

FINANCIAL REPORTING COUNCIL

Draft Minutes of 62nd Meeting

14 December 2011

Outcomes of the meeting held on 14 December 2011 at the offices of the Australian Accounting Standards Board, Level 7, 600 Bourke Street, Melbourne. The meeting commenced at 9.00am and concluded at 2.00pm.

Attendance

FRC Members Ms Lynn Wood (Chairman); Mr Michael Coleman; Mr Mark Coughlin; Mr Andrew Fleming; Mr Grant Hehir; Dr Stein Helgeby; Ms Noelle Kelleher; Ms Merran Kelsall; Mr Vas Kolesnikoff; Mr Ian Laughlin; Mr Kevin Lewis; Mr Jim Murphy; Mr John Stanhope; Mr Kevin Stevenson; Ms Jan West AM; Mr Klaus Zimmermann.

Invitees Mr Michael Dwyer; Mr Tony Dale (Chief Executive, External Reporting Board, New Zealand); Mr James Chisholm (Australian Treasury); Ms Ronita Ram (Australian Treasury); Mr Richard Mifsud (Auditing and Assurance Standards Board); Ms Susan Pascoe AM (Australian Treasury, agenda item 3(a)); Mr Jeffrey Lucy AM (IFRS Foundation, agenda item 3(b)) (by telephone); Mr Geoff Miller (Australian Treasury, agenda item 3(c)); Ms Judith Downes (IFRS Advisory Committee, agenda item 3(d)).

FRC Secretariat Mr Michael Lim (Secretary); Mr Les Pascoe.

Apologies Mr Bruce Brook; Mr Kevin Simpkins.

Item 1 – Introduction

(a) Welcome

The FRC Chairman, Ms Lynn Wood, welcomed Members and other attendees to the meeting. In particular, the Chairman welcomed Mr Andrew Fleming, who has been appointed to the FRC on the nomination of the Financial Services Council, and invited him to inform other Members of his background and experience.

(b) Declarations of Interest

No new interests were declared by FRC Members.

Item 2 – Matters for approval

(a) Minutes of previous meeting, matters arising from that meeting and out-of-session votes

The Minutes of the 61st Meeting, held in Sydney on 7 September 2011, were approved.

Particulars of matters arising from the 61st Meeting, and the actions taken in respect of them, were noted.

One vote has been conducted by circular resolution since the last FRC meeting. Particulars of the vote are:

- On 28 September, the FRC's 18 Members were invited to approve the FRC's 2010-11 annual report, subject to any minor or technical amendments that may be required. Thirteen votes approving the report were received prior to the voting deadline of cob Tuesday, 4 October.

(b) Ken Spencer Memorial Lecture 2012

The Meeting considered a Secretariat paper outlining proposed arrangements for the 2012 Ken Spencer Memorial Lecture. FRC Members agreed the 2012 Lecture should be given by Mr Warren McGregor in Melbourne on Tuesday, 29 May 2012. Members also agreed the FRC Secretary should consult Mr McGregor concerning a topic for the Lecture.

(c) Nominations Committee report

FRC Members noted the report by Ms West, Chairman of the Nominations Committee, on the work of the Committee since the last FRC meeting. The Council approved the Committee's recommendations that the people listed below be appointed, or reappointed, to the AASB and AUASB for terms of three years (unless shown otherwise) commencing on 1 January 2012:

- **AASB**
Reappointments: Victor Clarke (two years), Ian McPhee, John O'Grady and Brett Rix
New appointments: Liane Papaelias and Carmen Ridley
- **AUASB**
Reappointments: Elizabeth Johnstone, Colin Murphy, Greg Pound and David Simmonds (one year)
New appointments: Nonna Martinov-Bennie

Item 3 – Reports by stakeholders

(a) Not-for-profit reporting

Ms Susan Pascoe AM, Chairman of the Implementation Taskforce overseeing the establishment of the Australian Charities and Not-for-profits Commission (ACNC), briefed FRC Members on the work of the Taskforce to date. Members raised particular concerns about the wide variations in reporting requirements imposed on charities in acquittal processes. Dr Helgeby said that the Department of Finance and Deregulation was doing work on streamlining requirements, and that he would be happy to brief the Council in this regard. He noted that the cooperation of the States and Territories was vital for the success of this project. Members also raised the issue of the role the Taskforce and the ACNC intended to play in setting financial reporting standards. Ms Pascoe said she intended to work closely with the AASB and the AUASB in this area.

(b) IFRS Foundation report

Mr Jeffrey Lucy AM, a Trustee of the IFRS Foundation, reported to FRC Members on recent activities of the Foundation, focusing on the recently announced appointment of Michel Prada as the Chairman of the IFRS Foundation Trustees, the announcement of a slight delay in the SEC's forthcoming decision on IFRS adoption in the USA and the matters arising for the meeting of the Trustees in Singapore in January 2012.

