

FINANCIAL REPORTING COUNCIL**Draft Minutes – 5 June 2015**

Outcomes of the meeting held 5 June 2015 at the ASIC offices, 100 Market St, Sydney. The meeting commenced at 10:00am and concluded at 3:00pm.

ATTENDEES AND APOLOGIES

FRC Members	Organisation
Michael Coleman (Acting Chair and Deputy Chairman)	AICD
Merran Kelsall	AUASB
Kris Peach	AASB
Ian Laughlin	APRA
Noelle Kelleher	ASFA (via teleconference)
Kevin Lewis	ASX
Ross Barker	BCA
Bill Edge	CA ANZ
Mark Coughlin	CPAA
Stein Helgeby	Finance (via teleconference)
Roger Burrows	G100
Ian Purchas	IPA
Graeme Mitchell	XRB
Invitees	
Rob Sharma	APRA
Diane Brown	Treasury
Doug Niven	ASIC
FRC Secretariat	
Carmela Pavlic Searle	Secretariat
Linda Craige	Secretariat
Lucy Ohlmus	Secretariat
APOLOGIES	
David Nicol	HoTARAC
John Price	ASIC

1) Introduction

a) Attendees and apologies

The Deputy Chair opened the meeting and noted apologies and that Stein Helgeby and Noelle Kelleher would be joining the meeting by teleconference.

FRC members expressed their sadness at the passing of Tony Dale and spoke of the contributions that he had made to the FRC and accounting standards more broadly.

FRC members agreed that in the absence of an appointed Chair, Michael Coleman would act as Chair of the meeting.

The Deputy Chair thanked Ian Laughlin for his contribution and wished him well as he departs the FRC later this year.

b) Declarations of interest

The Deputy Chair noted the declarations of interest. Changes to the declarations were submitted by Bill Edge and Graeme Mitchell.

2) Matters for approval

a) Minutes of previous meeting 6 March 2015

FRC members endorsed the minutes of the previous meeting.

b) Matters arising from previous meeting

The Secretariat advised that the majority of action items had been completed.

3) Committee reports

a) Audit Quality Committee Report

The Chair of the Audit Quality Committee (AQC) reported that a meeting had been held on 1 May 2015. Discussion topics included:

- A presentation by CPA Australia on audit quality methods and auditor review programs;
- A report by CA ANZ on registered company auditors; and
- The release of the Clearer Transparency report.

Members noted the minutes of the May AQC meeting and advised two minor changes.

The FRC discussed the report on "*Registered Company Auditors (RCA) – Summary of Chartered Accountants ANZ Research*". The IPA noted that the document currently only referred to members of CPA Australia or CA ANZ as qualifying to be RCAs, whereas members of IPA also qualified and that the report should be amended to reflect this.

Members noted difficulties in engaging with government bodies at different levels to resolve inconsistencies in the education and registration requirements for auditors, and discussed approaches to progress the issue. It was agreed that specific examples would be useful in informing any correspondence or advice to Government. FRC members agreed to provide examples to the CA

ANZ authors of the RCA report in support of correspondence to Government on the issue. The AASB and AUASB offered to assist with drafting of the correspondence.

FRC members also discussed the report *“Clearer Transparency – Assessing the second year of Audit Firm Transparency Reports in Australia June 2015”* and discussed wording for a supporting media release for the CA ANZ media release. Members endorsed the release of a supporting statement from the FRC Chair.

Resolution:

- *FRC A/g Chair to craft wording for a statement from the FRC supporting the CA ANZ media release. Any members wishing to provide input to the wording of the release are requested to contact Michael Coleman.*
- *RCA paper to be revisited as an out of session (AQC) item to consider the comments by the IPA.*
- *FRC feedback (including the IPA’s comments) to be submitted to Bill Edge, who will collaborate with the authors of the RCA report to collate examples to support correspondence to Government. Merran Kelsall and Kris Peach to assist with drafting.*

b) Nominations Committee report

The Nominations Committee held its first meeting on 11 May 2015. Discussions included:

- Peer review questions for AASB, AUASB and FRC members;
- Amendments to the Nominations Committee charter; and
- International appointments.

The Deputy Chair requested that the minutes be noted and changes to the peer review questions and charter be endorsed.

FRC members discussed the peer review questions for the AASB and AUASB. The FRC endorsed the peer review questions for the AASB and AUASB subject to minor amendments by Merran Kelsall and Kris Peach.

FRC members endorsed the Nominations Committee report.

c) Strategic Planning Committee Report

The Chair of the Strategic Planning Committee (SPC) reported they had met on 11 May 2015.

SPC members had acknowledged difficulties with the current strategic plan and had agreed to remove the SWOT analysis and the environmental scan from future plans as they were more relevant to the financial system as a whole rather than to the FRC.

The SPC had agreed to review the functions of the FRC and asked FRC members for their views. There was discussion about FRC Committees and their functions.

