1. Attendance, Opening Remarks, and Approval of Minutes

1.1 Attendance – Toronto, Canada

Voting Members
- Andreas Bergmann (Chair)
- Stuart Barr
- Ian Carruthers
- Robert Dacey
- Mariano D’Amore
- Rachid El Bejjet
- Guohua Huang
- Kenji Izawa
- Aracelly Méndez
- Thomas Müller-Marqués Berger
- Leonardo Nascimento
- Guy Piolé
- Jeannine Poggiolini
- Adriana Tiron Tudor
- Wan Selamah Wan Sulaiman
- Ken Warren
- Abdullah Yusuf

Technical Advisors
- Stefan Berger (Mr. Bergmann)
- Lindy Bodewig (Ms. Poggiolini)
- Takeo Fukiya (Mr. Izawa)
- Baudouin Griton (Mr. Piolé)
- Fabrizio Mocavini (Mr. D’Amore)
- Renée Pichard (Mr. Barr)
- Juan Moreno Real (Ms. Mendez)
- Riaz Rehman (Mr. Yusuf)
- Joanne Scott (Mr. Warren)
- Gillian Waldbauer (Mr. Müller-Marqués Berger)
- David Watkins (Mr. Carruthers)

Apologies:
- Ron Salole (Deputy Chair)
- Tim Youngberry
- Tim Beauchamp (Mr. Salole)
- Aziz El Khattabi (Mr. El Bejjet)
- Yangchun Lu (Mr. Huang)
- Yangchun Lu (Mr. Huang)¹
- Rasmimi Ramli (Wan Sulaiman)²
- Joanna Spencer (Mr. Youngberry)

¹ Yang Zhang attended this meeting in place of Yangchun Lu
² Er Beng Kiong attended this meeting in place of Rasmimi Ramli
The Chair opened the meeting by welcoming members to Toronto. The Chair introduced James Gunn who becomes Managing Director, Professional Standards effective July 1, 2014.

The IPSASB reviewed the draft minutes of the March 2014 meeting and approved these with no amendments.

The observer from Eurostat provided an update on the progress of EPSASs. The proposed governance structures of the EPSASs were discussed in the context of the responses to the Consultation Paper issued late in 2013. It was noted that most stakeholders are hesitant to create another oversight mechanism. The Chair noted the contradictory nature of responses to the EPSAS governance and the IPSASB governance consultations, highlighting that independent oversight has been strongly supported for the IPSASB and yet was not supported for EPSASs.

3 Valencia Williams-Baker attended this meeting with Dinara Alieva
4 Norbert Gaspar attended this meeting with John Verrinder
5 Nicolas Munsch attended in place of Martin Koehler
6 Nerea Lastras attended on June 24 in place of Brian Quinn
A study of the IPSASs is currently being finalized on a standard by standard basis which will highlight any technical issues with the implementation of IPSASs and possible areas for further work. The European Commission is planning to issue a Communication on accrual accounting which will set out key principles and structures for the implementation of EPSASs. This Communication will be supported by an impact assessment and is expected to be released in October 2014.

The IPSASB received the IASB tracking table for information.

2. Governance (Agenda Item 2)

The IPSASB received an update on the IPSASB Governance Review, from Jón Blöndal, the Secretary to the Review Group. Mr. Blöndal provided a preliminary analysis of the responses to the public Consultation Paper issued by the Review Group in January 2014, which had a comment period ending April 30, 2014. The Review Group was pleased with the detailed comments received and the goodwill of the exercise and noted their thanks to staff of the IMF and World Bank as well as to the IPSASB and staff.

Mr. Blöndal provided an overview of the results on the various questions in the Consultation Paper, noting a clear preference among respondents for option b, at least in the short term. Option b proposed establishing separate monitoring and oversight bodies for the IPSASB, while it remains under the auspices of IFAC. There were also a number of comments suggesting that the monitoring and oversight functions could be combined in a single oversight body and the Review Group is considering these comments. Other issues raised in the responses include the implementation of a Consultative Advisory Group (CAG), the need for transparency regarding the costs of any arrangements established and the need for sustainable funding for the IPSASB.

The next meeting of the Review Group will be held in September 2014 where an approach to IPSASB governance will be discussed in light of the comments received.

Mr. Blöndal noted that in terms of next steps the Review Group members are currently seeking legal advice about their ability to participate as members of a future oversight body.

The Executive Director Professional Standards and External Relations thanked Mr. Blöndal and the Review Group for their work and encouraged them to develop a vision for oversight in an expeditious manner.

Members asked a number of questions and provided comments on the responses and the process, many expressing gratitude to the Review Group for their leadership in moving things forward. There were a number of comments about what the mandate of the oversight body should be vis a vis the IPSASB’s mandate and ensuring that there is a clear delineation to ensure that the public interest is protected. Members also encouraged the Review Group to address specific details of oversight arrangements in the next steps in order to ensure that appropriate structures are developed and implemented as soon as feasible. Mr. Blöndal indicated that the Review Group is keenly aware of the need to move things forward expeditiously and noted that the Review Group’s goal is to have draft terms of reference for an oversight body developed for the September meeting. This will ensure discussions of a concrete option at that time.

The need for a CAG as an interlocutor between the oversight body and the IPSASB was highlighted as was the desire to ensure that the IPSASB’s work and processes are not interrupted but rather enhanced by any oversight structures.

The Chair thanked Mr. Blöndal and asked him to also thank the other members of the Review Group for their efforts. He highlighted his satisfaction with the consultation since it clarified a number of questions and has been helpful in moving forward to next steps.
3. GBEs (Agenda Item 3)

Staff outlined that that in accordance with directions at the March 2014 meeting the draft Consultation Paper (CP):

- Included Option 1b, which would enhance alignment with the statistical bases of accounting;
- Included an analysis of the impact of each option on convergence with (i) Government Finance Statistics (GFS) reporting guidelines; and (ii) the Preface to IPSASs and current IPSASs; and,
- Had been restructured.

Approach to evaluating impact of options on convergence with GFS reporting guidelines

Members expressed concerns that the inclusion of the analysis of the consequences for convergence with GFS in each option biased the CP too heavily towards Option 1b. The IPSASB decided to retain Option 1b, but directed that the paragraphs on the consequences of the options for convergence with GFS reporting guidelines and for the Preface to IPSASs and current IPSASs should be deleted.

Clarifying the differences between Option 2a and Option 2b

The IPSASB noted that, although the text asserted that a difference between Option 2a and 2b was that the criterion of non-reliance on continuing government funding would be strengthened by relating to the going concern principle for the financial statements, later text did not reflect such a difference; both options contained a reference to the entity being able to prepare its financial statements on a going concern basis without being reliant on continuing government funding (other than purchases of outputs at arm’s length). It was therefore decided to delete the reference to going concern in the context of the financial statements from Option 2a.

Title of CP

Staff informed the IPSASB that a Task Based Group (TBG) member had expressed a view that the CP is primarily concerned with the scope of IPSASs rather than specifically GBEs and that the title should reflect this. Staff acknowledged this point, but were reluctant to lose the term ‘GBE’ completely because the project had been known as ‘Government Business Enterprises’ since its inception and entitling the CP simply ‘The Scope of IPSASs’ might risk confusion that the CP is part of the Conceptual Framework. Another member expressed the view that the project was more about the applicability of IPSASs to GBEs. Consistent with these views, the IPSASB decided that the title of the CP should be: The applicability of IPSASs to Government Business Enterprises and other public sector entities.

Preliminary view

The IPSASB expressed a unanimous preliminary view (PV) in support of Approach 1: Do not define a Government Business Enterprise (GBE), but describe the characteristics of public sector entities for which the IPSASB is developing standards. Within this approach a majority of IPSASB members supported Option 1a: Use terminology from the IPSASB literature.
Page-by-page review

Over two sessions the IPSASB carried out page-by-page reviews of the draft CP. The main points identified were:

- To include only two specific matters for comment (SMC). The first SMC will ask respondents whether they support the IPSASB’s PV, and, if so, whether they support Option 1a or Option 1b. The second will ask respondents who do not agree with the IPSASB’s PV whether they support Option 2a or 2b or to identify an alternative approach;
- To use the term “regulators and other relevant authorities” throughout the CP;
- To indicate in section 3 that regulators and other relevant authorities might be ‘international government organizations’; and
- To simplify table 1 in section 6 (of the revised version discussed at the meeting) by deleting the row, which indicated whether an approach provided a description of a public corporation.

Exposure Period of the CP

The IPSASB approved an exposure period of four months.

Approval of the CP

The IPSASB approved the CP. 17 members voted in favor, zero against, no abstentions and two members absent.


Timetable

The Coordinator highlighted the current project plan and timetable (the timetable), noting that, apart from very minor editorial changes, this was the version that had been circulated after the March 2014 meeting. It reflected the decision to put back approval of the full Framework until September 2014, but to consider the possibility of approving the Measurement and Presentation chapters in principle at the June meeting.

Members raised no issues on the timetable. In accordance with normal procedure the Coordinator would revise and circulate the timetable following the meeting.

