



MINUTES OF PREVIOUS MEETING

ITEM 2.A

RECOMMENDATION

It is recommended that the Council:

- Endorse the minutes from the FRC meeting 30 November 2015 as a true and accurate record of the meeting.

FINANCIAL REPORTING COUNCIL

Minutes – 30 November 2015

Outcomes of the meeting held 30 November 2015 in the TEQSA Boardroom at L14, 530 Collins St Melbourne. The meeting commenced at 10:00am and concluded at 4:00pm.

Item	Agenda item	
1	<p>Introduction (Chair)</p> <p>The Chair declared the meeting open at 10:00, welcoming Brandon Khoo from APRA and Warren Allen from XRB. The Chair noted that Roger Burrows was joining the meeting by teleconference and that Kevin Lewis and John Price would be attending from 11:00.</p> <p>The Chair expressed condolences at the passing of Kevin Simkins and noted his outstanding contributions in the area of financial reporting.</p>	
1.1	Attendees and apologies	
	Participants	Organisation
	Michael Coleman (a/g Chair)	AICD
	Bill Edge	CA ANZ
	Merran Kelsall	AUASB
	Kevin Lewis	ASX
	Kris Peach	AASB
	Stein Helgeby	Finance
	Graeme Mitchell	XRB
	David Nicol	HoTARAC
	Observers/guests	Warren Allen (XRB) Mark Coughlin (CPA Australia) Roger Burrows (G100) John Price (ASIC) Diane Brown (Treasury) Brandon Khoo (APRA)
1.2	<p>Declarations of interest (Chair)</p> <p>There was one amendment to the Declarations of Interest for Bill Edge.</p>	
2	Matters for approval (Chair)	
2.1	<p>Minutes of the previous meeting (Chair)</p> <p>The minutes of the FRC meeting on 1 September 2015 were endorsed by</p>	

	members without amendment.
2.2	<p>Matters arising (Chair)</p> <p>Members noted that all action items from the previous meeting had been completed.</p>
3	Committee Reports
3.a	<p>Audit Quality Committee report</p> <p>The AQC Chair highlighted the committee’s focus on auditor reporting changes. The IAASB Chairman, Deputy and Technical Director had recently visited Australia and New Zealand and helped to spread word of the changes. The AUASB was expected to approve the third tranche of standards at its meeting on 1 December, to come into force with the rest of the package for financial reporting periods ending on or after 15 December, 2016.</p> <p>The AQC Chair noted global trends in audit reporting and that it was awaiting the ASIC Audit Inspection program report.</p> <p>Resolution:</p> <p><i>FRC members noted the Audit Quality Committee report.</i></p>
3.b	<p>Nominations Committee report</p> <p>The FRC discussed the report provided by the Nominations Committee on the recommended appointments to the AUASB.</p> <p>The Nominations Committee (NC) Chair noted the AASB and AUASB peer reviews and that there had been strong performance across both boards. The NC Chair also noted that appointment end dates had been staggered for the AASB board to allow for better continuity.</p> <p>The FRC peer review had been paused, pending the potential restructure of the FRC.</p> <p>The FRC discussed the skills matrix used to assess the vacancies, noting that a strong candidate field had responded to the vacancies and that interviews had been held for the two practitioner vacancies on the AUASB board. The Nominations Committee recommended the appointment of Ashley Wood (PwC) and Carolyn Ralph (KPMG). The AUASB advised that it would continue to maintain connections with two of the other candidates through project work, as they had relevant skills and had expressed interest.</p> <p>The FRC also discussed the future composition and size of the two boards, as discussed more fully under Agenda Item 4a.</p> <p>The AUASB and AASB Chairs requested wording changes to the guidelines to add ‘auditing and assurance’ along with ‘accounting’ and to reflect that board members were not required to be from a firm or corporation.</p> <p>FRC members noted proposed changes to the Nominations Committee Charter and requested that the amended charter be presented to the March 2016 FRC</p>