(c) XBRL update

Mr Geoff Miller, General Manager of the Australian Treasury's Standard Business Reporting Division, updated FRC Members on recent developments concerning the adoption of SBR in Australia. He noted that uptake had been limited to date, especially among small and medium-sized enterprises, and that a range of strategies were being implemented to address this issue. These included some limited mandating of SBR (for example as part of the Government's Stronger Super legislation), the provision of incentives, closing

down competing channels and better education, for example among accountants. Mr Miller confirmed that the SBR team is involved in key projects such as the work of the Implementation Taskforce headed by Ms Pascoe and the project for streamlining acquittal requirements mentioned by Mr Helgeby.

(d) IFRS Advisory Council

Ms Judith Downes, a member of the IFRS Advisory Council, briefed FRC Members on the Council meeting held in London on 10-11 October 2011. A general discussion was held on how the FRC could involve itself more in the work of Ms Downes and the Advisory Council. Ms Downes said she was happy to assist in bringing matters of key interest for the FRC to the attention of the Advisory Council. She was also prepared to provide the agenda papers for the Advisory Council's meetings to the FRC Secretariat prior to the meetings, and to accept comments and views from the FRC on the matters raised in the papers.

Item 4 – Matters for discussion – strategic plan

(a) Review of Task Forces

(i) Member views

The FRC Chairman reported on the views expressed by Members in the peer review discussions she had conducted with them in relation to the FRC and the Task Forces. Members were generally pleased with the Task Forces and the opportunity they provided for the FRC to engage with the critical issues in financial reporting.

Members considered that the FRC was making a valuable contribution to the debate on financial reporting, which was in part due to the Task Forces but also attributable to the fact that the current membership provided a very good mix of skills, experience and personal willingness to engage and make a contribution. Members discussed how to sustain the quality of the FRC's work and agreed that the FRC Chairman should visit stakeholder organisations before new members were appointed, to discuss with them the desirable skills, experience and personal qualities of the persons they nominated. It was also agreed that departing Members should discuss the succession issue with their stakeholder organisations before they left.

The suggestion was made and supported that a review of the guidelines on the FRC website in relation to the FRC's performance of its functions should occur and that the results should be discussed at the next FRC meeting.

(ii) Discussion paper with Treasury comments

Mr Chisholm presented a Treasury paper including a range of comments on the operation of each of the Task Forces. The paper proposed that the work of the Task Forces should be reviewed in the light of three key questions, as follows:

- Do the issues tackled by the Task Forces represent the key problems faced by preparers and users of financial reports?
- Are the issues being examined at least partially amenable to solutions that are identifiable and reasonably straightforward to implement?
- Are there ways to streamline the work of the Task Forces by coordinating it with that being done by other stakeholders or among the Task Forces themselves to avoid duplication?

Key discussion points included the following:

- Members agreed that the Task Forces were doing useful and in some respects innovative work. The production of a survey questionnaire by the Board Education Task Force was cited as an example of a fresh approach to examining an issue. The posting of the draft IIRC submission on the FRC website for comment before finalisation was also mentioned;
- It was important to avoid duplication of work between some of the Task Forces and Treasury. Some specific instances were discussed and it was agreed that clear communication between Chairmen of the Task Forces and Treasury would be helpful; and
- The Task Forces were considered to be addressing key issues in financial reporting. Next steps for each Task Force were discussed, with all Task Forces confirming that there was still work to be done in dealing with their issues.

(b) Task Force Reports

Reports were presented to the FRC meeting by, or on behalf of, the Chairmen of the FRC's five Task Forces:

- Integrated Reporting Task Force (IRTF) (Mr Stanhope);
- Reducing Complexity Task Force (RCTF) (presented by Mr Dwyer);
- Board Education Task Force (BETF) (Mr Lewis);
- Audit Quality Task Force (AQTF) (Mr Coleman); and
- Public Sector Financial Reporting Task Force (PSFRTF) (Mr Hehir).

Matters raised in respect of these reports during either their presentation to the FRC or the subsequent discussion of them included:

- The submission drafted by the IRTF in response to the consultation paper issued by the International Integrated Reporting Council (IIRC) was approved by Members. The ITRF will now enter a stage where it will be mainly monitoring the activities of the IIRC and Australian participants in the pilot. Treasury will also be doing more policy analysis in this area, and will keep the FRC informed of its progress where necessary.
- The RCTF aims to finalise a report on its conclusions in the first half of next year.
- The BETF's questionnaires are likely to be released early next year following some final consultation on their content and wording. Further action by the BETF will depend on the results of the survey.
- A discussion was held on the draft legislation released by the European Commission (EC) containing a series of reforms to the regulation of auditing and audit firms in the European Union. It was agreed that Treasury will analyse the proposals and their potential impact on Australian stakeholders, as well as any potential opportunities for putting forward Australia's point of view. It was, however, agreed that care needs to be taken in choosing the right time and vehicle for intervening, as the process in finalising the proposals will essentially be an internal procedure involving EU member governments and the European Parliament.

