Outcomes of the meeting held on 15 March 2013 at the offices of the Institute of Chartered Accountants Australia, Level 9, 33 Erskine St, Sydney. The meeting commenced at 9:05 am and concluded at 3:00 pm.

Attendance

**FRC Members**
Ms Lynn Wood (Chairman) (from 9:40 am)
Mr Michael Coleman (Deputy Chairman)
Mr Ross Barker (by telephone)
Mr Roger Burrows
Mr Mark Coughlin (until 2:25 pm)
Mr Andrew Fleming (by telephone)
Dr Stein Helgeby (until 2:30 pm)
Ms Noelle Kelleher
Ms Merran Kelsall (from 9:55 am)
Mr Ian Laughlin
Mr Kevin Lewis
Mr Jim Murphy (from 9:55 am until 2:45 pm)
Mr Ian Purchas (until 2:20 pm)
Mr Kevin Simpkins (by telephone from 9:50 am)
Mr Kevin Stevenson
Ms Jan West AM

**Invitees**
Mr John Price (Australian Securities and Investments Commission) (from 12:30 pm)
Mr Vas Kolesnikoff (former FRC member) for lunch and subsequent items
Mr Jeffrey Lucy AM (IFRS Trustees) – by telephone, agenda item 8(b)

**FRC Secretariat**
Mr Bruce Paine (from 9:40 am)
Mr Bruce Donald (Secretary)
Ms Erin Flynn

**Apologies**
Ms Belinda Gibson
Mr Grant Hehir

**Item 1 – Introduction**

(a) Welcome

The Deputy Chairman welcomed Members to the Meeting, noting that the Chairman, Merran Kelsall and Jim Murphy would be arriving later due to an appearance at the Parliamentary Joint Committee (PJC) on Corporations and Financial Services (ASIC Oversight) hearing being held that morning. It was noted that Ms Gibson was unavoidably unable to attend what would have been her last meeting
as an FRC member, and Members thanked her for her contribution to the FRC. Mr Price attended as an observer, in her place (also following an appearance at the PJC). It was also noted that Mr Kolesnikoff would attend as an observer, and Members thanked him as well for his contribution to the FRC.

(b) Apologies

See attendance list for details.

(c) 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 66th Meeting, held in Melbourne on 5 December 2012, were approved. No out-of-session votes were held prior to the meeting.

(b) Matters arising

There were a number of matters arising from the 66th Meeting, and the actions taken in respect of them, were noted as follows:

1. The Secretary distributed a summary document relating to the Asian Century White Paper on 26 February.
2. The Financial Report Task Force has been established with Ross Barker chairing its first meeting on 19 February.
3. FRC stakeholders have updated their responses to the recommendations of the Managing Complexity Task Force and Board Education Task Force reports released in 2012.
4. The Audit Quality Committee charter was placed on the FRC website on 7 February 2013.
5. The 2013 Ken Spencer Memorial Lecture would be considered under Agenda Item 7(g).
6. The FRC’s Memoranda of Understanding with other bodies was considered under Agenda Item 3.
7. A report of the FRC’s Performance of Functions was considered under Agenda Item 3.
8. The Financial Report Task Force is to consider how to make available a list of technical terms and acronyms used by the FRC beyond the current Appendix to the annual report.

(c) Recommendation of the Public Sector Task Force regarding GAAP GFS harmonisation

The recommendation of the PSTF was accepted: namely, that the FRC agree to the AASB’s proposal not to proceed with issuing a standard to implement the previously agreed Phase 2 of GAAP GFS harmonisation, given the likely costs and benefits of the measure. It was agreed that the AASB would ensure the members of the Public Sector Task Force would be alerted to AASB developments likely to be of significance to the public sector.

(d) Consideration of Deputy Chair reappointment

The Deputy Chairman, Mr Michael Coleman, was reappointed unopposed and thanked for his continuing contribution.
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.
- It was noted that the annual Australian contribution to the IFRS Foundation had been paid.
- It was agreed that the FRC Secretariat would write to parties with which the FRC has a Memorandum of Understanding (MOU) to open discussions with these bodies on renewing MOUs, or replacing them with letters of agreement regarding information exchanges (or service level agreements, SLAs), in line with the FRC’s revised role and the resultant changes in information needs. In some cases the MOU will need to become two-way given the FRC’s responsibilities in providing strategic advice to some MOU bodies.

