



MINUTES

DATE: Wednesday 23 November 2022
TIME: 10:00 am – 3:30 pm
LOCATION: Treasury’s Melbourne office / Videoconference

All agenda items except item 1 were discussed in public.

ITEM	AGENDA ITEM	
	NON-PUBLIC SESSION	
1	MATTERS FOR NON-PUBLIC SESSION	
	This agenda item was discussed in private.	
	PUBLIC SESSION	
2	INTRODUCTION	
2.A	ATTENDEES AND APOLOGIES	
	Members in attendance:	Observers:
	Andrew Mills (Chair)	Tom Dickson (Treasury)
	Tracey Carroll (Deputy Chair)	Matthew Bowd (Treasury)
	Dr Keith Kendall (AASB Chair) (from 10:00am)	Alex Mahdavi (Treasury)
	Bill Edge (AUASB Chair)	James Zhou (Treasury)
	Michele Embling (XRB Chair) (from 11:30am)	Cooper Tym (Treasury)
	Cameron McDonald	John Ngiam (CA ANZ)
	Emma Herd (from 11:15am)	Tiffany Tan (CPA Australia)
	Guests:	Apologies:
	Greg Yanco (ASIC)	Suzanne Bell (FRC Member)
	Thea Eszenyi (ASIC)	Sean Hughes (ASIC)
	Doug Niven (ASIC)	April Mackenzie (XRB)
	Justin Williams (Office of the AASB and AUASB)	
	Anne Waters (Office of the AUASB)	
	Nikole Gyles (Office of the AASB)	
	Matthew Zappulla (Office of the AUASB)	
	Tom Dickson (Treasury)	
	Vaishali Dave (Treasury)	
	Lachlan Alvey (Treasury)	
	Professor Roger Simnett (Deakin University)	
	Professor Ken Trotman (University of New South Wales)	
	Stewart Walters (NSW Treasury)	

2.B	<p>REGISTER OF INTERESTS</p> <p>Members confirmed the agenda items for this meeting did not give rise to a conflict of interest for any member.</p>
3	MATTERS FOR NOTING/ACTION
3.A	<p>MINUTES OF THE PREVIOUS MEETING – 8 SEPTEMBER 2022</p> <p>Members noted the minutes from the FRC meeting on 8 September 2022 which had been approved out-of-session.</p>
3.B	<p>MINUTES OF OUT-OF-SESSION MEETINGS – 27 OCTOBER AND 10 NOVEMBER 2022</p> <p>Members approved the minutes for the 27 October and 10 November 2022 out-of-session meetings.</p>
3.C	<p>MATTERS ARISING</p> <p>Members reviewed the Matters Arising.</p> <ul style="list-style-type: none"> • Pursuant to action item 1, members noted that an out-of-session meeting has been organised for the FRC to discuss the 2021 FRC Peer Review results and the 2022 AASB and AUASB Peer Review results • Pursuant to action item 3: <ul style="list-style-type: none"> – The AASB and AUASB noted that they have not received any notifications regarding their nomination for the Sustainability Standards Advisory Forum. The Boards also provided an update that their latest nomination for the position of an IFRS Foundation Trustee was unsuccessful, and further indicated that they intend to put forth another nomination. – Members noted that the joint submission to the IPSASB consultation on public sector sustainability reporting is referenced in AASB and AUASB Chairs’ reports (see items 4A and 4B). • The FRC Chair reported on the FRC’s decision (made at its 10 November 2022 out-of-session meeting) to start the refresh of the <i>2019 Auditor Disciplinary Process: Review (2019 Review)</i> with the status of the recommendations from that Review and to re-engage with the professional bodies on their audit processes, noting that there had been changes or were likely to be changes to each of the professional bodies’ processes since that Review.
4	OVERSIGHT OF AUSTRALIAN STANDARDS
4.A	<p>AUSTRALIAN ACCOUNTING STANDARDS BOARD</p> <p>Members noted the AASB Chair Report (document 4A).</p> <p>The AASB Chair joined the meeting and highlighted the following:</p> <ul style="list-style-type: none"> • It was noted that since the 8 September 2022 FRC meeting, consultation had closed on Exposure Draft IFRS S1 <i>General Requirements for Disclosure of Sustainability-related Financial Information (S1)</i> and Exposure Draft IFRS S2 <i>Climate-related Disclosures (S2)</i>. • Stakeholder comments on S1 and S2 were considered at the Board’s November meeting. It was noted that there is Board support for S1, but stakeholders have indicated that S2 may be

