

MEMORANDUM OF UNDERSTANDING TO STRENGTHEN THE INSTITUTIONAL
FRAMEWORK OF THE INTERNATIONAL FINANCIAL REPORTING STANDARDS
FOUNDATION

PREAMBLE

The European Commission, the International Organization of Securities Commissions, the Financial Services Agency of Japan, and United States Securities and Exchange Commission (collectively referred to as “capital markets authorities” for the purposes of this Memorandum of Understanding), which together represent authorities responsible for setting the form and content of financial reporting in the majority of the world’s capital markets, and the Trustees of the International Financial Reporting Standards Foundation (“IFRSF”):

Considering that capital markets authorities are generally charged with the development and administration of accounting standards;

Considering that capital markets authorities historically have looked to private or stand-alone bodies to assist in establishing accounting standards;

Considering that capital markets authorities generally oversee national accounting standard setters to ensure that they are capable of improving the accuracy, transparency, comparability and effectiveness of financial reporting and the protection of investor interests;

Considering that accounting standard-setters should strive to keep their standards current to reflect changes in the business environment, as well as consider promptly emerging accounting issues and changing business practices;

Recognizing that the International Accounting Standards Board (“IASB”) is a stand-alone international accounting standard-setter committed to developing, in the public interest, a single set of high quality, understandable and enforceable global standards, also known as International Financial Reporting Standards (“IFRS”);

Recognizing that the IASB develops accounting standards for use by companies from developed and developing economies;

Recognizing that IFRS are increasingly used around the world, yet the IFRSF has no formal relationship to capital market authorities;

Asserting that establishing a formal relationship between capital markets authorities and the IFRSF will facilitate the ability of these authorities to effectively discharge their mandates relating to investor protection, market integrity and capital formation;

Recognizing that the IASB is overseen by an independent body, the IFRSF, which is charged with serving the public interest;

Having regard to the IFRSF Governance Review and in pursuit of constituting an effective and sound governance structure around the activities of the IFRSF;

Desiring to further enhance the public accountability of the IFRSF to support the increasing use of IFRS around the world;

Recognizing that the IFRSF has changed its constitution to recognize the role of the IFRSF Monitoring Board in reinforcing the public accountability of the IFRSF Trustees;

Affirming and supporting the independence of the IFRSF in setting high-quality accounting standards, through the IASB, for use around the world;

Desiring to help strengthen this independence by supporting the establishment of a non-voluntary, transparent and stable funding platform for the IFRSF.

Have reached the following understanding:

ARTICLE I: DEFINITIONS

For purposes of this Memorandum of Understanding (“MOU”),

1. “IFRSF Monitoring Board” or “Monitoring Board” means a body established by agreement among its members, the mission and operation of which are described in its charter. Its relationship to the IFRSF is described in this MOU. Its initial members were:

- The European Commission;
- The Emerging Markets Committee and the Technical Committee of the International Organization of Securities Commissions (“IOSCO”);
- The Financial Services Agency of Japan; and
- The US Securities and Exchange Commission.

The Basel Committee on Banking Supervision shall participate in the IFRSF Monitoring Board as an observer with voice but no vote.

2. “IFRSF Constitution” means the 2009 Constitution of the IFRSF, as amended from time to time.¹
3. “Trustees” means the Trustees of the IFRSF, whose roles are described in the IFRSF Constitution.

ARTICLE II: GENERAL PROVISIONS

4. The IFRSF Monitoring Board and the Trustees agree to collaborate in the manner specified in this MOU.
5. This MOU does not alter the terms of the relationship between the Trustees and the IASB. This MOU also does not alter the Trustees’ responsibilities as described in the IFRSF Constitution.

ARTICLE III: PURPOSE AND DUTIES OF THE IFRSF MONITORING BOARD

6. Purpose of the IFRSF Monitoring Board

The primary purpose of the IFRSF Monitoring Board is to serve as a mechanism for formal interaction between capital markets authorities and the IFRSF, thereby facilitating the ability of capital market authorities that allow or require the use of IFRS in their jurisdictions to effectively discharge their mandates relating to investor protection, market integrity and capital formation. The IFRSF Monitoring Board will help ensure the public accountability of the IFRSF by monitoring and

¹ Located at www.iasb.gov.

reinforcing the public interest oversight function of the IFRSF, as well as to promote the continued development of IFRS as a high-quality set of global accounting standards.

7. Duties of the IFRSF Monitoring Board

The principal responsibilities of the IFRSF Monitoring Board are to:

- i) Participate in the Trustee nominations process;
- ii) Approve Trustee nominees;
- iii) Provide input on IASB Chair selection;
- iv) Review the adequacy and appropriateness of Trustee arrangements for financing the IASB;
- v) Review the Trustees' oversight of the IASB's standard setting process, in particular with respect to its due process arrangements;
- vi) Confer with the Trustees regarding their responsibilities, in particular in relation to the regulatory, legal and policy developments that are pertinent to the IFRSF's oversight of the IASB; and
- vii) Refer matters of broad public interest related to financial reporting for consideration by the IASB through the IFRSF.