	<p>meeting.</p> <p>The FRC Chair thanked Mark Coughlin for his work in chairing the Nominations Committee.</p> <p>Resolution:</p> <p><i>FRC members noted the Nominations Committee report; approved the recommendation for the appointment of Ashley Wood and Carolyn Ralph to the AUASB board; approved the recommendations for the re-appointment of Peter Carlson for 1 year and Peter Gibson for 3 years to the AASB and recommended wording changes to the guidelines.</i></p> <p>Action:</p> <p><i>Secretariat to make wording changes to the guidelines and circulate to FRC members for endorsement.</i></p> <p><i>Nominations committee charter to be added to the agenda for the March 2016 FRC meeting and copies of the amended charter to be circulated by Secretariat.</i></p> <p><i>Secretariat to advise AUASB Chair once unsuccessful candidates are notified. She is to provide appropriate feedback to the two firms and some of the candidates.</i></p>
3.c	<p>FRC Working Group – FRC restructure</p> <p>The Chair noted the papers for this item including working group minutes, the PwC paper and responses to it by FRC members.</p> <p>The AASB Chair circulated a benchmarking report comparing the FRC to similar international bodies</p> <p>The Chair recalled that the FRC had been created to oversee the AASB and ensure wide community representation over its work following accounting standards having the force of law. Further functions had since been added including oversight of the AUASB and provision of certain strategic advice to government. It was agreed that it was appropriate to consider whether the FRC’s role needed to be revised again in light of changing circumstances since its establishment.</p> <p>Members discussed the role and functions of the FRC, beginning with the question of the policy problem to be addressed by the establishment and operation by government of the FRC. This included providing oversight of the standard setting process to ensure due process and considering whether the financial reporting framework was operating effectively to support Australia’s needs.</p> <p>It was also noted that the role of the FRC was relevant to then determining the membership of the FRC so it could properly fulfil that role.</p> <p>It was agreed that Treasury would provide a further paper on the role of the FRC in light of the discussion by members at the next meeting of the FRC.</p>

	<p>Action:</p> <p><i>Treasury to draft a proposal in early 2016 regarding the restructure of the FRC.</i></p>
<p>4.</p> <p>4.a</p>	<p>Monitoring of AASB and accounting standards</p> <p>The AASB Chair noted the new format for the report to the FRC and that it had been a particularly productive year. AASB financial reports had been streamlined and key performance indicators (KPIs) placed into the corporate plan. Feedback on the KPIs was welcome from FRC members.</p> <p>The AASB Chair also discussed the efforts by the AASB and AUASB to resolve existing employee remuneration issues and previous breaches of the RIS requirements for post implementation reviews. Processes have been put in place to prevent any reoccurrence of the problem.</p> <p>The AASB Chair also noted the recent examination by the Senate Economics Committee in the area of general purpose/special purpose reports as part of its inquiry into corporate tax avoidance. Media had made statements that there was a trend towards special purpose reports from general purpose reports and the AASB stated that evidence did not support these claims.</p> <p>The AASB Chair also presented a proposal to reduce the size of the AASB Board, which was discussed by the FRC. The AASB had undertaken a benchmarking exercise against equivalent international boards and considered the skill set it needed for future work programmes.</p> <p>The AASB proposed that large firm representation be reduced to two positions and public sector members also be reduced. It was noted that valuer representation would also be useful. Reductions had been discussed with the public sector and the large firms, who expressed a preference that positions be rotated among firms to ensure fair representation. The AASB is introducing the use of project advisory panels to ensure continued engagement of firms and expert advice.</p> <p>The FRC noted that it was important that the AASB had the best possible membership and that the composition of the board needs to continually change to meet the needs of the prevailing environment. It was also noted that this meant there should be no 'formal' policy of rotating membership between the large firms. The Chair also asked whether technical expertise of the reduced membership was an issue. The AASB responded that since the introduction of IFRS there had been an increase of knowledge of IFRS which could now be obtained from more than just the large firms.</p> <p>The AASB advised that board numbers would be reduced by December 2016 when further positions expired.</p> <p>Resolution:</p> <p><i>FRC members agreed to the proposed reduction of the AASB board.</i></p> <p>Action:</p>

	<i>FRC members to provide feedback to the AASB on its KPIs.</i>
5.	<p>Monitoring of AUASB and auditing standards</p> <p>The AUASB Chair presented its report and noted that it had experienced similar remuneration issues to the AASB. The AUASB had been working closely with Treasury to resolve these issues.</p> <p>The AUASB highlighted the recent IAASB visit to Australia which had allowed it to showcase the audit quality and auditor reporting projects.</p> <p>Data analytics and ‘big data’ had been placed on the agenda of the AUASB for possible future work. The IAASB Innovation Working Group was also examining the issues and implications for standards and the practice of audit to accommodate data analytics. The issue would be whether to wait for IAASB action, rather than undertaking an earlier project in Australia.</p> <p>The AUASB Chair noted the expiry of her term in August 2016 and that the Chair position had been discussed with Treasury.</p> <p>The FRC Chair noted that Merran Kelsall was the inaugural AUASB Chair and thanked her for her outstanding contributions to the field.</p> <p>Resolution:</p> <p><i>Members noted the update from the AUASB.</i></p>
6.	<p>Remuneration</p> <p>Treasury advised that the responsibility for reviewing remuneration had moved from FRC to the Remuneration Tribunal following recent legislative amendments, but remained with the FRC until the Tribunal made its first determination. It was hoped that remuneration of AASB and AUASB members would be addressed at a Tribunal meeting on 9 December.</p> <p>Resolution:</p> <p><i>FRC members agreed to defer discussion pending the Remuneration Tribunal decision.</i></p>
7.	<p>Financial Reporting & Auditing Simplification Project</p> <p>Mr Edge presented a project proposal for financial reporting and auditing simplification to be embedded into business as usual for FRC stakeholders. Members were requested to promote the principle in their organisations and highlight issues or actions required by the FRC.</p> <p>Resolution:</p> <p><i>FRC members endorsed the financial reporting and auditing simplification project.</i></p> <p>Action:</p> <p><i>Secretariat to locate previous simplification papers and repost to the FRC website.</i></p> <p><i>FRC members to highlight financial reporting and auditing simplification within</i></p>