	<p>replicated too closely with US requirements; overall stakeholder comments indicate that international comparability is paramount.</p> <ul style="list-style-type: none"> • The AASB is also noted that it is heavily involved in Asia-Oceania submission regarding S1. • The AASB has published a discussion paper about Tier 3 reporting for the public and not-for-profit sectors, to be released for a 6-month consultation. • Since the 8 September 2022 FRC meeting, the AASB has also conducted webinar training sessions on digital financial reporting and external reporting for not-for-profit entities.
<p>4.B</p>	<p>AUDITING AND ASSURANCE STANDARDS BOARD</p> <p>Members noted the AUASB Chair Report (document 4B).</p> <ul style="list-style-type: none"> • The AUASB Chair highlighted the following: <ul style="list-style-type: none"> – The IAASB is currently drafting its sustainability assurance standard. : The FRC noted that preparers’ ability to report by deadlines when sustainability reporting reform has settled will be an issue that needs to be addressed. – The AUASB has issued an update to inform stakeholders about sustainability assurance. – The AUASB has released bulletins about technology and its impact on audit, as well as a joint publication with AICD providing guidance on the periodic review of auditors conducted by audit committees. – It has also engaged academics to look into existing research and future research in relation to auditing. • ASIC provided an update that it is has completed a strategic review of its financial reporting work and audit surveillances, noting that going forward, such work will emphasise the role of audit committees and will adopt a more risk-based approach. <ul style="list-style-type: none"> – The FRC agreed to further engage with ASIC, as this work is relevant to the refresh of the <i>2019 Auditor Disciplinary Process: Review</i>. <p>Action</p> <ul style="list-style-type: none"> • The FRC to engage with ASIC further about its work on audit quality, as it is relevant to the refresh of 2019 review.
<p>4.C</p>	<p>OVERSIGHT OF AASB AND AUASB</p> <ul style="list-style-type: none"> • The FRC also discussed the recent appointments to the AASB and AUASB, noting that the successful candidates had the requisite sustainability and accounting expertise. The AASB Chair also confirmed that the AASB is bringing one of the applicants on to its staff. <p>The FRC discussed the AASB and AUASB’s Corporate Plan 2022-23 and Annual Report 2021-22.</p> <ul style="list-style-type: none"> • The AASB provided an update on sustainability staff recruitment, following its funding of \$1 million AUD, announced in the 2022-23 October Budget, noting that the market for relevant sustainability expertise is very tight. • The AASB further indicated that overall staff numbers will increase in the short-term. • In recognising that accounting and assurance skills remain crucial, the FRC agreed that recruitment will therefore be an exercise of achieving a balance between accounting and sustainability skillsets, particularly for preparers.