Item 4 – FRC Strategic Plan

The Chairman thanked the Strategic Plan Committee for its work on revising the Strategic Plan, ensuring that it is consistent with the *ASIC Act 2001*. Given that a revised draft had been circulated to Members in the last few days before the meeting it was agreed that:

- Members would provide comments to Bruce Paine (SPC Secretary) within one week of the meeting on the Strategic Plan and Performance of Functions documents;
- Bruce Paine will redraft the draft based on the discussion, and any received comments; and
- The redrafted Strategic Plan and Performance of Functions document would be sent to stakeholder bodies and Members for their consideration, and approval at the June meeting.

It was agreed that while the draft could be distributed to the Boards of the AASB, AUASB and XRB, it was not for general distribution at this point.

It was also agreed that the SPC would advise the FRC on draft resolutions concerning financial reporting for the G20 to consider in 2014.

Item 5 – Report on meeting with the PST and PJC hearing

(a) Meeting with the PST

The Chairman reported on the meeting she had with the Parliamentary Secretary to the Treasurer (PST), Mr Bernie Ripoll, MP on 12 March in Canberra. Issues raised included: financial reporting issues relating to the G20 agenda for 2014; issues arising at the PST’s meeting with Stephen Haddrill (FRC(UK) Chairman); the PJC hearing; financial literacy and the work of the FRC on implementing the recommendations of the Board Education Task Force; complexity in financial reporting and the Managing Complexity Task Force recommendations; developments in integrated reporting; public sector financial reporting; the FRC Strategic Plan; FRC appointments; and the Ken Spencer Memorial Lecture. The PST indicated that he intends to attend the June FRC meeting, and that the Government attaches importance to having gender diversity in the representation of the financial reporting community.
(b) Briefing on PJC

The PJC held an ASIC Oversight hearing on the morning of 15 March 2013, on audit issues and the FRC Chairman and Mr Jim Murphy attended for the FRC, with Mr Bruce Paine representing the FRC Secretariat. Ms Merran Kelsall attended in her role as chair of the AUASB. Ms Liz Stamford of the ICAA also attended the same session. ASIC Commissioners attended a subsequent hearing. In her statement to the PJC, the Chairman set out the current responsibilities of various parties with respect to financial reports, including directors, auditors, ASIC, the AUASB and the FRC, as set out in the Corporations Act 2001. She also discussed the FRC’s revised responsibilities under the Corporations Legislation Amendment Act 2012, and the establishment of the FRC Audit Quality Committee to advise the FRC on meeting these responsibilities.

Item 6 – Oversight of Australian standards-setting arrangements

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

The FRC noted Mr Stevenson’s report, which reports against the AASB’s strategic plan. Mr Stevenson highlighted some key messages for the FRC:

• The AASB held two meetings since the last FRC meeting, and achieved substantive progress on a number of key projects.

• The AASB had significant involvement with AOSSG issues.

• The AASB and AOSSG had been nominated to the IASB’s Accounting Standards Advisory Forum.

• The AASB released an Exposure Draft to adopt IASB amendments creating an investment entity exception from consolidation; and to propose significant Australian additional disclosures.
  
  – Some concerns were expressed about additional disclosures, and the consultation process was discussed.

• AASB members and staff held discussions with Ian Mackintosh and Steve Cooper of the IASB.

• Liaison has been conducted with a number of stakeholders e.g. ABS staff regarding GAAP GFS reporting.

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

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

Key international developments:

The AUASB had been both tracking and providing input to international activity, particularly the work of the IAASB. The underlying theme that pervaded much of the activity and thinking worldwide is consideration of audit quality (and the impact on audit quality of potential regulatory changes). There continue to be challenges to the (traditional) role of auditors and consideration of further regulation in many contexts. Some of the principal developments include:
• The IAASB project on Auditor Reporting continued to move rapidly with an extra Board meeting scheduled in the first half of the year in order to meet the deadline of approving exposure drafts of revised standards at the June Board meeting.

  – The Auditor Reporting project encompasses what had been called auditor commentary. This was to be retitled, and the focus of “key audit matters” will move to the auditor’s views on major items in the audit, expected to have been discussed with audit committees and possibly the engagement quality control reviewer.

• The IASB and IFRIC have engaged with the IAASB on going concern matters. A revision to IAS 1 will be considered by the IASB, with a possible exposure draft later in 2013.

• In the European Union, all parties were waiting to see the outcome of the complex European Commission (EC) and European Parliament processes for consideration of the EC Green Paper. The Federation of European Accountants, FEE, published a paper comparing the key differences between the EU frameworks of auditor independence provisions and the International Ethics Standards Board for Accountants (IESBA) Code.

• In the UK the FRC(UK) had published proposals for implementing the Sharman Committee recommendations, essentially placing more expectations on directors/audit committees to provide more information on risks and business models together with going concern information and auditor reporting. The UK Competition Commission released its provisional findings that “competition in the audit market is restricted”.