8. Trustee Selection

- A. Criteria for the selection or reappointment of a Trustee are those contained in the IFRSF Constitution.
- B. In accordance with paragraph 7 of the IFRSF Constitution, the Trustees shall establish procedures to invite applications for Trustee positions, including advertising vacant positions. These procedures shall be agreed by the IFRSF Monitoring Board. The Selection process will be administered by the Trustees in a transparent manner.
- C. The Trustees will propose a candidate for each open Trustee position. The Trustees shall provide the reasoning behind their choice of candidate. The IFRSF Monitoring Board may submit names for the Trustees' consideration.
- D. Each Trustee candidate must be approved by the IFRSF Monitoring Board.
- E. The Trustees will nominate a Chair from among their members, subject to the approval of the IFRSF Monitoring Board.

9. IASB Chair selection

- A. The IFRSF Trustees have the ultimate responsibility for selecting the IASB Chair.
- B. The IFRSF Monitoring Board will agree with the Trustees on a set of criteria for selecting potential candidates, which will be documented and made public.
- C. The IFRSF Monitoring Board will submit to the Trustees its assessment of a short list of candidates against the criteria, for the Trustees' reference.

10. IASB Oversight, Due Process and Funding

- A. The IFRSF Monitoring Board will confer with the Trustees regarding their oversight responsibilities in the following principal areas:
 - i. procedures relating to the due process and general oversight of the IASB;
 - ii. the IASB's agenda-setting process and work program, including the adequacy of the IASB's resources in the light of its work program;
 - iii. the adequacy of the IASB's procedures to ensure prompt and fair consideration of changes to IFRS accounting principles and standards so as to take into account emerging accounting issues and changing business practices;
 - iv. the IASB's due process, including the process for carrying out impact assessments and cost-benefit analyses;
 - v. the IASB's efforts to improve the accuracy and effectiveness of financial reporting and to protect investors; and
 - vi. the adequacy and appropriateness of the sources of funding and any other revenue arrangements of the IFRSF, as well as the annual budget of the IFRSF.
- B. The IFRSF Monitoring Board may refer accounting issues to, and will confer regarding these issues with, the Trustees and the IASB Chair².
 - i. The Trustees will work with IASB to ensure these issues are addressed in a timely manner.
 - ii. If the IASB determines that consideration of the issue(s) identified by the IFRSF Monitoring Board is not advisable or that the issue(s) cannot be resolved within the time frame suggested by the Monitoring Board, the Trustees should:
 - 1. call on the IASB to undertake all reasonable efforts to consider

² In all cases, it is understood that the Monitoring Board will neither influence the decision-making process nor challenge the decisions made by the IASB with regard to its standard-setting.

- issue(s) in a manner that is consistent with the public interest, taking into account the protection of investors;
2. call on the IASB to explain its position through the Trustees regarding the IASB's position on the issue(s), including demonstration to the Trustees and the Monitoring Board that adding the matter to the IASB agenda would be inconsistent with the standard-setting responsibilities established in the IFRSF Constitution; and
 3. promptly notify the IFRSF Monitoring Board of the IASB's position.

ARTICLE IV: COMMUNICATION BETWEEN THE IFRSF MONITORING BOARD AND THE TRUSTEES

11. The Trustees shall communicate with the IFRSF Monitoring Board regarding their work, including in the following ways:

- A. The Trustees shall report on the work of the IFRSF annually in writing;
- B. The Trustees shall meet regularly with the IFRSF Monitoring Board to discuss its work. By common agreement of the two Chairpersons, other organizations with public policy responsibilities related to financial reporting may be invited to participate in these meetings on an *ad hoc* basis;
- C. Upon request of the IFRSF Monitoring Board, the Trustees, the Chairman of the Trustees, or the Chairpersons of the Trustees and the IASB shall meet with the IFRSF Monitoring Board regarding any area of work of either the IFRSF or the IASB. Without limitation, these discussions may cover the status of any matter that the IFRSF Monitoring Board has referred for timely consideration by the IFRSF and/or the IASB.
- D. The IFRSF Monitoring Board members shall update the IFRSF and/or its staff on significant events in the regulatory environment (including those that relate to audit requirements and practices), or other areas to assist the IFRSF in carrying out its responsibilities.
- E. From time to time, the IFRSF Monitoring Board and the Trustees shall discuss the functioning of this MOU and discuss whether changes are appropriate. Changes must be approved by a consensus among all signatories to this MOU.
- F. All signatories to this MOU mean the IFRSF Monitoring Board members listed in Appendix C of the "CHARTER OF THE IFRSF MONITORING BOARD" and the IFRSF Trustees.

ARTICLE V: TERMINATION

12. The IFRSF Monitoring Board or the Trustees may terminate this MOU upon 60 days written notice.