IASB Developments

Staff noted that some of the points raised by respondents to the IASB’s Discussion Paper, A Review of the Conceptual Framework for Financial Reporting, were included in the Coordinator’s Report. The Coordinator then highlighted a number of tentative decisions that the IPSASB had made at the March meeting.

Members particularly noted the development of the IASB’s current draft definitions of an asset and a liability and decided to consider whether there was scope for reducing the relatively small differences with the draft IPSASB definitions during consideration of Agenda Item 4B on Elements and Recognition. The IPSASB
acknowledged that final differences between the IPSASB definitions and the IASB definitions would not be ascertained until the IASB had completed its Framework. They would be considered in due course.

The Coordinator noted that the agenda papers for the IASB’s May meeting included a number of references to the current position in the IPSASB’s Conceptual Framework project.

Integrated Reporting

The IPSASB noted that the International Integrated Reporting Council (IIRC) and the Chartered Institute of Public Finance and Accountancy (CIPFA) had established the Public Sector Pioneer Network to promote the implementation of integrated reporting in the public sector. The Coordinator said that a message from IPSASB member and CIPFA Policy and Technical Director, Ian Carruthers, had been circulated to Members, Technical Advisers (TAs) and Observers in early June. The Chair asked Members, TAs and Observers who wished to discuss issues relating to the Public Sector Pioneer Network to contact Ian.

4A. Conceptual Framework: Preface

The IPSASB reviewed the Preface to the Conceptual Framework that had been published as a Preliminary Board View in July 2013.

The IPSASB considered that the word “compulsory” should be used rather than “involuntary” in the context of taxes and transfers in the section on non-exchange transactions. The IPSASB also considered that the word “forecast” was inappropriate in the section on the approved budget. It was noted that during the development of IPSAS 24, Presentation of Budget Information in Financial Statements, there had been detailed consideration of what constituted the approved budget and the relationship between original and final budgets and actual amounts. However, the IPSASB directed that the section should be modified to provide a high level indication of the importance of the approved budget in the public sector, rather than a detailed discussion of what constitutes the approved budget.

In the section on the longevity of the public sector and the nature of public sector programs the IPSASB directed that a distinction should be drawn between “governments”, which might change frequently, and “the nation state and its institutions”, which generally have much longer existences.

The IPSASB noted that, while the section on the relationship between IPSAS reporting and statistical reporting highlighted the different objectives of IPSAS-based reporting and reporting in accordance with Government Finance Statistics (GFS), the objectives of GFS reporting should be clarified. The IPSASB also identified a number of further structural and editorial changes. The Preface will be brought back to the September 2014 meeting with a view to approval.

4B. Conceptual Framework: Elements and Recognition

The IPSASB considered the following issues:

- Relocation of material on recognition into new Chapter 6 and restructuring of Chapter 5;
- Definitions of revenue and expense;
- Discussion of approach to deferred flows and other economic phenomena in Basis for Conclusions; and
- Discussion of financial performance in Basis for Conclusions.
Relocation of material on recognition into new Chapter 6 and restructuring of Chapter 5

The IPSASB confirmed the relocation of the section on recognition to a separate chapter and agreed with the revised structure of the Elements chapter actioned by Staff in accordance with directions at the March 2014 meeting, apart from directing that the title of the section on “Other Resources and Other Obligations and Net Financial Position” should be shortened to “Net Financial Position.” The revised structure is:

- Introduction
- Assets
- Liabilities
- Net Financial Position
- Revenue and Expense
- Ownership Contributions and Ownership Distributions

Definitions of Revenue and Expense

The IPSASB decided to adopt the word “expense”, rather than the plural “expenses”, which had been used in both the 2010 Consultation Paper and the 2012 Exposure Draft. The IPSASB rejected the revised definitions of revenue and expense proposed by Staff in the Issues Paper and tentatively adopted more concise definitions:

- Revenue is increases in the net financial position of an entity other than ownership contributions; and
- Expense is decreases in the net financial position of an entity other than ownership distributions.

Supporting narrative will outline the transactions, events and conditions that give rise to increases and decreases in net financial position that meet the definitions of revenue and expense.

Discussion of approach to deferred flows and other economic phenomena in Basis for Conclusions

In general, the IPSASB supported the revised text on the development of the IPSASB’s thinking on deferred flows and the reasons why the IPSASB had concluded that certain economic phenomena that do not meet the definition of any element may need to be recognized in order to meet the objectives of financial reporting. The IPSASB directed that the Basis for Conclusions should provide greater detail on the other options identified for addressing the deferred flows issue at the December 2013 meeting and the reason why these options had been rejected. The IPSASB also directed that the discussion should be relocated from the Introduction section of the Basis for Conclusions to the section on Net Financial Position.

Discussion of financial performance in Basis for Conclusions

Subject to minor drafting and editorial changes the IPSASB indicated that it was satisfied with the material on public sector financial performance (interpretation of surplus and deficit) that had been relocated from the core text to the Basis for Conclusions. The material discusses financial performance in the context of operating and funding model(s) in the public sector. It explained that, although the IPSASB acknowledged that there is a need for greater clarity on the meaning of surplus and deficit in the public sector, approaches to operating and finding models and the business model in the public sector are not well developed and, further, operating and funding models may vary globally. For this reason the IPSASB had decided not to include explanatory material on the interpretation of surplus or deficit in the core Framework.
Page-by-page review

The IPSASB carried out a page-by-page review of the two chapters and identified a number of drafting and editorial changes. During this page-by-page review the IPSASB considered whether there was scope for reducing unnecessary differences between the asset and liability definitions in the IPSASB’s Conceptual Framework and the draft definitions in the IASB’s Conceptual Framework project. The IPSASB noted that the definitions are similar; in particular both sets of definitions contain references to a “past event” (IPSASB) or “past events” (IASB) The IPSASB agreed to slight modifications, which reduced, but did not eliminate all the differences in wording. The tentatively agreed revised definitions are:

- An asset is a resource presently controlled by the entity as a result of a past event; and
- A liability is a present obligation of the entity for an outflow of resources that results from a past event.

The IPSASB noted that the current IASB definition of a liability refers to a present obligation to “transfer an economic resource”, whereas the IPSASB definition refers to a present obligation “for an outflow of resources”. The IPSASB decided against using the word “transfer” because of its public sector connotations, particularly those related to the financing of one level of government by another and to social benefits.

The IPSASB also considered the definition of ownership contributions and ownership distributions. The IPSASB considered whether the definitions of ownership contributions and ownership distributions should refer to inflows or outflows of “net financial position” or inflows or outflows of “resources”. Staff considered that a reference to net financial position would be inappropriate, because it would suggest that there can be an ownership interest in a resource that an entity does not control and that, conversely, an ownership interest may be reduced by an obligation or commitment that is not a present obligation at the reporting date. Staff suggested that the first reference to net financial position in the draft definitions of ownership contributions and ownership distributions should be replaced by “resources”. The IPSASB tentatively decided that the definitions should refer to net financial position. The revised versions are:

- Ownership contributions are inflows of resources to an entity, contributed by external parties in their capacity as owners, which establish or increase an interest in the net financial position of the entity; and
- Ownership distributions are outflows of resources from the entity, distributed to external parties in their capacity as owners, which return or reduce an interest in the net financial position of the entity.

The supporting narrative description would be: Ownership distributions may be: a) a return on an investment; b) a full or partial return of an investment; or, c) in the event of the entity being wound up or restructured, a return of any residual resources.

While the revised and separate chapter discussed uncertainty over the existence of an asset and measurement uncertainty it did not provide explicit recognition criteria. The IPSASB directed staff to include such recognition criteria.

The other main changes directed during the page-by-page review were:

- To delete the description of net financial position in the Introduction section and note that net financial position is discussed in section 5;
• To reinsert “necessarily” in the description of “service potential” in paragraph 2.3, so that the description reads “service potential is the capacity to provide services that contribute to achieving the entity’s objectives without necessarily generating cash flows.”
• To reinsert a reference to holding cash in the discussion or economic resources in paragraph 2.5;
• To delete the word “conversely” in the context of “ability to deny or restrict access to the resource;”
• To modify the discussion of taxable event in paragraph 2.8, so that it refers to “the right to receive resources” rather than “an obligation of an external party”;
• To insert a reference to “jurisdiction-specific” factors in the context of identifying a past event in paragraph 3.4;
• In section three to refer to a “legal binding obligation” rather than just a “legal obligation”;
• In paragraph 3.13(c) to soften the language in the discussion of the availability of funding to settle a particular obligation by removing the presumption that a non-legally binding obligation exists if contingency funding is available or there is a transfer from a different level of government;
• To make the rationale for the decision not to include an analysis of exposure to the risks and rewards of ownership as an indication of control more concise and clearer; and
• In the discussion of commitments and commitment accounting in paragraph BC52 to ensure that there is a conclusion about why commitments are not addressed in the core text.

The IPSASB will review a further version of the draft final chapters at the September 2014 meeting with a view to approval.