• There was considerable activity within Canada regarding its audit quality project.

• In the US the PCAOB issued a Staff Audit Practice Alert Maintaining and Applying Professional Skepticism in Audits.

Australian developments:

• The AUASB revised two standards on reviews covering:

  – Those not undertaken by an auditor, following the recent release of the revised international standard. The AUASB now required an understanding of internal control, and as such will prepare a guidance statement to give greater information and examples to practitioners.

  – ACNC reporting entities, with more guidance also useful to the non-audit experienced practitioners who are expected to undertake this work.

• The AUASB agreed to issue an exposure draft following discussion of the new IAASB standards on using the work of internal auditors. The new IAASB standard allows the use of direct assistance where the audit firm directly engages the internal auditor – a common practice in SOX engagements in the US. The AUASB has decided not to incorporate the use of direct assistance, to avoid compromising independence, but will consult with stakeholders via roundtables, and issuing an exposure draft for comment.

• The AUASB issued a guidance statement bridging the greenhouse gas standard and the complex environment to cover the various schemes regulated by the Clean Energy Regulator.
The AUASB had embarked on a project plan to provide guidance on composite audits, including reporting on grant acquittals.

The AUASB will conduct roundtables on the IAASB consultation paper on Audit Quality, also providing background for the Chairman’s input on IAASB taskforces and meetings.

**Item 7 – Matters for Discussion**

(a) Follow up from Board Education and Managing Complexity Task Force Reports

The FRC noted the reports on follow-up actions taken by FRC stakeholder bodies in relation to the Managing Complexity and Board Education Task Force reports. In particular the FRC noted the progress made by the ICAA, CPA Australia, AICD and ASIC in collaborating to provide a free short self-test of financial literacy for directors – with useful links to courses available to improve their financial literacy – to be posted on the ASIC website.

It was requested that FRC stakeholder bodies advise the Secretariat of any additional actions they have taken by 31 May 2013 so they can be discussed at the June FRC meeting, and published on the FRC website, and included in the FRC annual report at which point the documents will be finalised and the monitoring of follow-up actions completed. It was requested that a reminder be sent to Members and stakeholders before the next FRC meeting.

(b) Audit Quality Committee report

Mr Coleman reported that the AQC had met the preceding Wednesday and that draft minutes, prepared by the Secretary, Ms Erin Flynn, had already been circulated to Members. Ms Gibson had attended this meeting, and her participation had contributed immensely to the direction of the Committee. He also noted that Mr Kolesnikoff and the Australian Shareholders Association had been valuable representatives, especially through the survey of retail investors (the perception of audit), the results of which had been included in the FRC response to the IAASB invitation to comment on Auditor Reporting. He also noted the ASIC Inspection Report which had been issued on 4 December 2012, and which had drawn out three key areas of concern:

- Scepticism;
- Audit documentation (basis for judgments); and
- Reliance on third parties.

ASIC’s concerns had been picked up on, and had led to the invitation to the PJC hearing for the FRC and AUASB.

It is intended that the AQC will meet every quarter. The first task for the Committee will be developing a response for the FRC to the IAASB Framework for Audit Quality which can include comment on the paper’s suggested approach to the definition of the term. The further work plan for the Committee, will include:

- Developing a definition of ‘audit quality’;
- Professional scepticism
- Quality concerns more generally; and
- The audit expectations gap.
There was considerable discussion of the last point, with the suggestion that the term had a negative connotation and that it tended to encourage a defensive approach from the industry.

It was noted that the Australian Public Policy Committee (APPC) had offered to conduct some work on the last issue in conjunction with the AQC and it was agreed that it could be more productive for this work to focus on helping an understanding of the value of audit, i.e. a positive interpretation of the audit expectations gap. The engagement of the APPC in suggesting this work was noted.

It was also noted that the IASB project to provide greater clarity on the term going concern was likely to have an impact in Australia.

(c) Nominations Committee report

Ms West noted that the Nominations Committee was soon to restart the intensive phase of its annual activity - from May to December – unchanged, including:

- Peer reviews of the two Boards and the FRC;
- A review of the skills matrix of the two Boards;
- Collation and review of the results (noting that the FRC results were done entirely by the Secretariat and sent to the Chairman); and
- Review of applications to the Boards, shortlisting and recommendations.
(d) **Financial Report Task Force report**

Mr Barker noted that the Task Force was established to follow up on the first recommendation of the Managing Complexity Task Force report: that the FRC examine how the current financial reporting regime for the types of reporting entities in Australia can be best explained and understood, and if needed seek rationalization of the regime, for example, through further deregulation of who needs to report.

