

## **FINANCIAL REPORTING COUNCIL**

Minutes of 70<sup>th</sup> Meeting

11 April 2014

Outcomes of the meeting held on 11 April 2014 at the offices of the ICAA, Level 9, 33 Erskine St, Sydney. The meeting commenced at 10:00 am and concluded at 3:40 pm.

### **Attendance**

<i>FRC Members</i>	Ms Lynn Wood (Chairman) Mr Michael Coleman (Deputy Chairman) Mr Ross Barker (by teleconference) Mr Roger Burrows Mr Mark Coughlin Ms Jan Harris Dr Stein Helgeby Ms Noelle Kelleher Ms Merran Kelsall Mr Ian Laughlin (from item 4 onwards) Mr Kevin Lewis Mr John Price Mr Ian Purchas Mr Kevin Stevenson Ms Jan West AM (until 12:00 noon)
<i>Invitees</i>	Mr Tony Dale (XRB) Observer Mr Brandon Khoo (APRA) Observer Mr Paul McCullough (Treasury), agenda item 4 Mr Ian Mackintosh (IASB), agenda item 6b Mr Graeme Mitchell (XRB) M. Michel Prada (IFRS Foundation), agenda item 3 Mr Richard Sandlant (Treasury), agenda item 4
<i>FRC Secretariat</i>	Mr Bruce Donald (Secretary) Ms Karen Tuckerman
<i>Apologies</i>	Mr Andrew Fleming

### Welcome

The Chairman welcomed Members to the Meeting, noting attendance by the XRB representatives, Messrs Graeme Mitchell and Tony Dale, by the IFRS Foundation Chairman M. Michel Prada, Mr Ian Mackintosh, Vice Chairman IASB, and by Mr Brandon Khoo (APRA) as an observer. She also welcomed Jan Harris as a new FRC Member.

She noted that this year represents the 15th year of the FRC's existence in its current form, and we were very pleased that the IFRS Foundation Trustees held meetings in Sydney during the week, with a successful Ken Spencer Memorial Lecture by Hans Hoogervorst, IASB Chairman.

## **Item 1 – Introduction**

### (a) Apologies and attendance

See attendance list for details. Mr Kevin Simpkins's (XRB) term as an FRC Member finished on 28 February 2014. Ms Jan Harris (Treasury) was appointed as an FRC Member for three years on 4 April 2014.

### (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 and out of session votes

The Minutes of the 69<sup>th</sup> Meeting, held in Melbourne on 28 November 2013, were approved.

In December 2013 FRC Members were consulted on the wording and content of the FRC submission made to the IASB Conceptual Framework review in January 2014.

### (b) Matters arising

The matters arising from the 69<sup>th</sup> Meeting, and the actions taken in respect of them, were noted. In particular the FRC:

- discussed follow-up by the AASB, AUASB and ASIC regarding their earlier commitments to encourage a focus in financial reports on material disclosures and eliminating unnecessary disclosures;
- noted the IASB's "disclosure initiatives project" and the recent ED released by the IASB and AASB (see item 5 below);
- noted the example financial statements released by one of the large firms to illustrate how financial reports might be streamlined (see item 6 below);
- observed that a mood for change was increasingly shared by standard-setters, regulators and other stakeholders; and
- **agreed that preparers, auditors and directors need to address this issue in light of clarifications from the standard setters and ASIC, recognising that too much irrelevant information is a distraction to understanding the financial report.**

### (c) References for international positions

The FRC discussed previous arrangements for supplying references to Australians applying for positions at international accounting and auditing related posts. It was noted that the Nominations Committee had previously handled these requests, but that arrangement had proved

unworkable, and the task had been passed to TTAASAG. There were concerns that TTAASAG was not meeting frequently and the FRC had been approached directly.

It was agreed that the FRC would consider a paper on options for processes at the next meeting (consistent with 3.15 of the Performance of the FRC's Statutory Functions). Any work by the FRC Secretariat would be coordinated with the XRB Secretariat.

### **Item 3 – Update from IFRS Foundation Trustees**

The meeting was briefed by M. Michel Prada, Chairman of the Trustees of the IFRS Foundation, on international developments relating to the adoption of IFRS globally, the IASB move to deal with standard setters multilaterally, the focus on implementation of IFRS, and the management of the IFRS institutions. He also discussed the IFRS Foundation's relationship with work on international public sector accounting standards.

### **Item 4 – Government's Deregulation Agenda**

Mr McCullough outlined the Government's strategy for achieving its ambitious deregulation aims, and the broad ambit of deregulation. He outlined a prospective role for the FRC as part of the Treasurer's Ministerial Advisory Council. Relevant FRC projects mentioned included the work being done by the Financial Report Taskforce and the potential to be involved in a proposed Taskforce to improve financial reporting by SME's as a means for them to better access finance. Contact details and further information were to be provided to FRC Members.