Re-exposure

Staff noted that the Board’s decision to acknowledge that “other economic phenomena” that do not meet the definition of an element may need to be recognized in order to meet the objectives of financial reporting is a change from the Board’s proposal to define “deferred inflows” and “deferred outflows” as elements in the Exposure Draft, Conceptual Framework: Elements and Recognition in Financial Statements, and therefore warrants consideration as to whether re-exposure is necessary. Staff noted that, under the current due process, such consideration will take place after the content of the chapter has been approved. Staff said that they will provide an evaluation of the reasons for and against re-exposure at the September meeting.

4C. Conceptual Framework: Measurement

The IPSASB considered two key issues identified by staff:

• Classification of value in use as reflecting entry or exit perspectives; and
• Retention of assumption price as a current value measurement basis for liabilities.

Classification of value in use as reflecting entry or exit perspectives

At the March meeting the IPSASB concluded that value in use reflects both entry and exit perspectives, because, for non-cash-generating assets its determination relies on the use of replacement cost, which reflects an entry perspective. In accordance with this decision the table summarizing measurement bases for assets in section two had been amended. Staff questioned this classification on the grounds that it appeared to conflict with both the description of an exit perspective and the definition of value in use. A contrary view was expressed that value in use has an entry perspective while an asset is being used and...
an exit perspective when sold; in this view a failure to indicate that value in use contains both entry and perspectives does not reflect public sector circumstances. Following considerable discussion it was agreed that value in use should be classified as an exit value with a footnote indicating that its implementation for non-cash-generating assets requires the use of replacement cost and an appropriate explanation in the Basis for Conclusions. It was also agreed that the use of replacement cost in the determination of value in use should be described as a “surrogate” not a “proxy”.

Retention of assumption price

Staff expressed reservations whether assumption price should be retained as one of the four current value measurement bases for liabilities because:

(a) It was unclear how it related to historical cost;
(b) There are practical problems in reflecting price changes in assumption price; and
(c) The identification of assumption price as a measurement base occurred/flowed from following earlier discussions on the cost of relief model and staff had reservations whether it would be used for standard setting purposes.

A member identified insurance and similar obligations as areas where assumption price might provide relevant and faithfully representative information. In such cases liabilities might be revalued at assumption price to reflect changes in risk premia following initial recognition. It was therefore decided to retain assumption price as a current value measurement basis for liabilities and provide an explanation in the Basis for Conclusions of the IPSASB’s reasons for its retention, and appreciation that it is not necessarily common.

Page-by-page review

The IPSASB carried out a page-by-page review of the draft chapter and identified a number of drafting and editorial changes. In particular the IPSASB directed that the sequence of the analysis of whether, and the extent to which, measurement bases provide information on financial capacity, operational capacity and cost of services should be aligned with the sequence of these terms in the measurement objective. The other more significant changes were to:

- Note in the discussion of the extent to which historical cost provides information on operational capacity in the section on “measurement bases for assets’ that if an asset has been acquired in a non-exchange transaction “pure” historical cost will not provide information on operating capacity;
- Qualify the statement that “at acquisition market value and historical cost will be the same, if transaction costs are ignored by adding “and the transaction is an exchange transaction;”
- Delete paragraph 4.10 which stated that the “Cost of fulfilling a liability is the value of resources that will be used in making fulfillment and not necessarily the carrying amount at the reporting date;” and
- Delete the statement in paragraph BC1 that “the IPSASB acknowledges that there is a need to develop elements for areas of financial reporting outside the financial statements in the future;” and
• Delete the statement in paragraph BC27 that the IPSASB’s “approach to fair value at a
standards level had not kept pace with global developments since its definition of fair value
had been first adopted.”

The IPSASB also noted that the listing of measurement bases for liabilities in section one did not reflect the
order in which they are discussed in section four. This inconsistency should be rectified.

Approval in principle

The IPSASB approved the Measurement chapter in principle. 16 members voted in favor, with zero against,
one abstention and two members absent. Final approval is planned for the September 2014 IPSASB
meeting.

4D. Conceptual Framework: Presentation

The IPSASB carried out a page-by-page review of the draft chapter Presentation in General Purpose
Financial Reports. The chapter’s structure had been revised consistent with an intermeeting IPSASB
decision. Revisions to the text from the IPSASB’s March meeting and a small number of further changes,
recommended by IPSASB members during their intermeeting review of structure, were agreed. During the
page-by-page review the IPSASB added a paragraph to the Basis for Conclusions which explains its
decision, made in March, to the effect that all types of GPFRs are likely to include information for both
display and disclosure. The IPSASB decided to not classify display and disclosure as exclusively a location
decision and move all display and disclosure coverage into Section 3. The IPSASB also decided not to add
additional material on the nature of information in other GPFRs.

The IPSASB approved the Presentation chapter in principle. 17 members voted in favor, with zero against,
no abstentions and two members absent. Final approval is planned for the September 2014 IPSASB
meeting.

5. Interests in Other Entities (Agenda Item 5)

The IPSASB considered responses on EDs 48 to 52 and provided feedback on the analysis of responses.
The Issues Paper (Agenda Item 5.1) sought directions on key issues arising from the analysis of responses
to EDs 48 to 52.

General comments

The IPSASB noted that many respondents expressed their general support for the project and the approach
taken in developing the EDs. A subset of respondents disagreed with the approach taken.

Despite the majority of respondents supporting the proposals, the IPSASB noted that a number of
respondents had indicated concerns about the difficulties of consolidating all controlled entities, the costs
of doing so, and possible conflicts with constitutional requirements. Many of the issues raised by
respondents had been considered by the IPSASB when developing the EDs, and alternative approaches
had been carefully considered. The IPSASB agreed that that the Bases for Conclusions on the EDs,
particularly ED 49 should be revised to communicate this more clearly.

The IPSASB also acknowledged that implementation issues have prevented widespread application of
IPSAS 6 Consolidated and Separate Financial Statements and the adoption of IPSASs. The IPSASB
discussed ways in which it might assist entities to address implementation issues. Suggestions included
guidance in the form of a study, and encouraging jurisdictions to share information about their consolidation
experiences and the ways in which they addressed issues. The IPSASB also noted that materiality is a
concept that underpins the application of all standards and that there are a number of areas where assessments of materiality might lead to lower compliance costs.

At the conclusion of this general discussion the IPSASB agreed:

(a) That there is sufficient support for this project to proceed to develop standards based on EDs 48 to 52;
(b) To develop standards using the same structure as the EDs; and
(c) To consider further ways of assisting constituents regarding implementation issues.

**ED 48 Separate Financial Statements**

There was one SMC on ED 48 which sought feedback on the proposals generally, and more specifically on the proposal to continue to permit the use of the equity method, in addition to cost or fair value, for investments in other entities.

The IPSASB:

(a) Noted respondents’ comments on ED 48 SMC 1, including the high level of support for the option to use the equity method in separate financial statements;
(b) Noted that (i) some respondents’ support was conditional upon the IASB proceeding to reintroduce the equity method in separate financial statements, and (ii) the IASB has tentatively agreed to proceed with this proposal;
(c) Noted that some respondents had raised concerns regarding the use of three methods of accounting for such investments and whether this was desirable, having regard to the qualitative characteristic of comparability. Although the IPSASB acknowledged this issue it also noted that IPSAS 7 *Investments in Associates* currently permits these method; and
(d) Agreed to continue developing an IPSAS based on ED 48 which permits the use of the equity method in separate financial statements.

**ED 49 Consolidated Financial Statements**

There were five Specific Matters for Comment (SMCs) in ED 49.

SMC 1 sought feedback on the proposed definition of control.

The IPSASB:

(a) Noted the high level of support for the proposed definition of control in ED 49;
(b) Noted respondents’ comments on ED 49 SMC 1, including those from the subset of respondents that expressed concerns about the approach taken in developing the EDs;
(c) Noted that the IPSASB did consider forms of aggregation other than consolidation in developing ED 49 and agreed that this should be explained in the Basis for Conclusions;
(d) Considered comments on the definition of power (which is referred to in the definition of control) regarding the inclusion of the phrase about directing the financial and operating policies of an entity in that definition. The IPSASB acknowledged respondents’ concerns about this phrase being included in the definition and agreed to remove it from the definition. However, the IPSASB considered that because this is frequently the way in which power is demonstrated in the public sector, this idea should be communicated in the body of the standard.
(e) Agreed that respondents’ suggestions for improving the discussion of benefits be taken into account in developing the standard based on ED 49.

SMC 2 sought feedback on the proposal that a controlling entity should consolidate all controlled entities (except in the circumstances proposed in this Exposure Draft). Respondents that disagreed with this proposal were asked to identify any categories of entities that should not be consolidated, together with justifications having regard to user needs and their preferred accounting treatment for any such controlled entities.