Mr Barker reported that the Task Force had held its first meeting on 19 February 2013. It was agreed at the meeting the first task will be to map out the various reporting schemes and auditing requirements applicable to entities, including requirements under the Corporations Act 2001, cooperatives financial reporting requirements, not-for-profit reporting requirements etc. As part of this process, the Task Force will also map out the various regulators that regulate the various reporting schemes. There was discussion at the meeting to ensure that the work of the Task Force remained within the FRC’s purview.

(e) **Integrated Reporting Task Force report**

Mr Burrows reported that the Task Force had not met since the previous FRC meeting. The International Integrated Reporting Council (IIRC) is expected to release a consultative draft of its prototype integrated reporting framework in April 2013. The Task Force will prepare a submission to the consultative draft to be reviewed by the FRC at the June meeting. On 18 February 2013 the Task Force issued a revised version of its explanatory paper *What do we mean by the term ‘Financial Reporting’ especially in relation to Integrated Reporting?* to incorporate comments made by the IIRC.

(f) **Public Sector Task Force report**

The PSTF’s work plan for 2013 was outlined to the FRC:

- The PSTF plans to meet once a year, in order to undertake an environmental scan of upcoming issues that will impact on public sector reporting and governance, for input into the AASB’s planning process;

- At this meeting the PSTF has made a recommendation to the FRC regarding the AASB’s GAAP GFS harmonisation proposal (see agenda item 2(c)); and

- The PSTF will engage in and facilitate HoTARAC’s efforts in its development of a simplified reporting regime to reduce complexity in public sector financial reporting.

The meeting received a report on a meeting with Professor Bergmann (Chair IPSASB), during his recent visit to Australia, and noted that the FRC had provided input to the IFAC Monitoring Group (MG) Roundtable on the governance of public sector accounting standards. It was also noted that the PSTF had already met the earlier tasks set for it: developing a package of documents on the Australian public sector financial reporting system, and making a submission to the PIOB/MG consultation. It was agreed that, in light of the ongoing nature of its work, the PSTF would be renamed the Public Sector Committee (PSC).

(g) **Ken Spencer Memorial Lecture 2013**

The FRC discussed possible alternatives for the next Ken Spencer Memorial Lecture (KSML) given the unavailability of European Commissioner Barnier. It was noted that the FRC Secretariat did not
contain the appropriate resources for organising such an event, and that the AASB and AUASB might be better suited to arranging this event, co-branding with the FRC. It was agreed that the FRC would delegate a decision on a way forward to the Chairman, Deputy Chairman, and Chairs of the standards setting boards, and that any further suggestions be sent to the FRC Secretary.

Item 8 – International Update

(a) International Developments

The Chairman advised the meeting of a number of proposals she had put forward to the G20 Taskforce, organising Australia’s agenda for the G20 in 2014, and to the B20, the business leaders group from the G20 nations providing private sector input. These would focus on:

• Promoting IFRS as a single set of global accounting standards;
• Promoting high quality public sector standards based financial reporting; and
• Promoting a better understanding of the relationship between integrated reporting and financial reporting.

The Chairman also updated members on a number of other key international developments relating to financial reporting, and positions on international bodies becoming vacant. It was also noted that the FRC had supported the nominations of the AASB and the AOSSG to the IASB’s Accounting Standards Advisory Forum.

(b) IFRS Foundation report

Mr Lucy reported that the Trustees were meeting after Easter, and that this meeting would be important. He noted that nominations had been called for regarding an Asian-Oceanian representative and that it is very important for Australia to be represented. Regarding the Accounting Standards Advisory Forum he mentioned that the Trustees Executive had met to discuss the IASB’s recommendations. He noted that the AASB was greatly respected and would be very likely to be represented.

Regarding the prospects of convergence with US FASB, and adoption of IFRS by the US, Mr Lucy said that the Trustees had been encouraged by their dialogue with the SEC, and believed that the continuing G20 recommendations are important. In this context, Australia’s role as the G20 chair in 2014 is extremely important. The Chairman noted that the SPC had been tasked with crafting recommendations to the G20 and B20 on financial reporting issues, and that the FRC would appreciate Mr Lucy’s input to make these as effective as possible. Mr Lucy noted that the Trustees were engaging broadly on G20 related matters.

