1. Attendance, Opening Remarks, and Approval of Minutes

1.1 Attendance – Toronto, Canada

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<tr>
<th>Voting Members</th>
<th>Technical Advisors</th>
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<tr>
<td>Present: Andreas Bergmann (Chair)</td>
<td>Sajjad Ahmad (Mr. Mazaffar)</td>
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<td>Ron Salole (Deputy Chair)</td>
<td>Clark Anstis (Mr. Youngberry)</td>
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<td>Ian Carruthers</td>
<td>Stefan Berger (Mr. Bergmann)</td>
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<td>Robert Dacey</td>
<td>Lindy Bodewig (Ms. Poggiolini)</td>
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<td>Mariano D’Amore</td>
<td>Takeo Fukiya (Mr. Izawa)</td>
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<td>Rachid El Bejjet</td>
<td>Baudouin Griton (Mr. Piolé)</td>
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<td>Sheila Fraser</td>
<td>Yangchun Lu (Mr. Huang)</td>
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<td>Guohua Huang</td>
<td>Rasmimi Ramli (Datuk Wan Sulaiman)</td>
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<td>Kenji Izawa</td>
<td>Joanne Scott (Mr. Warren)</td>
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<td>Massud Mazaffar</td>
<td>Gillian Waldbauer (Mr. Müller-Marqués Berger)</td>
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<td>Thomas Müller-Marqués Berger</td>
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<td>Anne Owuor</td>
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<td>Guy Piolé</td>
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<td>Jeannine Poggiolini</td>
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<td>Wan Selamah Wan Sulaiman</td>
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<td>Ken Warren</td>
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<th>Apologies:</th>
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<td>Stuart Barr (Ms. Fraser)</td>
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<td>Tim Beauchamp (Mr. Salole)</td>
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<td>Aziz El Khattabi (Mr. El Bejjet)</td>
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<td>Fabrizio Mocavini (Mr. D’Amore)</td>
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<td>Chris Wobschall (Mr. Carruthers)</td>
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The Chair welcomed the members to Toronto and noted that all members are in attendance. Specific mention was made of the member from Malaysia who is attending her first meeting and to technical manager Ross Smith who is attending his first meeting in person as staff.

The IPSASB reviewed the draft minutes of the March 2013 meeting and approved these with no amendments.

The observer from Eurostat was invited to give a brief update on the Eurostat conference in Brussels at the end of May 2013. The observer provided feedback on the conference, noting that there was a strong sense of the need for cooperation with IPSASB. The need for a strong governance framework was also highlighted. Current discussions and proposals include the establishment of an EPSAS committee with key European institutions to provide oversight with expert groups below this to address standards and interpretations. It was noted that there is a lot to do to progress things and that a public consultation is planned.

The IPSASB received the IASB tracking table for information.
2. Conceptual Framework (Agenda Item 2)

2.1 Coordinator’s Report (AP 2)¹

The IPSASB considered a report from the Project Coordinator dealing with:

- The Project Plan;
- Developments in the International Accounting Standards Board’s (IASB) Conceptual Framework project and relationship of the IPSASB Framework to the IASB Framework;
- The Preface; and
- The International Integrated Reporting Council’s Consultation Draft of the *Integrated Reporting Framework*.

The Project Plan

The Coordinator directed members to the project plan in the appendix to the agenda item. He noted that, with very minor editorial revisions, this was the version circulated following the March 2013 meeting and reflected the IPSASB’s approval of the Phase 4 Exposure Draft (CF–ED4) and subsequent publication of CF–ED4 in April 2013. It also reflected the decision to defer publication of the Preface until the chapters from phases 1 to 4 had been finalized.

The Coordinator repeated the point made at previous meetings that the timing for completion of the Framework remains very tight and demanding in some places, particularly Phase 4. He highlighted that because the consultation period for CF–ED4 ends in mid-August, any agenda item on Presentation at the September meeting will inevitably be very high level. That would leave the December 2013 and March 2014 meetings to complete a review of the responses and finalize the chapter. The Coordinator considered that this was unrealistic and inappropriate. He considered that it would be more realistic to aim to complete the Framework in June or September 2014.

It was agreed that members will consider the timetable in detail at the September meeting in the light of a preliminary high level assessment of the responses to CF–ED4. In accordance with normal procedures the timetable would be revised and circulated to members after the meeting.

Developments in the International Accounting Standards Board’s (IASB) Conceptual Framework project and relationship of IPSASB Framework to IASB Framework

The Coordinator reported developments related to the IASB’s Conceptual Framework project. He noted that substantive deliberations on the IASB’s Discussion Paper (DP) had been completed and that the IASB intended to ballot members on the DP in June with a view to its publication in early July.