	<ul style="list-style-type: none"> – The FRC also acknowledged that requisite skills will also change over time as other issues become more prevalent in the financial reporting and assurance space. • The AASB also noted that face to face engagement will be instrumental to building relationships with international standard-setting bodies and to influence the development of international standards. • In discussing the AASB and AUASB Corporate Plan 2022-23: <ul style="list-style-type: none"> – Members discussed the possibility of widening the scope of the Boards’ work and longer term objectives. <ul style="list-style-type: none"> : It was suggested such changes may be relevant to a strategic plan, rather than a corporate plan. : It was also suggested that once a role for the AASB (and AUASB) in a long term sustainability reporting framework is formalised, this could be included in its Corporate Plan. – It was also noted that corporate plans should include measurable actions and KPIs. <ul style="list-style-type: none"> : Members considered whether the current scope of the Corporate Plan covers work on cyber security and the recent casino and banking inquiries. It was noted that a long-term corporate plan which is too detailed may be restrictive amidst a changing financial reporting landscape. : It was suggested that the outcomes of the AASB’s 5-year agenda consultation could inform a possible strategy section of the Corporation Plan. – The FRC agreed that the Corporate Plan is a living document which should change to reflect significant developments. – It was also suggested that the AASB and AUASB could prepare a thought leadership document to raise awareness of emerging issues in the financial reporting and assurance space. – Members discussed how emerging issues (such as cyber security) could be captured by the financial reporting and auditing framework (i.e., whether they are governance issues, whether they should be explicitly captured by the standards, or whether they are relevant to assurance at all). <ul style="list-style-type: none"> : In turn, members noted that many issues are technically captured by the standards, but there is a scope of interpretation with regard to materiality. Members discussed whether guidance would reduce the friction between auditors and companies. • Emma Herd joined the meeting. Members then welcomed Ms Herd to the FRC, who then provided an introduction of herself, her background, and expertise. <p>Action</p> <ul style="list-style-type: none"> • The AASB and AUASB to draft initial/preliminary thought leadership documents about the scope of reporting and assurance requirements, including emerging issues and investor expectations.
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5	INTERVIEWS OF AUDIT COMMITTEE CHAIRS
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	<p>Professor Roger Simnett and Professor Ken Trotman presented the preliminary findings from their interviews of a select sample of Audit Committee Chairs.</p> <p>Action</p> <ul style="list-style-type: none"> Following the release of Professor Simnett and Trotman’s final report, the FRC to further discuss the matters raised during this presentation, particularly the suggestions directed to the FRC, AASB and AUASB.
6	EXTENDED EXTERNAL REPORTING
6.A	<p>SUSTAINABILITY REPORTING</p> <ul style="list-style-type: none"> The FRC agreed that it should only address sustainability matters not covered by the work of the two Boards and any other Government consultation. It was therefore proposed that the FRC could engage with stakeholders on sustainability reporting capabilities and education. <ul style="list-style-type: none"> Members highlighted sustainability reporting organisations from whom entities seek advice – such as Global Reporting Initiative. It was also suggested that one-on-one meetings between certain stakeholders and the FRC Chair would be more beneficial than sending out information requests. The FRC agreed that stakeholder engagement on sustainability could inform any guidance it can provide to the Boards and advice to the Government. It was further agreed that the FRC could develop an educative piece from this consultation. The FRC agreed to add stakeholders to the list attached to item 6A (for example, superannuation funds). It was also suggested that the FRC Chair meet with certain XRB staff to ascertain any further relevant sustainability stakeholders. <ul style="list-style-type: none"> Members noted that no single stakeholder is likely to be able to provide the whole gamut of expertise about sustainability reporting. Members also noted the current uncertainty surrounding the responsibility of particular teams for specific parts of sustainability reports and that companies currently do not appear to have chief sustainability officers. <p>Action</p> <ul style="list-style-type: none"> The FRC to identify any sustainability matters not covered by the AASB, AUASB and any other Government consultations. Based on this assessment, the FRC to undertake stakeholder engagement to inform guidance to the two Boards, advice to the Government, and to develop an educative piece. The FRC to add sustainability stakeholders to the list attached to item 6A (for example, superannuation funds). Emma Herd to circulate a list of proposed sustainability stakeholders to FRC members. FRC Chair to contact the XRB staff to ascertain any additional sustainability stakeholders.
6.B	<p>AUSTRALIAN AND INTERNATIONAL SUSTAINABILITY DEVELOPMENTS</p> <ul style="list-style-type: none"> Members noted that the sustainability updates in the AASB and AUASB Chair reports (see items 4A and 4B). Members also noted that: <ul style="list-style-type: none"> the transition phase of sustainability reporting may be difficult