- The PSFRTF presented its report on the monitoring work it had done on IPSAS in conjunction with a limited number of key stakeholders. The main conclusion was that no further action was required at this stage, and that the PSFRTF would continue to monitor developments in public sector financial reporting, including in relation to IPSAS and the IPSASB. It was also agreed that a further discussion should take place in the FRC about the possibility of Australia playing a greater role in promoting the use of high quality public sector financial reporting standards internationally. It was noted that IFAC is holding a conference on sovereign debt in Vienna in March next year and speakers have been arranged from Australia and NZ.

Item 5 – Matters for discussion

(a) Chairman’s overseas trip - report

FRC Members noted a report on the visits by the FRC Chairman and Secretary to a range of overseas stakeholders in Hong Kong, Paris, Brussels, London, New York and Washington in October 2011. She noted that discussions during this trip formed the basis of the recent FRC submission on the IASB agenda consultation.

(b) Report by FRC Secretary

The meeting noted a report by the FRC Secretary which covered key events since the last FRC meeting and provided a brief outlook for the period until the next FRC meeting.

(c) Oversight of Australian standards-setting arrangements

(i) Report of AASB

Mr Stevenson reported to the FRC on recent activities of the AASB including the successful recent AAOSSG meeting in Melbourne. He was congratulated on his new position as Chair of AOSSG.

(ii) Report of AUASB

Ms Kelsall’s report on recent and current activities of the AUASB was noted by the meeting.

(d) Report on NZ XRB activities

FRC Members noted Mr Dale’s report on the main activities of the XRB since the last FRC meeting.

(e) Members’ items that require action by FRC

No matters requiring action by the FRC were raised by Members.

Item 6 – Matters for noting

(a) Audit Quality in Australia: A strategic review

Mr Murphy provided FRC Members with a status report on the exposure draft of the Corporations Legislation Amendment (Audit Enhancement) Bill 2011. Comments made by Mr Murphy included:

- Treasury had received 16 submissions when the consultation period on the Bill closed on 28 October including one from the FRC Audit Quality Task Force;

- Treasury has analysed the submissions and sent a brief to the Parliamentary Secretary to the Treasurer for his consideration; and
- Treasury is working towards the introduction of the Bill during the early part of the 2012 Autumn sittings.

(b) Corporate Reporting Reform Act – follow-up amendments

Mr Murphy provided FRC Members with an update on action to address stakeholder concerns about the dividends test and some other amendments made by the Corporate Reporting Reform Act. In his update, Mr Murphy indicated that, on 28 November, the Parliamentary Secretary to the Treasurer released a discussion paper relating to the test for payment of dividends in section 254T of the Corporations Act, parent entity reporting requirements and the conditions for changing the financial year of a company. The deadline for submissions is 30 January 2012.

(c) G20 and FSB issues

Mr Murphy reported to the meeting on relevant G20 and FSB activities occurring since the FRC meeting in September. Matters mentioned by Mr Murphy in his report included:

- The G20 Cannes Summit Final Declaration (for the meeting held on 3-4 November) reaffirmed the Group's objective to achieve a single set of high quality global accounting standards and called on the IASB and the FASB to complete their convergence project. The Declaration also indicated that the Group looks forward to the completion of proposals to reform the IASB governance framework.
- Prior to the Summit, the Financial Stability Board (FSB) prepared a 'traffic lights scoreboard' documenting the progress being made in implementing various G20 recommendations for strengthening financial stability. Of the four G20 recommendations relating to strengthening and converging accounting standards, one (relating to the MOU projects between the IASB and FASB) was given a red signal while another (about a G20 request to improve certain standards and reduce the complexity of standards) received an amber signal.
- A decision to strengthen the FSB's capacity, resources and governance, including strengthening of its coordination role vis-à-vis other standard setting bodies (SSB) on policy development and implementation monitoring, avoiding any functional overlaps and recognising the independence of the SSBs.

Item 7 – Other business

The following items of other business were raised at the meeting:

- The FRC Chairman informed the meeting that two Members, Michael Dwyer and Klaus Zimmermann, are retiring from the Council. She took the opportunity to thank them for the contributions they had made during their respective terms of office.
- It was agreed that the Corporations and Markets Advisory Committee (CAMAC) should be invited to attend the next FRC meeting.
- It was noted that Kevin Simpkins, Chairman of the New Zealand External Accounting Board and FRC Member, had been awarded the "2011 Outstanding Service to the Profession Award" by the New

Zealand Institute of Chartered Accountants. The FRC Chairman expressed her congratulations on behalf of the FRC to Mr Simpkins.

No other matters of other business were raised at the meeting.

Item 8 – Next Meeting

The next meeting of the FRC will be in Sydney on 9 March 2012.

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