The Coordinator informed members that IASB staff had confirmed that it is not the intention to reopen chapters 1 and 3 of the Framework, which deal with the objective of general purpose financial reporting and the qualitative characteristics of useful financial information. These chapters had been completed before the previous IASB–Financial Accounting Standards Board joint project had been deactivated in

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¹ The Project Brief for the Conceptual Framework consists of three subject groups. Group 1 addresses: the role, authority and scope; objectives and users; qualitative characteristics, and the reporting entity (also referred to as Phase 1). Group 2 addresses elements of GPFSs and recognition (also referred to as Phase 2), and Group 3 addresses measurement (also referred to as Phase 3) and presentation and disclosure (also referred to as Phase 4).
2010. However, these chapters will be included in the DP so that readers are able to see the interrelationship with the new material. The DP will not include discussion of the reporting entity, on which an earlier Discussion Paper and Exposure Draft (ED) were issued before the joint project was paused in late 2010. However, the integrated ED, which IASB intends to issue in mid-late 2014, will include material on the reporting entity, based on the 2010 ED, and updated in the light of comments received on that ED.

The Coordinator noted that a number of respondents to both the Phase 2 and Phase 3 EDs (CF–ED2 and CF–ED3) had raised issues about the relationship of the IPSASB’s Framework to the IASB Framework. Proposals had included that the IPSASB should

(i) Defer further work until the IASB has completed its Framework;
(ii) Align definitions with those developed by the IASB;
(iii) Have the same elements as the IASB, although definitions might differ for public sector reasons;
(iv) Adopt the same definitions of elements; and
(v) Achieve an appropriate degree of consensus with the IASB on key aspects before finalizing the Framework project.

The Coordinator noted that throughout its development, members had adopted the approach that the IPSASB Framework project is neither a convergence project nor an interpretation of the IASB’s current or evolving Framework. The Coordinator added that staff had monitored developments in the IASB project and had already identified areas where, following issue of the DP, they think that the IPSASB may want to revisit issues in the light of proposed approaches in the IASB project.

Following a request by staff, members reaffirmed the current approach to the Framework. The importance of the project was emphasized by members. Members indicated that there are sound reasons why the Framework should differ from its IASB counterpart and these need to be communicated. The Preface might play a role in this (see below). At the same time, the IPSASB should not aim to differ from the IASB Framework just for the sake of differing and the number of minor differences should be minimized, so that unnecessary effort is not required for users understanding or for preparers consolidating entities applying both frameworks. One member highlighted that in some jurisdictions there is a view that the definitions of an asset, a liability and revenue and expenses are neutral and not public sector specific, although he acknowledged that perspectives differ throughout the world. It was suggested that the Advisory Panel might play a role in indicating whether differences between the two Frameworks are appropriate.

Members also expressed disapproval of the use of the word “justify” in the sentence “Staff will analyze the forthcoming DP with a view to ensuring that divergences from the IASB’s approach are justified by public sector considerations.” There was a concern that this could be read as implying that the Framework is subsidiary to, and dependent upon, the IASB Framework.

Preface

The Coordinator explained that, as directed at the March meeting, the Preface (previously Key Characteristics of the Public Sector with Potential Implications for Financial Reporting) had been revised and circulated to Members, Technical Advisers and Observers with a view to making it available on the website as a staff draft. Eight responses had been received, some of which made detailed drafting suggestions. All indicated that they supported posting a revised version on the website. Staff acknowledged the input from these individuals and asked whether the support for making the Preface available was general.
There was strong support for making the Preface available prominently on the website. Members considered that it could play an important role in communicating the main reasons why and how the IPSASB Framework would differ from the IASB Framework and directed that staff discuss the best way of making it available with the Communications Department. Many members expressed a view that it should be made available as a current or preliminary board view rather than as a staff draft and, although one member expressed reservations, staff was directed to proceed on this basis.

**Consultation Draft of Integrated Reporting Framework**

Staff noted that the International Integrated Reporting Council (IIRC) issued a Consultation Draft of its Integrated Reporting Framework in late April 2013. The Consultation Draft is open for comments until July 15, 2013. The Chartered Institute of Public Finance and Accountancy (CIPFA) paper, *Integrated Reporting and Public Sector Organisations*, on the implications of integrated reporting for the public sector had been revised in light of the IIRC Consultation Draft, and staff informed members that it was available from staff on request.