### **Item 5 – Monitoring of AASB and accounting standards**

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

The FRC noted the AASB report, which reports against the AASB's strategic plan. Mr Stevenson highlighted to the FRC:

- the initiative taken by the AASB in releasing its staff paper on materiality (available at [http://www.aasb.gov.au/admin/file/content102/c3/RCSP\\_2-14\\_Disclosure\\_and\\_Materiality.pdf](http://www.aasb.gov.au/admin/file/content102/c3/RCSP_2-14_Disclosure_and_Materiality.pdf)), and the related work of the IASB with its recent Exposure Draft on Disclosure (available at <http://www.ifrs.org/Alerts/ProjectUpdate/Pages/IASB-publishes-proposals-as-part-of-Disclosure-Initiative-March-2014.aspx>). Both assist the behavioural responses needed on the issues raised in the FRC's Managing Complexity Taskforce report;
- the important role of the IASB's Accounting Standards Advisory Forum (ASAF); and
- the paper requested by the IFRS Foundation Trustees and presented to them (10 April) on regional perspectives of IFRS, the IASB and the Trustees.

#### (b) Discussion

The matter of going concern, and the need to ensure that financial statements are fit for purpose, was discussed. The FRC agreed to support any ongoing discussions between the IASB and IAASB on going concern through the Audit Quality Committee.

The merits of bunching up IASB amendments to improve the IFRS annual improvement process by reducing the need for multiple versions of the existing accounting standards were also discussed. The FRC was advised that the AASB has raised this issue with the IASB.

## **Item 6 – International Update**

Ian Mackintosh noted that the IASB had received very good responses to the consultation on the Conceptual Framework, and was consulting with ASAF prior to moving as soon as possible to an exposure draft.

The matter of having accounting standards on the G20 agenda was discussed, and it was noted that Hans Hoogervorst and Ian Mackintosh had discussed the IASB's views with Australian decision makers. Australia, as 2014 G20 President, has stated its desire to more sharply focus the G20 agenda and concentrate on a small number of deliverable objectives for 2014.

The FRC noted that the recent PwC report on streamlined annual financial reports (available at <http://pwc.com.au/assurance/ifrs/financial-reporting/index.htm>) was an example of a useful contribution to the discussion of the matter of complexity raised by financial reporting, and noted that others are working on this issue.

## **Item 7 – Monitoring of AUASB and auditing standards**

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

Ms Kelsall reported on the AUASB key Business Plan strategies, and drew attention to a number of matters including:

- the AUASB's annual consultative meeting held on Tuesday 8 April 2014; feedback had included stakeholders' views on the IAASB's Auditor Reporting project and proposed Strategy for 2015-19; and
- Some highlights of the recent AUASB meeting held on Monday 7 April 2014; including work on ASAE 3000 relating to assurance on review engagements and efforts to ensure that the results are harmonised with the work of the NZAuASB.

### (b) Discussion

Members discussed a number of issues relating to the report including: the AUASB budget; and the impact in Australia of prospective changes in the EU and elsewhere to audit regulation. It was noted that it had been agreed that consultation on any possible policy options would occur through the AUASB and that the FRC, through the AQC, would be involved in deciding on its involvement in such a process.

## **Item 8 – Reports by Stakeholders**

The Chairman thanked Members and the Secretariat for the quality of written reports. Matters raised by Members included:

**AICD:** Mr Coleman noted that the AICD:

- had retired from its IIRC membership;

- had provided comments on questions in the directors free financial quiz being developed by ASIC on behalf of a working group including AICD, ICAA, CPA Australia, and IPA; and
- was launching a book on financial literacy which the FRC Chairman had reviewed.

It was noted that both the quiz and the book were outcomes of the FRC Financial Literacy survey.

**ASX:** Mr Lewis drew attention to:

- the recently released revised Corporate Governance Principles and Recommendations (available at <http://www.asx.com.au/documents/asx-compliance/cgc-principles-and-recommendations-3rd-edn.pdf>); and
- the non-inclusion of integrated reporting in the Principles and Recommendations.

**APRA:** Mr Laughlin noted that APRA was currently undertaking stakeholder consultation regarding regulatory reduction measures.

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

- ASIC expects to release its focus areas regarding financial reporting in May; and
- an information sheet had been released focusing on the role of audit committees in relation to audit quality.

**ASFA:** Ms Kelleher noted that ASFA was:

- working on implementation of APRA reporting standards;
- waiting with interest for the IFRS on superannuation after having contributed comments on the fatal flaw draft of the final standard; and
- beginning a research project on integrated reporting.

**BCA:** Mr Barker noted that:

- the new President of the Business Council of Australia is Catherine Livingstone AO;
- the BCA had published its submission on the 2014-15 Budget; and
- the BCA has been providing input into the Government's deregulation agenda.