	<ul style="list-style-type: none"> – companies may decide to align with different thresholds – companies want assurance to safeguard against greenwashing. <ul style="list-style-type: none"> • The FRC also agreed to enquire about the legal and insurance dimensions of sustainability reporting as part of the stakeholder engagement exercise discussed under item 6A. • It was suggested to invite Joanna Perry (IFRS Foundation Trustee) to an FRC meeting to provide an overview of the international environment in relation to the integration of reporting and other financial reporting matters. • It was noted that sustainability reporting standards will only be one element of the Government’s commitment to reduce emissions, and for the FRC consider the role of the standards within this context. <p>Action</p> <ul style="list-style-type: none"> • The FRC to enquire about the legal and insurance dimensions of sustainability reporting as part of its stakeholder engagement discussed under item 6A. • The FRC to invite Joanna Perry to its meetings to provide an overview of the international financial reporting landscape.
7	DIGITAL REPORTING UPDATE – VERBAL
	<ul style="list-style-type: none"> • The AASB Chair provided an update on the AASB’s work on digital financial reporting. <ul style="list-style-type: none"> – In particular, the AASB Chair informed the FRC that the Board has undertaken educative activities since the 8 September 2022 FRC meeting (for example, developing a resources one-pager with relevant stakeholders). • It was noted that the FRC could consider looking into the gap between the demand and the implementation of digital financial reporting.
8	PUBLIC SECTOR ADVISORY GROUP – VERBAL UPDATE
	<ul style="list-style-type: none"> • Tracey Carroll as the Chair of the Public Sector Advisory Group (PSAG) provided an update on the matters below, following PSAG’s 14 November 2022 meeting : <ul style="list-style-type: none"> – the membership and role of the PSAG; and – areas of focus across by the PASG into 2023, including: <ul style="list-style-type: none"> : talent attraction and retention in public sector financial reporting and assurance : public sector sustainability reporting : audit quality and audit themes in the public sector : simplified financial reporting for the public sector. • It was noted that the name change from Public Sector Working Group to PSAG is to reflect and emphasise PSAG’s advisory role to FRC. • It was noted that audit quality in the public sector is different from private sector. As such, the PSAG intends to look into thematic issues arising from audits in different jurisdictions and report to the FRC any issues it should be aware of.

	<ul style="list-style-type: none"> – For example, in both the Commonwealth and NSW, auditors have commented on government expenditure classified as equity investments in financial statements. • It was noted that the Commonwealth Auditor-General had published his annual audit quality report recently and that some of the measures identified in this report may be relevant as indicators for private sector audit quality. • PSAG will invite the Australasian Council of Auditors General to join as an observer in its meetings. PSAG is also open to consider admitting other relevant members or organisations as observers to PSAG. • Stewart Walters, Chair of HoTARAC, noted the following matters: <ul style="list-style-type: none"> – It has been suggested that public sector audits could look into matters of integrity (in addition to financials) to foster trust in Government. <ul style="list-style-type: none"> : Members discussed whether auditors should look at ethics as part of audits and the authorising environment in Government. – It was noted that there is a desire of the general public to see the impact of Government’s policies on the economy, which may pose challenges for public sector auditing on such a broad level. – Recruitment has also been an increasing concern for HoTARAC member jurisdictions.
9	CYBER SECURITY AND FINANCIAL REPORTING
	<ul style="list-style-type: none"> • Members discussed what cyber security standards would look like and what could entities report on, whilst recognising that stakeholders indicate that the current standards are adequate in relation to cyber security. • ASIC noted that it expects license holders and market infrastructure to consider what cyber attack they may come under and what their response would be (e.g., a communications plan). • ASIC provided an update that it is developing a cyber security handbook for financial services licensees. It was proposed that management can implement controls but entities could also report on many matters, including cyber. <ul style="list-style-type: none"> – Members noted that there is a cost of implementing safeguards, but also acknowledged that there is a cost of not doing so. It was therefore suggested that investors may need to know this information. However, it was further noted that entities cannot report on the cost of an attack until it has occurred. – Members also noted the distinction between reporting the of risks and financials, the latter of which is not currently done. Members discussed reporting risks that are not necessarily material and the how this may assist users. <ul style="list-style-type: none"> : As part of this discussion, members considered whether cyber security needs to be recognised as a specific reporting item or whether it is a risk. : It was considered that this type of risk might be considered in the thought leadership work the Boards are preparing (refer to item 4).
10	PUBLIC BENEFICIAL OWNERSHIP - TREASURY CONSULTATION PAPER