In discussing the responses to this SMC the IPSASB noted that in developing ED 49 it had looked at a number of alternative proposals, including alternative forms of presenting information on subsets of entities, such as entities rescued from financial distress or GBEs. Its previous deliberations had taken into account a range of practices used in various jurisdictions. The IPSASB noted that information on user needs in relation to whole of government financial statements was difficult to find and recalled that a previous agenda paper (June 2013 agenda paper 3.3)\(^7\) had provided information on ways in which public sector entities may be grouped, characteristics of types of entities and possible user needs associated with types of entities.

The IPSASB had also considered a proposal to mandate the presentation of consolidated financial information by statistical sectors (at a whole-of-government level) and, in conjunction with this, make the presentation of consolidated financial statements optional. In developing ED 49 the IPSASB had decided not to proceed with these alternative proposals. In reviewing responses on ED 49, the IPSASB did not consider that new arguments had been identified. However, the IPSASB did acknowledge the implementation issues that arise in consolidating large groups of entities, such as whole of government consolidations. (This was also noted under the consideration of general comments on the EDs).

The IPSASB:

(a) Noted the high level of support for the proposal that an entity should consolidate all controlled entities (except in the circumstances proposed in ED 49);

(b) Noted respondents’ comments on ED 49 SMC 2;

(c) Noted that a subset of respondents proposed that full consolidation be limited to certain types of entities; and

(d) Agreed to proceed to develop a standard based on ED 49 that requires consolidation of all controlled entities, except in the circumstances proposed in ED 49.

SMC 3 sought feedback on with the proposal to withdraw the exemption in IPSAS 6, Consolidated and Separate Financial Statements (December 2006) for temporarily controlled entities. The IPSASB:

(a) Noted the strong level of support for the IPSASB’s proposal to withdraw the temporary control exemption in IPSAS 6;

(b) Noted respondents’ comments on ED 49 SMC 3;

(c) Agreed not to provide an exemption from consolidation for temporarily controlled entities; and

(d) Noted that some respondents expressed support for the IPSASB developing a standard based on IFRS 5 or similar disclosures for temporarily controlled entities. The IPSASB considered these comments in the context of ED 52 SMC 1.

\(^7\) A link to this agenda paper is available on the relevant project page.
In discussing respondents’ comments the IPSASB acknowledged the arguments made by those that considered there should be an exemption from consolidation for temporarily controlled entities, particularly those acquired by a government to protect the interests of citizens. However, the IPSASB also noted the experience of various jurisdictions in accounting for such situations and that consolidation of such entities had occurred in some jurisdictions. The IPSASB also considered the weight of the support for the removal of the exemption.

SMC 4 sought feedback on the proposal that a controlling entity that meets the definition of an investment entity should be required to account for its investments at fair value through surplus or deficit. SMC 5 sought feedback on the proposal that a controlling entity, that is not itself an investment entity but which controls an investment entity, should be required to present consolidated financial statements in which it (i) measures the investments of the controlled investment entity at fair value through surplus or deficit in accordance with IPSAS 29, *Financial Instruments: Recognition and Measurement*, and (ii) consolidates the other assets and liabilities and revenue and expenses of the controlled investment entity.

The IPSASB considered responses to SMC 4 and SMC 5 together. The IPSASB:

(a) Noted the strong level of support for these proposals;

(b) Noted respondents’ comments on ED 49 SMC 4 and SMC 5;

(c) Agreed not to add an additional example of an entity that would not be an investment entity (as proposed by a respondent); and

(d) Agreed not to expand the definition of an investment entity (as proposed by a respondent).

(e) Noted the proposal to consider, at a future meeting, whether more guidance could be provided on distinguishing between fund management and ancillary services within the same investment entity.

SMC 6 explained that the IPSASB had aligned the principles in ED 49 with the Government Finance Statistics Manual 2013 (GFSM 2013) where feasible and sought feedback on any further opportunities for alignment.

The IPSASB:

(a) Noted respondents’ comments on ED 49 SMC 6;

(b) Agreed to more explicitly highlight, in the Basis for Conclusions, ways in which the proposed standard and GFSM 2013 are aligned. It was suggested that to assist the IPSASB in forming an opinion on the extent of this alignment, staff should update an analysis of differences previously considered by the IPSASB; and

(c) Agreed to note, in the Basis for Conclusions, that although the IPSASB decided not to provide guidance in this ED on the presentation of information on statistical sectors, it is possible for a government to present consolidated financial statements that are disaggregated by statistical sector.

The IPSASB also noted that staff will consider more detailed comments on ED 49 in the process of preparing future agenda papers, including reviewing the examples in ED 49.

**ED 50 Investments in Associates and Joint Ventures**

SMC 1 sought feedback on whether respondents were generally in agreement with the proposals in ED 50.

The IPSASB:

(a) Noted respondents’ comments on ED 50 SMC 1; and
(b) Agreed that paragraph 26 should be changed to include reference to IPSAS 29 paragraph AG114.

The IPSASB noted that ED 50 had proposed that in the absence of published price quotations for a financial asset that is a residual interest in what was previously an investment in an associate or joint venture, the carrying amount of the residual interest should be used as the initial cost for the financial asset (paragraph 26). Some respondents expressed the view that the guidance in IPSAS 29 was appropriate and should be applied in such situations. The IPSASB agreed that IPSAS 29 did provide appropriate guidance for some situations and that the proposed Standard should acknowledge this.

SMC 2 sought feedback on the proposal that the scope of the proposed Standard be restricted to situations where there is a quantifiable ownership interest.

The IPSASB:

(a) Noted respondents’ comments on ED 50 SMC 2; and

(b) Agreed to revise the scope section of ED 50 and paragraphs 10 and 11 to clarify its intentions regarding quantifiable and non-quantifiable ownership interests (in line with suggestions from a respondent).

Some respondents were concerned that, as worded, the proposals in the EDs might inadvertently preclude some quantifiable ownership interests in associates or joint ventures from being accounted for as associates or joint ventures. This was not the IPSASB’s intention and it agreed to revise the scope section (and paragraphs 10 and 11) to clarify its intention. The IPSASB noted that there can be situations in the public sector where there are non-quantifiable ownership interests (that is, an entity may decide that it has an ownership interest in another entity that is less than control but where it is unable to determine its proportion of the ownership interest relative to other parties with an ownership interest). In such cases the IPSASB considered that if it is not possible to determine what proportion of the ownership interest is held, it is not possible to recognise that investment. However, the IPSASB agreed to consider further the possibility of requiring disclosures for non-quantifiable ownership interests.

The IPSASB considered the remainder of the recommendations in Agenda Item 5.1 on an exceptions basis. Staff sought feedback on whether the IPSASB disagreed with any of the analysis or recommendations. The remaining Specific Matters for Comment in the EDs and the recommendations set out in Agenda Item 5.1 are shown below as boxed text, followed by any comments by the IPSASB.

**ED 50 SMC 3**

Do you agree with the proposal to require the use of the equity method to account for investments in joint ventures? If not, please provide reasons and indicate your preferred treatment?

The IPSASB is asked to:

(a) Note the strong level of support for the proposal to require the use of the equity method to account for investments in joint ventures;

(b) Note respondents’ comments on ED 50 SMC 3;

(c) Agree to keep the option (in ED 50 paragraphs 24 and 25) for an entity to use fair value through surplus or deficit or the equity method in accounting for investments in an associate or a joint venture held in a venture capital organization, mutual fund, unit trust or similar entity; and

(d) Agree to consider, at a future meeting, recent implementation issues raised by IASB constituents.
Regarding (c) above, the IPSASB noted that the link between the investment entity requirements in ED 49 and the requirements applicable to investment entities with investments in associates and joint ventures is not immediately apparent to the reader, and requested that this link be explained more clearly.

**ED 51 Joint Arrangements**

**ED 51 SMC 1**

Do you agree that joint arrangements should be classified as joint ventures or joint operations based on whether an entity has (i) rights to assets and obligations for liabilities, or (ii) rights to net assets?

The IPSASB is asked to:

(a) NOTE the high level of support for the proposal that joint arrangements should be classified as joint ventures or joint operations based on whether an entity has (i) rights to assets and obligations for liabilities, or (ii) rights to net assets;

(b) AGREE to retain the term “binding arrangement” in ED 51; and

(c) NOTE that unanimous consent is not a common feature of joint arrangements in one jurisdiction.

Regarding (c) above, it was suggested that unanimous consent is likely to be present at the inception of an arrangement.

**ED 51 SMC 2**

Do you agree that joint ventures should be accounted for in consolidated financial statements using the equity method?

The IPSASB is asked to:

(a) Note the strong level of support for the proposal to require the use of the equity method to account for investments in joint ventures; and

(b) Note respondents’ comments on ED 51 SMC 2.
No issues were raised in respect of the analysis or recommendations in respect of ED 51.

**ED 52 Disclosure of Interests in Other Entities**

### ED 52 SMC 1

Do you agree the proposed disclosures in this draft Standard? If not, why? Are there any additional disclosures that would be useful for users of financial statements?