One member expressed a view that integrated reporting could have a fundamental effect on the financial statements. The member who had been involved in the development of the CIPFA paper considered that the IPSASB should continue to monitor developments on the IIRC Framework and noted linkages with the work on public sector governance being undertaken by the Professional Accountants in Business Committee and the IPSASB’s service performance information project. He also suggested that some further public sector pilots would be appropriate and that CIPFA would probably hold further meetings with IIRC staff. The views of those who consider that the Integrated Reporting Framework needs further conceptual development were noted.

In response to a request for some background information for recently appointed Board members who had not been present for the presentation by the former IFAC Chief Executive on the Integrated Reporting Framework at the December 2012 meeting the Chair noted the linkage with the Global Reporting Initiative and the Prince of Wales’ Accounting for Sustainability project and that the aim of integrated reporting is to produce a more concise and balanced form of corporate reporting.

Staff said that they would continue to monitor the IIRC Framework.

**2A. Conceptual Framework Elements**

The IPSASB considered a collation and summary and preliminary staff analysis of the responses to the Conceptual Framework Exposure Draft (CF–ED2), *Elements and Recognition in Financial Statements*, issued in early November 2012 with a consultation period until April 30, 2013. As at May 15, 2013, 40 responses had been expected. Members commented on the constructive and thought-provoking submissions. Members reflected on whether, in view of the significance of CF–ED2, a greater number of responses might have been received. The IPSASB noted that the United Nations (UN) response included 25 UN organizations and that some other responses consolidated a number of entities.

**Specific Matter for Comment (SMC) 5-Deferred Inflows and Deferred Outflows**

Members noted that the most controversial issue on which respondents had commented was the proposal to introduce deferred inflows and deferred outflows as elements. While there was some support for this proposal, the majority of those expressing a view opposed these elements. Staff reported one supporter questioned the rationale for restricting deferred inflows and deferred outflows to non-exchange transactions as did a respondent strongly opposed to deferred inflows and deferred outflows. A number of respondents expressed strong reservations about the interaction between the definitions of deferred
inflows and deferred outflows and the definitions of revenues and expenses as well as the need for, and meaning of, net financial position.

Staff highlighted that respondents in favor of defining deferred inflows and deferred outflows as elements considered these elements are required in circumstances when it is inappropriate to recognize increases or decreases in net assets as revenue or expenses of the period and where the resulting balances do not meet the definition of either a liability or an asset. The IPSASB noted however there was not a consensus on how to address the issue of multi-year inflows or outflows subject to timing restrictions.

Staff summarized the views of respondents opposed to deferred inflows or deferred outflows as elements including:

- Concern that these proposals do not reflect economic reality, and redefine the existing global economic accounting framework;
- Concern about including elements based on timing stipulations, with a suggestion that a presentational approach to flows intended for use in more than one period would be better;
- Need for better clarification of the perceived problem the proposal is trying to solve, or more convincing justification of the merits of the proposed solution;
- Belief that the terms deferred inflows and deferred outflows are not well understood or used, making financial statements more complex and difficult to understand;
- Introduction of deferred inflows and deferred outflows as elements to deal with a limited number of transactions is disproportionate to the perceived benefits; and
- A view that deferred inflows and deferred outflows are based on an inappropriate revenue and expenses-led (R&E) approach, with a preference for an asset and liabilities-led (A&L) approach, which is considered to be less vulnerable to manipulation than an R&E approach.

A number of respondents supported the Alternative Views (AVs) of Professor Mariano D’Amore and Ms. Jeannine Poggiolini, both of whom were invited by the Chair to summarize their views to the IPSASB.

Professor D’Amore explained that his AV did not deal with the rationale for recognizing deferred inflows or deferred outflows but debated the treatment of them as proposed in CF–ED2. He highlighted the effects of the introduction of deferred inflows and deferred outflows on the current definitions of revenue and expenses, the only elements in the statement of financial performance. The Professor pointed out that, under the proposals in CF–ED2, as revenue less expenses no longer equal increases in net assets in the current reporting period, then the surplus /deficit of the year is no longer intended to represent the change in net assets. The Professor questioned whether such departures from generally understood concepts are a necessary consequence of the recognition of deferred inflows and deferred outflows as elements, and questioned whether an alternative solution might be more appropriate. He noted that, under the proposals in CF–ED2, revenue less expenses equals change in net assets which is then adjusted for movements in deferred inflows and deferred outflows to arrive at the surplus or deficit for the year. The Professor expressed concern whether net financial position is either a substitute for net assets or the primary indicator for net resources available to the entity at the reporting date for the provision of services in the future. In the Professor’s view CF–ED2 does not give a satisfactory description of the difference between net assets and net financial position, or the relevance of the latter in meeting users’ needs. He also considered that the concept of surplus/deficit for the year as a net flow in net financial position is not fully explained in CF–ED2.