(c) IFRS Advisory Council Report

The Chairman discussed feedback she had received from Mr Macek noting he had raised the importance of having financial reporting issues on the G20 agenda and had assisted the FRC with relevant contacts. He had also advised that the Advisory Council held concerns about the clarity of the proposed ASAF’s role.
Item 9 – Reports by stakeholders

(a) Report on CAMAC

The Corporations and Capital Markets Advisory Committee (CAMAC) provided a paper on its three current projects:

• Charitable trusts administered by licensed trustee companies – relates to the fees, charges, and processes for changing the trustee, with a report due by end of May 2013;

• Managed investment schemes – CAMAC is preparing a discussion paper, to focus on matters concerning the establishment and operation of managed investment schemes; and

• The AGM and shareholder engagement – CAMAC has published a third update of its discussion paper in December 2012, and has commenced a roundtable consultation process. Issues relating to financial reporting include:
  – Do current reporting requirements produce any unnecessary information in annual reports; and
  – Should reporting requirements be redesigned, such as having a strategic report and an annual directors statement.

(b) Reports by Members

Matters raised by Members included:

AICD: Mr Coleman indicated that the Australian Institute of Company Directors (AICD) was organising a meeting with Mervyn King and Paul Druckman of the IIRC during their forthcoming visit to Australia. The AICD would respond to the FRC(UK) regarding its proposed response to the Sharman Committee, expressing concerns that it represented a new form of auditor reporting and governance activity. The AICD also expressed concern over changes to the executive remuneration regime. It was noted that the Chairman had forwarded to Treasury a recent Mallesons report on the directors’ expectations gap.

APRA: Mr Laughlin noted that a number of new prudential requirements would come into force from 1 July 2013, including MySuper. APRA had just approved the first MySuper arrangements. APRA is working on level 3 prudential requirements for conglomerates, with some draft standards already issued and those on risk management and capital to be released shortly.

ASA: Mr Kolesnikoff drew the meeting’s attention to the 20th National ASA Conference that would be held 6-8 May in Sydney with a number of high profile speakers including Mr Medcraft (ASIC) and Mr Funke Kupper (ASX).

ASFA: Ms Kelleher indicated that ASFA and funds have been doing a lot of work on MySuper issues, although they were still waiting for the final reporting standards.

ASIC: Mr Price drew the meeting’s attention to a number of issues on which ASIC had been working, including:

• Financial Reporting Surveillance;
• Audit Quality;
• Market Structure Issues;
• Emergence of High frequency trading and dark pools;
• MySuper;
• The Future of Financial Advice initiative; and
• Proposed insolvency profession reforms.

ASX: Mr Lewis noted the ASX had published its final guidance note on continuous disclosure and related materials and that a link to them had been circulated to members of the Council by email.

BCA: Mr Barker reported that the BCA had been working on:
• An economic blueprint for Australia;
• Efficient regulation, reflecting concerns that multiple changes were raising costs for business;
• Executive remuneration where the BCA had concerns that proposed changes would increase complexity; and
• An options paper on special purpose financial reporting.

FSC: Mr Fleming indicated that the Financial Services Council was making a submission to Treasury regarding Executive Remuneration; and was also working on MySuper and CAMAC’s Future of the AGM project

G100: Mr Burrows indicated that the G100 was reviewing the CFO Code of Conduct, in parallel with APESB, due to the evolution of the CFO role. It would cover 8 principles including integrity and objectivity (which relates to scepticism). Other matters of interest to the G100 included: the corporate bond market; and High Frequency Trading. The first G100 National Congress for three years will take place on 28 May, and an invitation was extended to all FRC members.

ICAA: Ms West reported that the ICAA was working on financial literacy issues, and coordinating the development of material for the new ASIC page on financial reporting as mentioned earlier in the meeting at agenda item 7(a).

XRB: Mr Simpkins informed the meeting that the Financial Reporting Bill to implement the New Zealand government’s proposed changes to reporting and assurance requirements of all entities (which would both regulate some entities and deregulate others) was before Parliament, currently being considered by the Commerce Committee. He noted that the XRB had held a public seminar attended by 2000 people to discuss the NFP Reporting Entity Working Group paper issued in late 2012, which proposed simple format reporting requirements including audit requirements. He also mentioned that the XRB had recently held a Trans-Tasman event, a Seminar with Warren McGregor My time at the IASB and challenges for the future.

Item 11 – Other Business

Mr Stevenson drew the FRC’s attention to the recent passing away of Professor Jean Kerr, the first female lecturer in accounting at an Australia university, who had made important academic and standards setting contributions. Members offered their condolences.
Item 12 – Next meeting

The next meeting of the FRC is scheduled to be held on Thursday, 13 June 2013 at the offices of the Australian Accounting Standards Board, Melbourne commencing at 9:00 am.