The IPSASB is asked to:

(a) Note respondents’ comments on ED 52 SMC 1;

(b) Agree to require disclosure of any non-quantifiable ownership interest other than a controlled entity;

(c) Confirm that development of a standard based on IFRS 5 should remain outside the scope of the project to update IPSASs 6 to 8;

(d) Agree to require disclosure of “expenses” of joint ventures and associates in ED 52 paragraphs AG12 and AG16 (in line with the suggestion by R17);

(e) Agree to retain the proposed disclosures about unconsolidated structured entities;

(f) Agree to retain the proposals in ED 52 paragraph 20 regarding the disclosure of significant restrictions on an entity’s ability to access or use the assets and settle the liabilities of the economic entity; and

(g) Agree that paragraph 13 be amended to acknowledge that the use of cross-referencing may be subject to jurisdictional restrictions.

Regarding (c) above, it was suggested that staff develop proposals for disclosures regarding investments held for sale/ temporarily controlled investments.

Regarding (d) above, the IPSASB queried the usefulness of requiring the disclosure of expenses by associates and suggested that staff reanalyze this proposal.

Regarding (g) above, it was noted that the issue of cross referencing documents outside the financial statements also arises in other standards (for example, financial instruments). Any change to the wording in ED 52 should be considered in the context of these other requirements.

### ED 52 SMC 2

Do you agree with the proposal that entities for which administrative arrangements or statutory provisions are dominant factors in determining control of the entity are not structured entities? If not, please explain why and explain how you would identify entities in respect of which the structured entity disclosures would be appropriate?
The IPSASB is asked to:
(a) Note the high level of support for the proposals regarding the identification of structured entities in ED 52;
(b) Note respondents’ comments on ED 52 SMC 2;
(c) Agree to retain the concept of a structured entity and the definition of a structured entity that was in ED 52;
(d) Agree to consider developing more guidance and/or illustrative examples to illustrate the concept of a structured entity; and
(e) Provide feedback on the proposal to seek post-implementation feedback on the structured entity disclosures.

No issues were raised in respect of the recommendations on ED 52 SMC 2.

Related IASB Projects
Table 4 of Agenda Item 5.1 identified current projects of the International Accounting Standards Board (IASB) and the staff’s view on the relevance of these IASB projects to the forthcoming IPSASs. The IPSASB noted this Table and staff’s intention to continue to monitor certain projects.

Next steps
The IPSASB noted that, in addition to the key issues considered at the June meeting, respondents had also made a number of suggestions for improving or clarifying aspects of the EDs. These issues will be considered at subsequent meetings.

Staff will develop draft standards based on the EDs, taking account of comments from constituents and the feedback received from the IPSASB.

6. First Time Adoption of IPSASs (Agenda Item 6)
The IPSASB was asked to:
- Consider an analysis of the responses received to ED 53 First-time Adoption of Accrual Basis International Public Sector Accounting Standards (IPSASs),
- Obtain direction from the IPSASB on developing the final pronouncement, and
- Identify issues for further discussion at the September 2014 meeting.

Overall support for the development of ED 53
Even though a specific matter for comment was not asked around the support for the development of an IPSAS dealing with the first-time adoption of accrual basis IPSAS, the IPSASB noted the overall support for the development of an IPSAS pronouncement aimed at assisting entities with the adoption of accrual basis IPSASs.

The IPSASB also noted that two respondents suggested that the exemptions that affect fair presentation and compliance with IPSASs should be included in a Recommended Practice Guideline rather than a standard as, in their view, the development of temporary transitional exemptions does not fall within the remit of the IPSASB. The IPSASB also noted that two respondents questioned the format of the proposed IPSAS and proposed that the format should be reconsidered because the wording in ED 53 is, in their view, difficult and sometimes not clear.
The Chair noted the disappointment with the number of respondents that commented on the proposed IPSAS.

Some IPSASB members noted that, in addition to an IPSAS, first-time adopters need practical guidance in understanding how the principles in the IPSAS should be applied. It was further noted that the guidance in Study 14 Transition to the Accrual Basis of Accounting: Guidance for Governments and Government Entities cannot always be considered as some entities transition from another accrual basis to accrual basis IPSASs. Entities should therefore be encouraged to share their experiences, not only on their transition to accrual basis IPSASs, but also on the required skills and IT system changes that are needed to transition.

It was also noted that the IPSASB could highlight the usefulness of dry-runs before entities transition to accrual basis IPSASs. The need for case studies was also emphasized, even though it was noted that the development of such case studies are not within the mandate of the IPSASB. It was also noted that because first-time adopters have different starting points, providing assistance that can be applied by all entities may be challenging.

Taking the above matters into consideration, the IPSASB agreed with the staff proposal to continue with the development of an IPSAS based on the majority support for the development of an IPSAS. The IPSASB agreed that all the transitional exemptions and provisions should be included in a single pronouncement. The IPSASB confirmed its previous view that the IFRS 1 format should not be used as the project was not a convergence project.

It was, however, agreed that the process followed in developing the proposed IPSAS in its current format, should be better explained in the Basis for Conclusions. It was also agreed that the IPSASB should consider ways and methods to assist first-time adopters in their transition to accrual basis IPSAS. This will be further discussed and debated at the September 2014 meeting in considering what actions can be undertaken by the IPSASB within its mandate.

**Specific matter for comment 1**

The IPSASB noted that thirteen respondents supported the transitional exemptions and provisions in ED 53 while 8 respondents proposed additional exemptions and provisions. The IPSASB also noted that eighteen respondents agreed that the IPSASB has achieved its goal in providing appropriate relief to a first-time adopter.

Members expressed their support for the development of an IPSAS on first-time adoption. It was noted that in some jurisdictions, entities are already applying the proposals in ED 53 in transitioning to accrual basis IPSASs, even though the IPSAS has not yet been issued.

**Specific matter for comment 2**

SMC 2(a)

The IPSASB noted that nineteen respondents supported the differentiation between those transitional exemptions and provisions that do not affect the fair presentation of a first-time adopter’s financial statements and its ability to assert compliance with accrual basis IPSASs, and those that do.

It was noted that one respondent proposed the use of more neutral terms, i.e. voluntary and mandatory exemptions and provisions, to distinguish the transitional exemptions and provisions that can be adopted on the initial adoption of accrual basis IPSASs. The IPSASB considered the proposed reclassification as set out in Appendix A of the Issues Paper.

Some members questioned whether the classification of the transitional exemptions and provisions is based on whether the exemptions and provisions are applied prospectively or retrospectively. Staff noted that the
classification was based on whether a first-time adopter must apply the exemptions and provisions on adoption of accrual basis IPSASs regardless of whether they want to, while with voluntary exemptions, a first-time adopter may decide whether it wants to apply the exemption and provisions during its transition.

It was proposed that different wording should be used to distinguish between those transitional exemptions and provisions that must be applied, and those that are voluntary.

It was noted that the illustrative table is useful and it was agreed that it should be included in the final pronouncement, irrespective of the classification that will be used. In this context the IPSASB also noted that it would be important to clarify that in providing the table the IPSASB does not intend to hinder first time adopters from applying the IPSASs in full should they wish to do so, rather the intention is to assist those first time adopters who wish to take advantage of transitional exemptions.

It was agreed that before the IPSASB can agree on the differentiation and categorization of the transitional exemptions and provisions, staff should prepare a draft illustrating the different categorization as proposed in Appendix A. It was agreed that the draft illustration will be considered at the September 2014 meeting.

The IPSASB also noted the proposed amendment to paragraph 25 to clarify that an entity should apply judgment in assessing the extent to which the transitional exemptions and provisions impacts fair presentation and the first-time adopter’s ability to assert compliance with accrual basis IPSASs. It was noted that fair presentation may still be achieved when the recognition and/or measurement of the item, transaction or event exempted is not significant or material in relation to the financial statements as a whole.

The IPSASB agreed with the proposed amendment and clarification provided on applying judgement.

Some members noted that if a first-time adopter’s financial statements are qualified during its transition, the audit report should explain this qualification. In acknowledging that providing audit guidance is not within the IPSASB’s mandate, it was noted that explaining the reasons for the audit qualification in the audit report, potential impacts of audit qualifications could be mitigated. It was noted that in some jurisdictions, a development plan was submitted to the auditors to explain the entity’s transition to accrual basis IPSASs. This plan was then used by auditors to assess the entity’s transition. It was noted that providing such a plan to the auditors will assist them to develop appropriate criteria to conduct an audit and will avoid unnecessary qualifications.

SMC 2(b)

With regards to the individual categorization between those transitional exemptions and provisions that affect fair presentation and the ability to assert compliance with accrual basis IPSASs, the IPSASB noted that eighteen respondents agreed with the individual categorization while one respondent questioned the categorization relating to IPSAS 18.

The IPSASB considered the proposed amendment to BC84 and BC85 to clarify the IPSASBs rationale for taking the view that not presenting a segment report will not affect fair presentation and the first-time adopter’s ability to assert compliance with accrual basis IPSASs.

It was agreed that the explanation in the Basis for Conclusions should rather explain that because relevant and reliable information is not available, a first-time adopter will not be able to prepare a meaningful segment report.