Ms. Poggiolini explained that she did not support deferred inflows and deferred outflows as separate elements because in her view these flows, which relate to the elapse of time, should be included in the definitions of revenues and expenses. If these flows are significant in relation to a reporting period--such
as a large grant received in one period being spent in another period—then the impact on the surplus or deficit should be explained through appropriate presentation and disclosure requirements developed at standards level.

The IPSASB discussed the points made in support of both AVs. The Chair said that the fundamental point is whether to deal with financial performance in the Framework or at standards level. Members agreed about the requirement to be clear about the meaning of financial performance in the public sector, including reporting the maintenance of operating capacity and how to consider different ways to present this to users. A member commented that determining the key measure of financial performance is a major conceptual issue and noted that an approach based on the IASB’s “Other Comprehensive Income” would, on its own, be conceptually insufficient in the public sector. A member pointed out that an alternative approach to deferred inflows and deferred outflows and the expansion of the definitions of revenue and expenses is the modification of the definitions of assets and liabilities, and therefore a reflection of the phenomenon in the statement of financial position. The member considered it was essential to resolve which approach to adopt on a conceptual basis.

The IPSASB noted that across the public sector there are many grants of a non-exchange nature that are transferred either in advance or in arrears and agreed it is important to arrive at accounting and presentation solutions for dealing with such transactions. While the IPSASB recognized the problem it considered there is still uncertainty about the right solution.

As a next step, staff and the Task Based Group (TBG) were directed to undertake an analysis of what financial performance and financial position mean in the public sector for consideration at the September meeting.

The IPSASB then considered the responses to the other SMCs.

**SMC 1—Definition of an Asset**

Staff explained that, while the majority of respondents generally supported the proposed definition of an asset, a number of suggestions had been received on the wording of individual components of the definition.

**Overall Approach and Control**

Staff reported that a respondent had questioned whether an entity controls the resource if it is a third party that benefits from the asset’s service potential. Noting this, a member highlighted the difficulty of defining control too broadly or too narrowly and questioned, for example, in relation to public roads, whether it is the government or a third party, the road users, who derive the benefits. The government has the role and responsibility to look after the road while the vehicle user derives the benefit. The IPSASB noted that in such cases the provision of a service would be in accordance with the service provider’s objectives and that, in such a case, the entity controls the resource.

Another member highlighted a risk that an asset such as a heritage asset may be claimed as an asset by both the entity which owns it and by the entity which derives a benefit. The IPSASB acknowledged that such circumstances might arise. While legal ownership is an indicator of control, judgement will be needed in determining which entity has the asset. Staff also noted that more than one party might have rights to a single resource.

Staff proposed that control exists in the definition of an asset rather than as recognition criteria and the IPSASB confirmed this approach.
**Contingent Assets**

The IPSASB discussed the suggestion by one respondent that the Framework should acknowledge that assets include contingent assets. Members concluded that although contingent assets give rise to recognition issues they do not need to be defined or discussed in the Framework.

**Service Potential and Economic Benefits**

Staff reported that some respondents had questioned the need for both the terms “service potential” and “economic benefits” in the definition of an asset. Staff reminded the IPSASB of earlier discussions on this matter and considered that the rationale for retention of both terms remained sound. The IPSASB reaffirmed its view that both terms were required in the definition.

**Future Inflows**

Several respondents proposed inserting “future” before “inflows” into the definition. The IPSASB agreed “future” is not required in the definition, but that an explanation should be included in the Basis for Conclusions that inflows contribute to operating capacity and therefore the ability of an entity to deliver services in the future.

**Risks and Rewards as an Indicator of Control**

Staff reported that two respondents had suggested adding risks and rewards to the list of indicators of control in paragraph 2.7. The IPSASB concluded that including references to risks and rewards as indicators of control was not appropriate for the main text, but there should be a more detailed explanation given of the reason in the Basis for Conclusions.

**Past Event**

Staff explained that several respondents questioned the need for a past event as an essential characteristic of the definitions of both assets and liabilities. The IPSASB discussed the inclusion of the example of the four steps in the process of determining when rights and powers give rise to an asset for a tax in paragraph 2.8 of CF–ED2. While generally seeking to avoid inclusion of examples within the main text, the IPSASB decided to retain this one. The IPSASB supported the staff view on retention of past events in the definitions of an asset and a liability, and also decided that any further guidance should be provided at standards level.