It was agreed that there could be value to Government by the FRC questioning whether the current FRC legislative objectives and functions were still appropriate or whether they required amendment. Discussion was held on whether the remit of the FRC should be broader than just financial reporting, given the comments made by Joanna Perry, Chair of the IASB Advisory Council, regarding the role of the IASB and integrated reporting (see agenda item 8b), whether it was still appropriate for the FRC to be monitoring AASB and AUASB activities and what role the FRC should play with regard to audit quality.

The FRC Chair proposed the creation of a Taskforce to undertake benchmarking and to look at potential ways forward. Members agreed and Finance, AASB, IPA, CPA Australia, CA ANZ, BCA and G100 members expressed interest in joining the working group. The XRB offered to share information on NZ board and strategic body structures with the working group. It was noted that a set of questions needed to be determined for other comparable international jurisdictions to enable appropriate benchmarking.

The Chair suggested that changing the FRC peer review questions could capture information and suggestions for a way forward. It was noted that the FRC members would require the results of the benchmarking exercise to make informed suggestions. Members noted the draft FRC peer review questions had previously reported on the FRC's performance rather than on the performance of individual members. It was also noted that the draft FRC peer review questions had changed substantially since the version presented to the nominations committee.

Action items:

- *The AASB and AUASB peer review questions were endorsed in principle. FRC members noted that the questions required minor amendments.*
- *The FRC Chair requested volunteers for a Taskforce to clarify the FRC's objectives and functions. Finance, AASB, IPA, CPA and CA ANZ, BCA, and G100 volunteered to join the working group.*
- *The AASB agreed to prepare a paper comparing different financial reporting systems across the globe.*

4) Annual Report

The Chair noted that the next major output of the FRC was the annual report, which could be used to provide advice to Government on the issues previously discussed.

Members discussed the draft report structure and provided comments, including suggestions that reports from accounting bodies could be included in the chapter on audit quality, that the Financial Reporting Taskforce report could be brought into the annual report, and that international developments in regulatory policy could also be included.

5) Monitoring of AASB and accounting standards

a) Strategic Plans and KPIs

The AASB reported on its updated strategic directions and Key Performance Indicators. These included exploring expansion of the scope of its activities to cover external reporting, shaping the Australian Reporting Framework, improving the international influence of the AASB and encouraging active stakeholder participation in the development of standards.

FRC members asked that a draft of the AASB's corporate plan be circulated. The AASB noted that its strategic directions were due for review and updating.

Action items:

- *AASB to circulate its corporate plan to the FRC out of session.*
- *The Chair requested that the AASB draft updated strategic directions for the AASB for consideration by the FRC.*

b) Report by AASB Chair on work plan and proposed consultations

The AASB report was noted as read.

6) Monitoring of AUASB and auditing standards

a) Report by AUASB Chairman on work plan and proposed consultations

The FRC noted the AUASB quarterly report and highlighted the auditor reporting project, including roundtables taking place in Toronto on auditor reporting and audit quality the following week. The AUASB compared differences between Canada's and Australia's responses to proposed changes to auditor reporting, as similar jurisdictions, noting that stakeholder engagement in Australia throughout the process had resulted in practitioners, the preparer community and directors better understanding how changes affected them.

Members acknowledged that the most significant changes would be having the opinion at the front of the audit report, going concern issues and key audit matters.

It was noted that the AUASB draft revised strategic plan would be discussed with the AUASB the following week. Comments and feedback on the strategic objectives were sought from FRC members.

The AUASB also noted a reference in its four year strategic plan to the strategic direction given from FRC to AUASB in 2005, which had served the AUASB well and reflected a good relationship between the FRC and AUASB.

The FRC noted that the AUASB was expected to approve a guidance statement relating to grant acquittals and multi scope engagements the following week, an essential component of which would be the communication strategy to government agencies in order to improve utilisation of and compliance with the AUASB framework, particularly for reporting expected by auditors.

Action item: AUASB to circulate the current AUASB corporate plan appendix 2 to the Secretariat for circulation.

7) Upcoming appointments

a) International appointments

Members reviewed the international appointments table and discussed the priority levels of appointments to various bodies. Members endorsed the table and noted that CA ANZ would provide information on further accounting bodies to be included.

Members also discussed candidate nomination processes, observing that many bodies were devoting less funding to this area. The Deputy Chair advised that if critical appointments began to go unfunded the topic could be revisited by the FRC at a later date.

The Council agreed that the Nominations Committee should review and maintain the list of international appointments.

Treasury and XRB advised that they had both written letters in support of the current Australian nomination to ASAF.

Action items:

- *CA ANZ to provide additional information on international appointments to the Secretariat for inclusion in the table.*
- *The Council agreed that the Nominations Committee should review and maintain the list of international appointments*

b) FRC

The Secretariat presented a paper showing the status of FRC appointments and advised that appointment processes were currently in train. Candidates for ASA and FSC had been nominated and the IPA and ASFA members were eligible for reappointment with the approval of their organisations. AICD had not yet nominated a replacement for Michael Coleman. FRC members noted the progress of appointments.