It was also noted that presenting a segment report during the transition to accrual basis IPSAS, is not a priority for first-time adopters.
Specific matter for comment 3

The IPSASB noted respondents’ different comments on providing a three year relief period for the recognition and/or measurement of certain assets and/or liabilities.

Some IPSASB members noted that in their view, a relief period of three years is not appropriate. Other IPSASB members supported the three year relief period and noted that jurisdictions should prepare well in advance for the transition to accrual basis IPSASs. It was also noted that first-time adopters should not solely rely on the three year relief provided in preparing for their transition.

It was agreed that the proposed amendment in BC37 should also make reference to Study 14 so that entities can consider the Study in their transition to accrual accounting.

After some debate, the IPSASB agreed that the proposed IPSAS should clarify and explain the difference between the preparation phase that is needed prior to the transition to accrual basis IPSASs, and the relief period that is provided in the IPSAS to assist with the transition to accrual basis IPSASs. It was agreed that transitional period means that from this point forward, financial statements will be prepared using accrual basis IPSASs.

It was agreed that this clarification should be included throughout the proposed IPSAS, where appropriate.

The IPSASB also agreed that the explanation in the Basis for Conclusions should clarify that the relief period provided in the proposed IPSAS should not be seen as a complete roadmap for the adoption of accrual basis IPSASs, but rather the end stage of the accrual basis IPSAS adoption.

In response to the comment that each jurisdiction should determine its own transitional period, the IPSASB confirmed that the IPSAS should establish a maximum relief period so that inconsistency between entities within jurisdictions is limited. If all entities are subject to the same relief period, the comparability of financial statements between entities during transition will be enhanced. As the transition stage represents the final steps toward moving to an IPSAS compliant regime, jurisdictions therefore effectively have flexibility in determining their transition date.

Other matters

Transitional relief for the recognition and/or measurement of inventory and classes of assets

The IPSASB noted that two respondents questioned why transitional relief was not provided for the recognition and/or measurement of inventory. Staff noted that the respondents indicated that, even though inventory is a current asset which is realised, consumed, sold or used in an entity’s operating cycle, an entity adopting accrual basis IPSASs for the first-time may need time to identify and classify its assets appropriately between inventory, investment property or property, plant and equipment, particularly in respect of classifying land.

Some IPSASB members also noted that this argument also applies to specialized assets, such as military assets and other health equipment, where entities have high volumes. Based on these observations, the IPSASB agreed with the staff proposal to also provide three year relief for the recognition and/or measurement of inventory.

The IPSASB also noted that three respondents questioned whether the requirements relating to the adoption of the three year relief period applies to all assets or asset categories, and if it applies to asset categories, whether a first-time adopter will be able to recognize specific categories of assets at different points in time during the transitional period.
The IPSASB agreed that similar relief to that provided for the recognition and/or measurement of the different classes of non-exchange revenue should be provided for assets.

*Interests in other entities*

The IPSASB noted the comment from respondents who questioned why no transitional relief was proposed in ED 53 for the classification and identification of interests in controlled entities, associates and jointly controlled entities. The respondents noted that a first-time adopter is allowed a three year relief period to recognise and/or measure financial instruments in preparing its separate financial statements, but similar relief is not provided in preparing consolidated financial statements.

In debating this proposal, some IPSASB members were of the view that relief should be provided to align the exemptions provided for interests in other entities with the exemptions for financial instruments. Other members were of the view that alignment is not needed as a first-time adopter should understand its interests in other entities prior to its adoption of accrual basis IPSASs.

The IPSASB also debated whether relief should be provided from preparing consolidated financial statements, specifically where a first-time adopter has elected to take advantage of the relief to not eliminate inter-entity balances, transactions, revenue and expenses between entities within the economic entity.

After debating these proposals, it was agreed that staff should do more work in proposing the relief that should be provided on the identification and classification of a first-time adopter’s interests in other entities and whether such relief should be provided in preparing consolidated financial statements. It was agreed that this should be further debated at the September 2014 meeting following staff’s further analysis.

The IPSASB also agreed that the additional disclosure requirement proposed on balances, transactions, revenue and expenses that were not eliminated in preparing consolidated financial statements should not be required.

*Related party disclosures*

The IPSASB noted the comment that information about key management should be available on the date of adoption, irrespective of the previously applied basis of accounting.

The IPSASB debated the proposal to limit the transitional exemptions and provisions to the disclosure of related party relationships and related party transactions only. Some members supported staff’s proposal to not provide an exemption to the disclosure of information about key management, but it was agreed that, because the majority of the respondents to ED 53 supported the exemption that was proposed in ED 53, no amendment should be made.

*Classification of leases on the date of adoption of accrual basis IPSASs*

The IPSASB noted the comment from respondents that a lessee and lessor may have agreed to change the provisions of the lease at a time between the date of the lease inception and the date of adoption of accrual basis IPSASs, and that this amendment may impact the classification of the lease on the date of adoption of accrual basis IPSASs.

The IPSASB agreed with the proposed clarification in paragraph 94A that any amendments to an agreement after inception, but before the date of adoption of accrual basis IPSASs should be considered in classifying the lease on the date of adoption.
Internally generated intangible assets recognised on the date of adoption

The IPSASB noted that three respondents questioned the proposal that a first-time adopter be permitted to recognise and/or measure an internally generated intangible asset if it meets the definition and recognition criteria in IPSAS 31, even though the entity expensed such costs under its previous basis of accounting.

It was noted that staff supported deleting this proposal on the grounds that it could require a first-time adopter to apply hindsight in determining historical cost information. It was also noted that ED 53 paragraph 18 already requires that a first-time adopter should recognize all assets and liabilities when the recognition criteria as required by accrual basis IPSASs, are met.

After some debate, the IPSASB agreed that the proposal should not be deleted but that a cross-reference should be included from paragraph 123 to the requirement in paragraph 18.

Additional implementation guidance

The IPSASB noted the proposal to include an illustrative example of the first transitional IPSAS financial statements and a basis of preparation paragraph in illustrating the requirements in ED 53.

It was questioned whether the illustrative example will include a full set of financial statements, or whether only certain extracts of the financial statements will be illustrated. It was noted that only certain extracts, for example the basis of preparation, reconciliations and certain disclosure requirements will be included in the illustrative example. The example will then cross-reference to the specific paragraphs in the IPSAS.

The IPSASB agreed with the inclusion of limited non-authoritative illustrative examples as part of the Implementation Guidance.

The IPSASB also agreed with the clarification in paragraph 76 that explains the presentation of the statements when presenting comparative information.

Transitional exemptions in presenting the cash flow statement during the period of transition

The IPSASB noted the suggestion from two respondents to provide transitional relief from presenting a cash flow statement during the transitional period. The IPSASB agreed with the staff proposal to not provide relief as users still need information during the transitional period on (a) the sources of cash inflows, (b) the items on which cash was expensed during the reporting period and (c) the cash balance as at the end of the reporting period.

Retrospective application of borrowings cost

The IPSASB agreed that an additional paragraph should be included after paragraph 42 to explain that a first-time adopter cannot capitalize borrowing costs if it has elected to adopt the three year relief for the recognition and/or measurement of such as asset, until the asset has been recognized.

Other proposals

The IPSASB supported the proposals to clarify the definition of date of adoption and to explain that a first-time adopter can only make a statement about its compliance with accrual basis IPSASs if it complies with the requirements of all accrual basis IPSASs at the end of the transitional period.

The IPSASB agreed that the proposed IPSAS should not make a statement that the transitional exemptions cannot be adopted for a second period. The IPSASB also did not support the proposal to delete the requirement in paragraph 12(b) (ii) as most of the respondents supported the proposal in ED 53.

The IPSASB also supported the proposal that the impact of ED 53 and other recently developed pronouncements should be considered in updating Study 14.
Way forward

In conclusion, it was agreed that for its September 2014 meeting, the IPSASB will consider and debate an illustrative draft of a different classification of the transitional exemptions and provisions between voluntary and mandatory requirements.

It was also confirmed that the IPSASB will consider whether, and what transitional relief should be provided to a first-time adopter on accounting for its interests in other entities. This includes an assessment of whether relief should be provided from preparing consolidated financial statements during the transitional period.

It was also agreed that other amendments agreed at this meeting will be incorporated in preparing a first draft of the proposed IPSAS to be considered by the IPSASB.

7. Biennial Improvements (Agenda Item 7)

The IPSASB discussed and considered Exposure Draft 55, Improvements to IPSASs (ED 55) for approval. The biennial improvements project was last carried out in 2011. The project scheduled in 2013 was delayed due to staff shortages.