	<p>The FRC discussed the Public Beneficial Ownership consultation paper, released by the Treasury. Treasury noted that accounting professionals can play an important role in the collection of information pertaining to beneficial ownership.</p> <ul style="list-style-type: none"> • The FRC noted that in certain trust structures, the beneficiaries are classified in a way that does not give them power/control over the trustee. • It was also noted that beneficiaries could be defined differently, to ensure that the individual receiving any benefits can be identified (to ensure any beneficial ownership register does not merely capture details of a shell company or offshore corporation). • It was further noted that there may be challenges created by custody arrangements.
11	EMERGING ISSUES AND FRC PRIORITIES
11.A	<p>TALENT ATTRACTION AND RETENTION</p> <ul style="list-style-type: none"> • Treasury provided an overview of the status of ‘auditor’ and ‘accountants’ occupations on the National Skills Commission’s (NSC) Skills Priority List. <ul style="list-style-type: none"> – Members further noted that it is unclear what a ‘general accountant’ is. • The FRC Chair provided an update that he has written to the Assistant Treasurer informing him of the talent shortage in the accounting and auditing professions. • The FRC agreed for the FRC Chair and Deputy Chair to meet with senior representatives at the NSC to discuss its methodology of developing the Skills Priority List. <ul style="list-style-type: none"> – It was suggested that the FRC could recommend to the NSC that it could additionally adopt a forward-looking approach when developing its Skills Priority List (e.g., consider the increase in demand for sustainability skills). – It was further suggested that the FRC could engage in the NSC’s consultation process and provide qualitative data to inform the development of the Skills Priority List. • It was also suggested that the FRC Chair could also meet with the senior representatives at the Department of Home Affairs to discuss this issue. • The FRC recognised that appropriate short-term action would be to increase professional visas for accountants and auditors, whilst long-term action could entail increasing the number of paths to enter the profession domestically. • The FRC noted that stakeholders have reported decreasing number of students studying accounting and the increase in tertiary fees. It was also noted that: <ul style="list-style-type: none"> – Australian education requirements are not providing the entrants with the relevant skills to meet demand – accounting is a generalist degree and not all students who study accounting enter the profession. – the recent increase in recruitment by firms to address attrition. • The FRC discussed other influences on the number of entrants into the profession, such as media coverage of audit, which has largely been negative. <p>Action</p> <ul style="list-style-type: none"> • The FRC Secretariat to organise a meeting between the FRC Chair and Deputy Chair with senior representatives at the NSC and the Department of Home Affairs.