8) International Update

a) IFRS Foundation

The Chair advised members that the IFRS Foundation report included in meeting papers was not the most recent report. In order to receive the most current information from IFRS, it was suggested that Lynne Wood be asked to attend FRC meetings as a guest speaker on IFRS Foundation updates. CA ANZ requested a half page summary at the front of the IFRS Foundation report stating implications for the FRC.

Action item: Lynne Wood to be requested as a guest speaker at FRC meetings on IFRS Foundation matters.

b) IFRS Advisory Council

The Chair introduced Joanna Perry, the NZ representative on IFRSac, who joined the meeting by teleconference. Ms Perry had been in the role for a year. She had previously sat on the NZ FRSB (predecessor to the NZASB) and AASB and is a professional independent director.

Ms Perry noted that the report from the previous meeting and the agenda for the next meeting were publicly available on the IFRSac website. The key focus of the meeting would be on:

- IASB agenda consultation – how the review should be put together;
- consultation and review on structure and effectiveness of the structure as a whole; and
- understanding the Foundation’s strategy.

At the previous meeting key risks and opportunities for the Foundation were discussed with a key message emerging that the Foundation needed more of a leadership role in the integrated reporting space as its focus should not solely be on financial reporting.

c) Members’ comments on updates and impact for Australia

FRC members agreed that more than just financial reporting and statements needed to be viewed as part of a bigger picture of the external reporting framework.

The lack of Australian representation on IFRSac was noted and that the Advisory Council valued a geographical spread amongst its members.

Members discussed FRC activities and potential roles, noting that the strategic plan would provide advice on what the FRC could and should currently do. International changes that came under the remit of the FRC were noted. The XRB added that it was important for Australia and New Zealand to determine what was relevant and fit for purpose here, and how to influence international bodies to ensure the needs of all users were met.

9) Stakeholder reports

a) Discussion of issues arising from stakeholder reports

ASX: The ASX noted it had released two consultation papers during March:

- Proposed changes to ASX Listing Rules Guidance Note 8 *Continuous Disclosure: Listing Rules 3.1 – 3.1B*; and
- Proposed changes to facilitate the dual listing on ASX of entities that are listed on the main board of NZX.

Revised versions of ASX Listing Rules Guidance Notes 3 *Co-operatives and Mutuals Listing on ASX*, 23 *Appendix 4C Cash Flow Reports* and 26 *Management Agreements* had been released and Listing Rules Guidance Note 25 *The Exercise of ASX Discretions* had been withdrawn.

AICD The AICD noted a recent Federal Court decision dealing with conflicts between the requirement for financial statements to present a ‘true and fair view’ and the

requirement to comply with accounting standards. The AICD will be examining the implications of the case for those situations where directors believe that compliance with accounting standards does not represent a true and fair view.

APRA: APRA advised that it had released publications in the areas of banking, superannuation and general and life insurance. Issues around banking, living standards and underwriting had been receiving media attention.

ASIC: ASIC noted that by 30 June it would issue

- surveillance findings;
- media releases on financial reporting focuses;
- an information sheet for directors on impairment of non-financial assets;
- a new policy on resignation of auditors;
- a revised guide on registration of company auditors; and
- a revised audit report for Australian Financial Services licensees.

The directors' financial literacy quiz had received almost 2000 responses with an emphasis on encouraging directors' engagement with financial literacy issues and financial reporting matters. In this light the average score of 4/10 was not of concern.

ASIC also noted that the next audit inspection report would be issued in December 2015.

ASFA: ASFA advised that its current focus was consultation and implementation of the APRA reporting standards. The industry was coming to terms with the APRA standards in conjunction with ASIC requirements.

BCA: FRC members noted the report as read.

CA ANZ: CA ANZ noted the release of three reports relevant to FRC and advised that it would circulate the documents through the Secretariat.

CPA Australia: FRC members noted the report as read.

Finance: Finance highlighted points in its report about complexity in financial reporting and noted a lag in terms of the way individual auditors conducted their business. Issues were also noted on reliable fair value measurement, Reduced Disclosure Requirements and Government Finance Statistics.

IPA: IPA want further discussions with CPA and CA ANZ on remuneration reporting requirements, and standard 720. The IPA will put a submission in to the AUASB.

XRB: The XRB noted its work with the IASB on the Disclosures Project and that disclosures had been determined from the starting point of the objectives to be met. This innovative approach had provided very different results to standard lists of disclosures and it was hoped this would give companies direction about what to put in financial statements.

G100: FRC members noted the report as read.

Treasury: FRC members noted the report as read.

Action items:

- *CA ANZ to circulate links to three reports relevant to FRC members through the Secretariat.*
- *Chair requested that the trend towards simplification of financial statements be noted in the FRC annual report.*

10) Progress regarding corporate bond rates

G100 noted the report and its finding that a robust corporate bond market exists for the purposes of working out a discount factor for valuing employee entitlements. The 'Big Four' firms had adopted the benchmark rate proposed by the G100 and large employers would likely follow. Members cautioned that some entities would not pick up the rate by 30 June and transitional arrangements may be required.

11) Other Business

There was no other business raised by members.

12) Next meeting and close

The meeting was closed at 3:00pm.