The following IASB amendments were considered in developing the ED:

- Annual Improvements to IFRSs 2009-2011 Cycle (issued in May 2012 by the IASB);
- Annual Improvements to IFRSs 2010-2012 Cycle (issued in December 2013 by the IASB);
- Annual Improvements to IFRSs 2011-2013 Cycle (issued in December 2013 by the IASB);
- Recoverable Amount Disclosures for Non-Financial Assets (Amendments to IAS 36 issued May 2013);
- Novation of Derivatives and Continuation of Hedge Accounting (Amendments to IAS 39 issued June 2013);
- IFRS 9 Financial Instruments Hedge Accounting (Amendments to IFRS 9, IFRS 7 and IAS 39 issued November 2013);
- Defined Benefit Plans: Employee Contributions (Amendments to IAS 19 issued November 2013);
- Accounting for Acquisitions in Joint Operations (Amendments to IFRS 11 issued May 2014); and
- Clarification of Acceptable Methods of Depreciation and Amortisation (Amendments to IAS 16 and IAS 38 issued in May 2014 by the IASB).

The draft ED proposed five amendments related to IPSAS 17, Property, Plant, and Equipment and IPSAS 31, Intangible Assets. The IPSASB agreed with the proposed amendments included in the draft.

The IPSASB discussed other amendments and decided that two additional amendments should be added to the ED.

One member proposed that one of the amendments included in the Annual Improvements to IFRSs 2009-2011 Cycle (issued in May 2012 by the IASB), related to IAS 1, Presentation of Financial Statements could be appropriate if modified. The member noted that the portions of the amendment related to IFRS 1, First-time Adoption of International Financial Reporting Standards and IAS 34, Interim Financial Reporting, as well as, information on presenting an opening balance sheet when providing retrospective changes to comparative information, do not have equivalents in IPSAS, or the concepts are not currently present in IPSAS, and therefore should be excluded. However, the portion of the amendment related to comparative
information could be included. The IPSASB agreed that the applicable portions of the amendment should be included in the ED.

One member proposed that one of the amendments included in the Annual Improvements to IFRSs 2009-2011 Cycle (issued in May 2012 by the IASB), related to IAS 32, Financial Instruments: Presentation would be appropriate to include. Staff noted that this amendment was not proposed since the IPSASB has a committed project to update the IPSAS financial instruments standards after the IASB completes its ongoing financial instruments project (currently expected completion as of Q3 2014 according to the IASBs work plan). It was noted that given that updated standards are still 1 to 2 years away, processing the amendment now is opportune. The IPSASB agreed that the amendment should be included in the ED.

One member proposed that one of the amendments included in the Annual Improvements to IFRSs 2010-2012 Cycle (issued in December 2013 by the IASB), related to IAS 24, Related Party Disclosures should be considered for inclusion. The member noted that the information related to key management personnel services would be useful. The member also noted that coming from a jurisdiction where IPSAS are applied, unnecessary differences between IFRS and IPSAS create additional work and effort for preparers. Staff noted that the current wording of IPSAS 20, Related Party Disclosures is based on an earlier version of IFRSs for related parties and the changes are either related to wording not currently present in IPSAS or modifying wording which is not yet included in IPSAS (as a result of IPSAS 20 not being converged with the current IASB standard) and therefore the changes are not considered to be minor amendments. The IPSASB agreed that the amendment should not be included in the ED.

The IPSASB agreed to include a detailed table in the appendix to ED 55, to show the IASB amendments considered and the reason for excluding or including each of the amendments in the ED.

The IPSASB discussed if BCs should be developed to note why certain IASB amendments have not been included in IPSASs. The IPSASB agreed that the tables included as an appendix to ED 55, noting the reasons for excluding or including each amendment, sufficiently captured this information.

The IPSASB completed a page by page review of the ED. The ED was approved subject to amendments agreed during the session. 17 members voted in favor, with zero against, no abstentions and two members absent.

8. Public Sector Combinations (Agenda Item 8)

The IPSASB discussed an Issues Paper on Public Sector Combinations that incorporated a review of the responses to the Consultation Paper Public Sector Combinations issued in June 2012. The IPSASB had previously discussed an initial review of the responses to some of the Specific Matters for Comment at the March 2013 meeting.

Scope of the project

The IPSASB confirmed that the scope of the project should be all events or transactions that bring together separate operations into one entity. The IPSASB also agreed that the decision on whether to retain transferor accounting in the scope of the project should be deferred until the IPSASB had agreed on the classification of combinations.

Classification

The IPSASB discussed the analysis in the Issues Paper, and noted those responses that disagreed with the proposals in the Consultation Paper. However, the IPSASB questioned whether there was the level of disagreement suggested by the Issues Paper. Members had some sympathy with the views of some
respondents who felt that the language in the Consultation Paper was confusing and did not take account of public sector circumstances, particularly in the case of ‘administrative re-organizations’. Members also noted the lack of experience of consolidation in many jurisdictions. These factors may have contributed to the negative nature of some comments.

The IPSASB discussed the proposal in the Issues Paper to take ownership into account in classifying combinations. Whilst some members commented that the paper included some interesting ideas, the IPSASB was not convinced by the arguments and decided not to proceed with this approach.

The IPSASB directed staff to further develop options for classification based on the approach in the Consultation Paper, taking into account the suggestions made by respondents including whether there is consideration and whether a combination is an exchange transaction.

**Measurement**

The IPSASB discussed the responses to the Specific Matters for Comment in the Consultation Paper relating to measurement. The IPSASB agreed that decisions on these matters should be deferred until the approach to classification has been agreed.

9. **Social Benefits (Agenda Item 9)**

Staff presented an Issues Paper and draft chapters of a Consultation Paper (CP) on Social Benefits. The IPSASB discussed the papers and provided direction on the development of the CP:

**Structure of the Consultation Paper**

The IPSASB agreed that the summary of social benefits programs in various jurisdictions should be presented before the discussion on the scope of the project. The IPSASB also agreed that there should be a section of the Consultation Paper dealing with the implications of the Conceptual Framework on the project.

The draft Consultation Paper included two chapters on Option 1, covering recognition and measurement. The IPSASB agreed these should be combined into one chapter. There should only be one chapter per option.

The Issues Paper identified three options. The IPSASB agreed that should further options be identified additional chapters should be included that discussed these options. The IPSASB agreed that additional options would need to include new principles rather than discussing the accounting treatment in specific jurisdictions. The IPSASB noted that some jurisdictions will use a mixed approach depending on the social benefits that exist.

**Consistency with Government Finance Statistics (GFS)**

The IPSASB agreed that the scope of the project should exclude social benefits that are covered in existing IPSASs (employee benefits and financial instruments), but should not exclude other social benefits provided through exchange transactions. An observer commented that in the System of National Accounts (SNA), contributions to social insurance schemes are considered exchange transactions.

**Collective Goods and Services**

The IPSASB confirmed its previous decision that the scope of the project should exclude collective goods and services. In doing so, members noted that the distinction between collective and individual goods and
services was not always clear cut, and that some programs have both individual and collective elements. The IPSASB also noted that individual demand for collective services is likely to change over time, and it may be necessary to adjust supply to reflect the demand for individual services, or to adjust the quality of collective services provided, in response to changing fiscal pressures.

**Phased Approach**

The IPSASB noted that it may be difficult to distinguish between cash transfers and social transfers in kind. It agreed that if the project were to be separated into two phases, “prior reimbursements” should be included in social transfers in kind as proposed by staff. The purpose of any such separation would be to ensure the project was deliverable. The IPSASB agreed that this should be a project management decision, and that it would not seek stakeholders’ views on this point. It was further agreed that the Consultation Paper should address concepts and principles and seek respondents’ views as to whether these were equally applicable to cash transfers and social transfers in kind. Decisions on the approach to developing an ED would be taken following an analysis of the results of the consultation.

**Definitions**

The IPSASB agreed that the definitions and classifications in the project should align with those in GFS as far as possible. Members generally supported the definitions in the draft CP. The IPSASB agreed that it would be helpful to define “social insurance” and that the reference to non-exchange transactions should be removed from the definition of social transfers in kind.

The IPSASB noted that there are three types of contributory benefit:

- The level of payment is directly related to the level of contributions (similar to occupational pensions);
- Payment (but not the level of payment) is dependent on contributions having been paid (similar to insurance schemes);
- The total amount payable is based on the total income (for example, where programs have earmarked funds and benefits are limited to those funds).

Members noted that there may be jurisdictional aspects to consider. Some jurisdictions operate mixed programs. Some programs operate as if they are insurance programs, but may be funded through other means, for example levies, or may provide benefits to non-contributors.

In order to reflect this diversity, the IPSASB agreed that references to benefits being “dependent on contributions” should be amended to “evidenced by contributions”.

**Identification of Options**

The IPSASB agreed that Option 1 should not include IPSAS 19 in its title. No decision was taken about the title of this option. The IPSASB noted that some aspects of IPSAS 19 will need to be referenced when describing the option where these are not included in the Conceptual Framework. These include obligating events and contingent liabilities.

**Option 1 – Obligating Events**

The IPSASB agreed that this option should be more closely aligned with the Conceptual Framework and its definitions.
The IPSASB noted that whether an obligating event occurs earlier for a contributory program may depend on the program. Two aspects need to be considered – do the contributions give rise to a higher expectation, and is there a distinction between fully funded and partially funded programs?