	<i>their organisations and to other FRC stakeholders.</i>
8.	Upcoming appointments
8.a	<p>International appointments</p> <p>Members discussed the flow of information from international bodies to the FRC and noted the term expiries and appointments of Australian and New Zealand members on international bodies. FRC members agreed that influence within key international standard setting bodies was critical for Australia and New Zealand.</p> <p>Resolution:</p> <p><i>FRC members noted the update on international appointments.</i></p>
8.b	<p>FRC</p> <p>The Chair of the meeting advised that whilst a new Chair must be appointed by government, it would be appropriate for FRC members to appoint a new deputy Chair in order to effect a smooth transition once his term had expired. The Chair nominated Bill Edge. Members seconded the nomination and endorsed Bill Edge as the new deputy Chair.</p> <p>Resolution:</p> <p><i>FRC members nominated and endorsed Bill Edge as the FRC deputy Chair.</i></p>
9.	<p>International update</p> <p>FRC members welcomed Lynn Wood, who provided an update on international financial reporting issues. It was noted that Japan was in the process of adopting IFRS, while the US had not been active in supporting convergence of standards.</p> <p>Ms Wood noted the current consultation on the IFRS Advisory Council forward agenda. The AASB and CA ANZ were also preparing a submission. Australia would not be represented on the IFRS Advisory Council in the coming year but there would be room for a future nomination.</p> <p>Resolution:</p> <p><i>Members noted the update on international events.</i></p>
10.	Stakeholder reports
AICD	The AICD report was noted, particularly issues with the insolvency regime and whether its primary purpose should be corporate recovery. AICD had also prepared a number of recent submissions which were available on its website.
APRA	APRA provided an update on its recent activities, including a heightened focus on residential mortgage lending. Recommendations from the Financial Systems Inquiry were being progressed, as was a review of ADIs that had early adopted AASB9.
ASIC	ASIC highlighted the pending release of the audit inspection programme report,

	<p>which included findings from financial reporting surveillances. ASIC noted that the large firms prepared audit quality plans and it would be worth sharing what worked well in the plans and what did not. Feedback from FRC was also welcomed on getting the best out of audit committees.</p> <p>ASIC had issued an information sheet for directors on impairment of non-financial assets, a new policy on resignation of auditors and a revised audit report for Australian Financial Services licenses.</p>
ASX	The ASX report noted the release of its consultation paper on reverse takeovers and its review of the operation of listing rule 7.1A.
CA ANZ	The CA ANZ report was noted and their request that FRC members consider the implications of digital disruption for financial reporting in Australia as part of its horizon scanning agenda. The industry was moving towards electronic lodgement of financial reports and away from hard copy practice.
CPA Australia	The CPA report was noted. FRC members noted recent work undertaken by CPA Australia including input into the Australian financial reporting framework project, work on directors' duties and forward looking information disclosures, and development of resources and guidance for the new auditor reporting standards.
Finance	Finance advised that it was working towards reduced disclosure regimes in the public sector. The Belcher review had over 70 recommendations from 130 which involved financial aspects.
G100	FRC members noted the report from the G100 including its ongoing input and support into initiatives such as taxation reform, deregulation and streamlining of financial reports.
HoTARAC	The HoTARAC report provided an update on its activities, noting that it was engaging more with the AASB and with state based stakeholders. FRC members were invited to attend a HoTARAC meeting.
IPA	The IPA report was noted as read.
Treasury	Treasury presented its report including notification of recent changes to Ministers and senior Treasury staff responsible for the FRC. Annual reports had been tabled in Parliament and the Government response to the Financial Systems Inquiry had been released.
XRB	The XRB report was noted. The XRB highlighted the appointment of Warren Allen as Chief Executive of the XRB and advised that its first user-needs research project, <i>Researching Information Needs of Users of New Zealand Capital Market Entity Financial Reports</i> , would be presented within the next week and circulated to FRC members.
	Resolution:

	<i>FRC members noted the reports from stakeholders.</i>
11.	<p>Annual Report</p> <p>The Deputy Chair requested that members consider potential items for the next annual report, to be discussed at the March 2016 meeting.</p>
12.	<p>Other business</p> <p>Mr Edge was joined by the other FRC members in thanking Mr Coleman for his significant and long-standing contribution to the FRC.</p>
13.	<p>Next meeting and close</p> <p>Meeting dates for 2016 were endorsed by members.</p> <p>There being no further business, the Chair closed the meeting at 3.25pm.</p>