11.B	<p>ROYAL COMMISSIONS AND INQUIRIES</p> <p>The AASB Chair reported that the AASB staff reviewed the reports following the inquiries and determined that there was nothing of relevance with the standards. This matter had also been covered in earlier discussion at item 4.</p>
11.C	<p>AUDITOR DISCIPLINARY PROCESSES</p> <p>The FRC Chair noted that the minutes for the 10 November 2022 out-of-session meeting include the details on all FRC decisions about its work on auditor disciplinary processes.</p>
12	MONITORING AND INFLUENCING AUSTRALIAN DEVELOPMENTS
12.A	<p>INTERNATIONAL DEVELOPMENTS</p> <ul style="list-style-type: none"> • The FRC noted the international developments in item 12A. <p>Action</p> <ul style="list-style-type: none"> • The FRC Secretariat to reach out to the XRB to collaborate on the updates, to the FRC and XRB, on international developments. • The FRC Secretariat to highlight significant international developments in the meeting papers.
12.B	<p>XRB UPDATE – VERBAL</p> <p>The XRB Chair provided a verbal update on the XRB’s work, highlighting the following:</p> <ul style="list-style-type: none"> • The XRB plans to approve the climate standards (for issuance in December) at its meeting on 24 November 2022. <ul style="list-style-type: none"> – The XRB team is also developing associated guidance for issuance in Q1 2023 together with an extensive outreach plan. • The XRB continues to encourage and monitor the development of climate sector scenarios, to help entities compare between industries. • The XRB is currently developing mandatory, temporary assurance standards on greenhouse gas disclosures, to be released in December 2023. <ul style="list-style-type: none"> – This enables assurance on IAASB or International Organization for Standardization (ISO) equivalents. – It was noted that there are already Australian requirements related to emissions. Members discussed how sustainability reporting will intersect with these requirements.
13	MONITORING AND INFLUENCING AUSTRALIAN DEVELOPMENTS
13.A	<p>STAKEHOLDER REPORTS</p> <ul style="list-style-type: none"> • The FRC noted the 8 Stakeholder Reports. • It was noted that the FRC has previously discussed the prospect of BLRF acting as an advisor on integrated reporting. • The FRC agreed to reach out to the BLRF as a valued stakeholder to seek advice on this matter and other relevant issues, when appropriate. The FRC also agreed to also provide feedback to the BLRF.

	<ul style="list-style-type: none"> – However, as part of this discussion, the FRC noted that it takes a balanced approach to stakeholder engagement; further flagging that immediate issues (such as sustainability) are steps towards integrated reporting, a longer-term goal. • Members also noted the opposing views of AICD and CA ANZ regarding digital financial reporting. <p>Action</p> <ul style="list-style-type: none"> • The FRC to reach out to the BLRF as a valued stakeholder to seek relevant advice on integrated reporting, and other relevant issues; the FRC to also provide feedback to the BLRF. • Bill Edge to obtain, and circulate, a list of BLRF members, if this list is accessible.
14	OTHER BUSINESS
14.A	<p>NOMINATIONS COMMITTEE</p> <ul style="list-style-type: none"> • The FRC Chair (the Acting Nominations Committee Chair from 31 August 2022 to 10 November 2022) provided an update on the Nominations Committee’s work. <ul style="list-style-type: none"> – Suzanne Bell has been appointed as the Chair of the Nominations Committee. – It was noted that the five part-time members recently appointed to the AASB and AUASB, possess strong expertise in sustainability reporting. • The Nominations Committee is currently preparing the relevant documents to reappoint two AASB members and one AUASB member, whose terms will expire in December 2022.
14.B	<p>CORRESPONDENCE RECEIVED AND SENT</p> <p>FRC Chair noted the letter to the Assistant Treasurer about the talent shortage in the accounting and auditing profession.</p>
14.C	<p>KEY ACTION ITEMS SUMMARY</p> <ul style="list-style-type: none"> • The FRC Chair and Secretariat provided a brief summary of the action items arising from this meeting. • It was also noted that the Australian Sustainability Finance Institute (ASFI) will publish a consultation paper on sustainable taxonomy. It was suggested that the FRC could consider this at its next meeting to help the FRC understand the intersection and gaps between different classification systems. <p>Action Items</p> <ul style="list-style-type: none"> • FRC Secretariat to circulate relevant media updates about financial reporting and audit to all FRC members (as well as the FRC Chair). • The FRC to consider the ASFI’s sustainability taxonomy consultation at its March 2023 meeting.
15	NEXT MEETING AND CLOSE
	<p>Action</p> <ul style="list-style-type: none"> • The FRC Secretariat to move the March 2023 meeting, due to a clash with an AASB meeting.