The IPSASB also noted that the information needs may be different for contributory programs. It is possible to identify individual beneficiaries for contributory programs, whereas this may not be possible for non-contributory programs. However, as the Conceptual Framework states that a liability is not dependent on identifying a specific external party, such a difference may be inconsequential. At this stage, the Consultation Paper will be seeking respondents’ views, and should include all factors that may impact on recognition.

The IPSASB agreed that the draft SMC 3 (which asks for respondents’ views as to when an obligating event arises) should be reworded to seek views on what an IPSAS should include rather than seeking to reflect current practice.

The IPSASB noted that the section of the Consultation Paper discussing exchange transactions would be redrafted to reflect the IPSASB’s discussions and the examples of exchange transaction provided. The nature of an exchange in an insurance environment would need to be reflected.

Option 1 – Measurement

The IPSASB supported the use of the cost of fulfillment. Members also commented that some social insurance programs use reinsurance and hence the cost of release may be appropriate for some programs. The assumption price is used in insurance accounting, and will be relevant to the social insurance model. In this regard, it was noted that costs do not follow a normal distribution, and that there may be a long tail. In such cases the most likely cost of fulfillment will be less than the point at which the cost of fulfillment is equally likely to be higher or lower; and that in turn will be smaller than an assumption price that requires an adjustment for risk, i.e. to be 75% or 90% likely to be adequate.

The IPSASB agreed that the reference to including assets in the measurement of a program should be expanded to include the discussion as to whether assets and liabilities should be shown net or gross, and whether the expected return on the assets should impact the discount rate used for the liability. It was noted that there are differing views on this matter.

10. Public Sector Financial Instruments (Agenda Item 10)

The IPSASB considered an Issues Paper on certain public sector specific financial instruments. This resulted from directions following the approval of a project brief at the December 2013 meeting. An initial discussion of some issues (monetary gold, currency and coin in circulation and IMF instruments/transactions) was held in March 2014.

The Issues Paper focused on the following:

- Statutory receivables;
- Statutory payables; and
- Securitizations.

Staff updated the IPSASB on the progress on adding to the task based group to form a task force, noting that the IMF had committed to providing a member to participate in the task force. The status of that appointment is not yet certain. Efforts continue to identify an individual from a government finance department or central bank, with expertise in these specialized areas, such as accounting for currency in circulation, monetary gold and IMF special drawing rights. A working group established by the IMF, World
Bank, and the Bank for International Settlements, is considering issues prevalent in financial reporting of central banks (with members coming from international organizations, central banks and government treasury and finance departments). Staff is working to communicate with this group with the goals of identifying additional qualified individuals to join the IPSASB task force.

Staff presented research and findings related to the issues in the paper. A number of types of transactions which would be considered related to statutory receivables and payables, were noted, such as:

- Taxes;
- Government Transfers;
- Fines and Penalties;
- Fees; and
- Social Benefits.

All of these types of transactions are generally non-contractual and arise through laws, legislation and/or regulation.

The IPSASB agreed there is a distinction between contractual and non-contractual transactions, and directed staff to consider the exchange and non-exchange element when developing the Consultation Paper (CP). Further, public sector transactions such as donations from governments to international organizations and memberships in international organizations should also be explored further. It was noted that these may fall within government transfers, however, further work should be undertaken to confirm this.

Staff identified potential gaps in IPSAS literature when accounting for statutory receivables. Guidance exists for initial recognition and measurement of revenue from both exchange and non-exchange transactions in IPSAS 9, Revenue from Exchange Transactions and IPSAS 23, Revenue from Non-Exchange Transactions (Taxes and Transfers). For those transactions which are contractual, subsequent measurement, derecognition/impairment guidance exists in the financial instruments standards, IPSAS 28-30. However, for those items which are non-contractual, no guidance exists and IPSAS 3, Accounting Policies, Changes in Accounting Estimates and Errors would be the most appropriate guidance to consider. The IPSASB agreed with the identified gaps in the IPSAS literature.

In discussing an approach to developing guidance to deal with the identified gaps, the IPSASB concluded that a detailed approach did not need to be determined at this point and directed staff to develop options for consideration in the CP.

Staff identified potential gaps in IPSAS literature when accounting for statutory payables. IPSAS guidance for accounting for payables can be found currently in either IPSAS 19, Provisions, Contingent Liabilities and Contingent Assets, IPSAS 25, Employee Benefits, IPSAS 29, Financial Instruments: Recognition and Measurement and in the IPSAS 1, Presentation of Financial Statements definition of a liability. If an entity determines it has a contractual liability, it should be accounted for in accordance with IPSAS 28-30. However, for statutory payables which are non-contractual, there is a lack of guidance in IPSAS. Further, from the payables point of view, there is no current guidance dealing with non-exchange transactions. For these cases the current applicable guidance is IPSAS 3, Accounting Policies, Changes in Accounting Estimates and Errors. The IPSASB agreed with the identified gaps and discussed potential approaches to dealing with the gaps. Similar to statutory receivables, it was agreed that an approach need not be committed at this time and options should be developed in the CP.

Staff presented detailed research related to securitization schemes and applicable accounting standards in IPSAS. Securitizations are contractual in nature and many schemes are common to both the public and private sector. Given the contractual nature, IPSAS 28-30, deal with accounting for the majority of
securitization schemes and detailed application guidance exists in IPSAS 29. However, it was noted that in the public sector, a type of scheme, sometimes referred to as a “future flow” securitization, exists. This includes a subset of transactions where public sector entities securitize future cash flows for assets which are not currently recognized in the entity’s balance sheet. The current literature does not provide guidance for such securitizations. Staff provided some actual examples of these types of transactions, such as the securitization of the right to provide drivers’ licences and collect vehicle ownership taxes for a period of time. Staff presented information in regards to existing standards related to accounting for securitizations from national standards, SNA and GFS. The Eurostat observer noted that currently almost all securitization schemes would be considered borrowings. The IPSASB agreed that this is an area which should be explored further and directed staff to develop options for the CP.

Since the topics currently within the scope of this project are divergent and do not have a clear conceptual connection, the IPSASB considered whether a single CP should be developed or whether multiple CPs would be more appropriate. Views varied, but after debate the IPSASB agreed to develop a single CP. This allows constituents to consider and respond to all issues at one time. Initial chapters of the CP will be considered at the IPSASB meeting in September 2014.

11. Closing Remarks and Conclusion of Meeting

The meeting concluded on June 27, 2014.
## 12. Appendix 1 – June 2014 Action List

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<tr>
<th>Action Required</th>
<th>Person(s) Responsible</th>
<th>Date to be Completed</th>
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<tbody>
<tr>
<td><strong>1. Conceptual Framework—General</strong></td>
<td>John Stanford</td>
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<tr>
<td>• Update and re-circulate CF project plan</td>
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<td><strong>2. Conceptual Framework—Preface</strong></td>
<td>John Stanford</td>
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<tr>
<td>• Update draft Preface in accordance with June directions and circulate to members</td>
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<td>August 15, 2014</td>
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<td>• Integrate into final Framework</td>
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<td><strong>3. Conceptual Framework—Elements</strong></td>
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<td>• Update draft final chapter in accordance with June directions and circulate to TBG</td>
<td>John Stanford, Paul Sutcliffe</td>
<td>July 25, 2014</td>
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<tr>
<td>• Circulate to members</td>
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<td><strong>6. Interests in Other Entities</strong></td>
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<tr>
<td>• Draft standards and Issues Paper and circulate to TBG</td>
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<td>On an ongoing basis as sections completed</td>
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<td>• Circulate draft standards and Issues Paper as agenda item for September meeting</td>
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<td><strong>7. First Time Adoptions of IPSASs</strong></td>
<td>Amanda Botha</td>
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<td>• Prepare illustrative draft of proposed IPSAS to illustrate different classification of transitional exemptions between mandatory and voluntarily</td>
<td>Stephenie Fox</td>
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<td>• Consider transitional relief to be provided on interests in other entities</td>
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<td>• Submit first draft of proposed IPSAS on First-time Adoption of Accrual Basis IPSASs to IPSASB for consideration</td>
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<td>• Consider the role that the IPSASB can play in assisting first-time adopters in their transition to accrual basis IPSAS</td>
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<td>Paul Mason</td>
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<td>• Develop first draft of new Consultation Paper chapters and circulate to TBG</td>
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<td>• Develop first draft of next Issues Paper and revised Consultation Paper chapters and circulate to TBG</td>
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<td>• Revise Issues Paper and Consultation Paper and circulate as agenda item for September meeting</td>
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<td>• Finalize CP for publication</td>
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<td>10. Public Sector Financial Instruments</td>
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<td>• Develop first draft of new Consultation Paper chapters and circulate to the TBG</td>
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### 13. Appendix 2 – Voting Record

13.1 – Vote #1– Approve ED – Improvements

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| TOTAL                          | 17  | 0      | 0      | 2      | 19    |

Agenda Item 1.3
Page 33 of 34
14. Appendix 2 – Voting Record

14.1 – Vote #2– Approve CP – Government Business Enterprises

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