

AGENDA PAPER

IFRS Advisory Council Meeting

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TOPIC IFRS Foundation: Strategy for Memoranda of Understanding (MoUs)

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This paper has been prepared for discussion at a public meeting of the IFRS Advisory Council. The views expressed in this paper are those of the authors. Comments made in relation to the application of an IFRS do not purport to be acceptable or unacceptable application of that IFRS.

Introduction

1. The purpose of this session is to outline the IFRS Foundation's (the Foundation) strategy for entering into agreements with other international and jurisdictional organisations, usually in the form of Memoranda of Understanding (MoUs) and to seek the Advisory Council's views on that strategy.

Background

2. Over the years, the Foundation has entered into a number of agreements with various international and national organisations with similar interests and purposes. The purpose of such agreements has been to facilitate mutual support, technical co-operation and educational exchanges. Agreements have most often been referred to as MoUs. In general terms, an MoU is a document describing a bilateral or multilateral agreement between two or more parties. It expresses a convergence of will between the parties, indicating a common intention. It is therefore usually signed by all parties. MoUs are often used in cases in which parties either do not intend to create a legal commitment or in situations in which the parties cannot create a legally enforceable agreement. It is a more formal alternative to a gentlemen's agreement. The strength of an MoU, however, is that it facilitates the exchange of information and mutual co-operation, while accommodating the differences between parties and their respective jurisdictional legislation.
3. A number of agreements have been concluded as Statement of Protocols for Co-operation. A Protocol usually implies a more practical approach to a co-operation agreement, but to all intents and purposes the Protocols negotiated by the Foundation are no different to MoUs. In all instances, the arrangements denote a loose form of co-operation agreement.

The Foundation's existing arrangements

4. The agreements that the Foundation (or, in some cases, the IASB) has entered into are as follows:

- **Jurisdictional agreements:**

- MoU between the IASB and the Brazilian Federal Council of Accounting (CFC) and the Brazilian Pronouncements Committee ('CPC') (2010);
- MoU between the IASB and the Accounting Standards Board of Japan ('ASBJ') (2007); and
- MoU between the IASB the US Financial Accounting Standards Board ('FASB'), also known as the Norwalk Agreement (2002).

- **International agreements:**

- MoU between the Foundation and the International Actuarial Association ('IAA') (2012);
- MoU between the Foundation and the members of the ASAF (2013);
- Protocol between the Foundation and the International Organization of Securities Commissions ('IOSCO') (2013);
- MoU between the Foundation and the International Integrated Reporting Council ('IIRC') (2013; renewed 2014);
- MoU between the IASB and the International Federation of Accountants ('IFAC') (2011; renewed as an MoU between the Foundation and IFAC 2014—to be confirmed);
- Protocol between the Foundation and the European Securities and Markets Authority ('ESMA') (2014); and
- MoU between the Foundation and the International Valuation Standards Committee ('IVSC') (2014).

- **Constitutional agreement:**

- MoU between the Foundation Trustees and the members of the Monitoring Board (MB) (2009).

5. Most of the MoUs have review clauses that provide an opportunity for the parties to consider whether they should continue and, if so, whether that MoU should be revised.

6. IFRS [website](#) provides more details about the agreements.

Criteria for governing the agreement of MoUs with other organisations

7. As IFRS has been adopted in over 100 countries around the globe, there has been increased stakeholder interest in working with the Foundation, whether on a formal or informal basis. Noting this trend, in October 2013 the Trustees considered adopting independent criteria to determine the conditions of agreement with third-party organisations. These would serve as a useful checklist for Trustees, thereby ensuring that appropriate due diligence is carried out to guard against any potential reputational risks, would allow for complete transparency in the decision-making process and would facilitate accountability to all stakeholders concerned.

8. The checklist of criteria that the Trustees considered and agreed at that meeting is as follows:

6.1 Matters relating to the organisation and its senior personnel:

- The financial stability of the proposed co-operating organisation should ensure that it is, and is perceived as being, independent.
- The proposed engaging organisation should be of sound reputation, both nationally and internationally.
- The proposed engaging organisation should be a credible, well-established independent body with sufficient technical expertise in the field.
- The management and senior personnel of the proposed engaging organisation should be well-respected individuals, whether in their technical or professional capacity, with sound reputations.
- The organisation's work and publications should be of high quality.

6.2 Matters relating to the strategic needs for formal engagement:

- Whether the proposed engaging organisation has a common interest with the mission and goals of the Foundation, such that engagement would facilitate and promote the objectives of the Foundation.
- The Foundation's reputation and international credibility should be enhanced, or at least not diminished.
- Whether there is a need for formal engagement, or whether existing working practices and co-operation are sufficient.
- The effect of the engagement on staff resource and time commitment. Formal engagements that are not adequately resourced and progressed, where such an expectation exists, risk the Foundation losing credibility. This could have negative reputational consequences for the Foundation.
- The effect of the proposed engagement upon the Foundation's other bilateral or multilateral agreements or engagements, and whether there is a risk that

- the proposed engagement might have a consequential negative impact on other parties.
- Whether the proposed engaging organisation is in a field with which the Foundation may wish to co-operate. Would there be an impression of inappropriate endorsement, favouritism or exclusivity?
 - Might the proposed engagement have a negative impact upon the governance structures of the Foundation and on Trustee relations with the individual members of the various governance or stakeholder bodies?
 - Is there a potential for beneficial synergies and efficiencies, which will enhance the output and quality of work produced by both organisations?

Questions for the Council

Question 1: How might the MoUs be used to further enhance the strategic objectives of the Foundation?

Question 2: Does the Advisory Council have any views or suggestions relating to the MoU criteria set out in the paper?