**CPA Australia:** Mr Coughlin noted CPA Australia's:

- recent presentation to the FRC Audit Quality Committee encouraging more joined up processes from the audit profession;
- Guide to Australian Government financial statements; and
- work on the directors' financial literacy quiz.

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

- legislation completing New Zealand's new reporting framework came into effect on 1 April 2014, following six years of work;
- Kimberley Crook would replace Michelle Embling as chair of NZASB from 1 July 2014 and the FRC nominations committee could now consider her appointment to the AASB.

**G100:** Mr Burrows informed the FRC about G100 work on:

- deregulation matters and integrated reporting; and
- noted that the FRC Chairman’s speech to CFOs on Transparency in Financial Reporting (available at [http://www.frc.gov.au/reports/speeches/2014/CFL\\_summit\\_wood.asp](http://www.frc.gov.au/reports/speeches/2014/CFL_summit_wood.asp) ) had been distributed to G100 Members. He offered to report any feedback at the next FRC meeting.

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

- the merger between the ICAA and NZICA;
- the directors financial literacy quiz; and
- ICAA work to support audit quality.

**IPA:** Mr Purchas discussed the IPA paper which raised some questions including about:

- the relationship between audit firm size and ASIC action;
- the availability of auditors in certain regions;
- the annual improvement process to IFRS; and
- assurance in a cloud computing environment.

**Treasury:** Ms Harris noted:

- that the Acting Assistant Treasurer, Senator the Hon. Mathias Cormann, is currently the Minister with responsibility for the FRC;
- Government commitments regarding reducing red tape for small business including in relation to financial reporting requirements; and
- prospective changes within Markets Group, Treasury.

## **Item 9 – Committee Reports**

### **(a) Audit Quality Committee (AQC) report**

Mr Coleman updated the FRC on AQC developments including:

- support for continued work between the IASB and IAASB on going concern;
- its assessment that Transparency Reports, introduced by the 2012 Audit Enhancement Act, provided a useful tool; and
- international developments.

The FRC noted the report and approved the proposed FRC Occasional Paper “Sharing Experiences on Audit Quality” (by the ICAA).

### **(b) Draft submission on IPSASB Governance**

The FRC noted a draft FRC submission on IPSASB governance prepared by Dr Helgeby, and thanked him for its preparation and finalisation. Members had a deadline of 18 April for comments, and the finalised submission would be approved out of session.

## **Item 10 – Taskforce reports**

### (a) Financial Report Task Force (FRTF) report

Mr Barker reported that the FRTF had met in March, noting the large spreadsheet pulled together by PwC for the taskforce. It was noted that Mr Price has now joined this taskforce.

The two principal issues at the FRTF meeting had been:

- working through the issues to develop recommendations for the FRC; and
- AASB research on Special Purpose Financial Reporting.

The release of the AASB’s Special Purpose Financial Reporting research was discussed and it was noted that Mr Stevenson would be the spokesperson for any media comment.

It was also noted that the FRC Chairman had arranged with the Centre for International Finance and Regulation that the FRC can submit research projects for consideration. Two projects have been proposed in conjunction with Mr Stevenson. The first related to the FRTF work, including a possible follow up to the Special Purpose Research, and the second was a post implementation review of RDR.

It was agreed that the FRC Secretary would make available to all FRC members the current draft of the spreadsheet being used by the taskforce, in particular to assist the AQC in its work.

## **Item 11 – Matters for Noting**

### (a) MOUs

The FRC noted a report on the state of play of revamping the FRC Memoranda of Understanding (MOUs) with external bodies. The previous MOUs with ASIC, APRA and the ASX had been cancelled, and the professional bodies were working together to revise the existing draft MOU.

### (b) Secretary’s Report

The FRC noted a report on the recent activities of the FRC Chairman and composition of the FRC and taskforces.

### (c) FRC Annual Report

The FRC noted the recent report by the Parliamentary Joint Committee on Corporations and Financial Services on the annual reports of ASIC Act bodies. The report indicated that the FRC 2012-13 Annual Report was satisfactory to the Committee. Members noted the recommendation that the FRC implement regular surveys of the financial literacy of directors and publish the results to monitor the effectiveness of the efforts to improve the financial literacy of directors.

## **Item 12 – Other Business**

The Chairman informed the meeting that this would be her last meeting as Chair and thanked Members and the Secretariat for their support during her term. FRC Members noted the very

strong contribution made by the Chairman to the FRC. In particular it was noted that she had added a significant dimension to the FRC, with a governance flavor, raising the level of strategic thinking with the work of the taskforces and in asking probing questions to ensure that issues were not overlooked or neglected. It was also noted that she had devoted a very significant amount of her own time to the role.

**Item 13 – Next meeting**

The next meeting of the FRC is scheduled to be held on Friday, 20 June 2014, in Melbourne at the offices of the AASB, commencing at 10:00 am and finishing at 4:00 pm.