman of the IASB, to be the speaker.