**Unconditional Rights**

Staff explained that one respondent disagreed with the explanation in the Basis for Conclusions that unconditional promises may give rise to assets if the entity has paid for them, or a market value has been identified. Staff also reported another respondent disagreed that the identification of circumstances where unconditional rights give rise to an asset is a standards level issue, stating that further work is required in order to provide the necessary underpinning for standards level discussions. The IPSASB agreed with the staff proposal to reconsider the treatment of unconditional rights at the next meeting.

**Executory Contracts**

Staff reported that some respondents expressed reservations about the explanation in the Basis for Conclusions that recognition of the rights and obligations related to executory contracts should be determined at standards level. Staff explained the TBGs concern that executory contracts comprise both assets and liabilities and that recognizing both would involve the inclusion of potentially very large related amounts in the statement of financial position and the statement of financial performance, which could conflict with the Qualitative Characteristic (QC) of understandability. The Chair noted that in some
jurisdictions executory contracts were illegal in both the public and private sectors. One member pointed out that leases may take the form of executory contracts and suggested that, for a user looking at operating capacity, disclosure of leasing commitments in the financial statements would be useful information.

It was mentioned that the IASB’s developing approach is to acknowledge that executory contracts give rise to assets and liabilities, but that if such contracts are entered into at arms’ length the initial measurement would be zero, because the assets and liabilities would offset each other.

Staff requested confirmation that members were generally content to continue with the proposed definition of an asset. There was general support for the definition. However, two members of the TBG raised the possibility of broadening the definition to encompass deferred inflows and deferred outflows, noting that any such modification would depend on the analysis on the approaches to financial performance and financial position. The Chair expressed reservations about a lengthy and complex definition.

**SMC 2 (a)–Definition of a Liability & 2 (b)–Description of Non-Legal Binding Obligations**

*Little or No Realistic Alternative*

Staff explained that two respondents had raised a number of concerns regarding the term “little or no realistic alternative” in the proposed definition of a liability. Some members suggested “expected” might be a better term as it would be consistent with IPSAS 19, *Provisions, Contingent Liabilities and Contingent Assets*. Other members suggested that, as drafted, the phrase is problematic because sovereign powers give governments an alternative to avoid an outflow of resources. Another member commented that judgment had to be realistic so the inclusion of “little or” had little effect. The member also noted a risk that no realistic alternative could mean “virtually certain” which is a very high threshold and could give rise to unforeseen implications when the IPSASB develops detailed requirements for public sector specific issues such as social benefits. Other members proposed to delete “little or” from the definition. After further discussion, the IPSASB agreed to delete the two words “little or” from the definition and to strengthen the explanation in the Basis for Conclusions.

*Legal or Non-legal Requirement*

Staff explained that a number of respondents had commented on aspects of the definition and questioned whether liabilities should be limited to legal (or equivalent) obligations. Some members supported these reservations while others argued that to preclude liabilities arising from non-legal binding obligations would give rise to incomplete, not faithfully representative, financial statements. Staff reminded the IPSASB of an example of a non-legal binding obligation in one jurisdiction, where, following a disaster, a government had announced a relief program before the enabling legislation had been enacted. The government had a past record of providing financial support for the victims of natural disasters. In this example the IPSASB had concluded that not to have recognized a liability would have distorted the government’s financial position.

Staff noted that paragraph 3.10 proposed the attributes that a non-legal binding obligation must have in order to meet the definition of a liability. The proposed approach is quite rigorous and might partially allay the reservations of those who consider that liabilities should be restricted to legal obligations. Members acknowledged the difficult audit implications in deciding which government promises give rise to liabilities at a particular date. Members also concluded that a past track record of honoring similar obligations is important in assessing whether a liability arose.
Staff reported that respondents had questioned whether the term non-legal binding is appropriate. A member noted the term “constructive” had been used elsewhere to cover liabilities other than those relating to a legal contract. Members noted the possible difficulty that, when translated, the term non-legal could be construed as endorsing illegality. The term “non-legally binding obligations” was suggested instead, but received limited support. After discussion the IPSASB directed staff and the TBG to try to identify an alternative term for further discussion at a future meeting, but, in the meantime, tentatively agreed to retain the term “non-legal binding obligations”.

**Political Compulsion**

Staff reported that some respondents proposed clarifying that political compulsion does not give rise to an economic obligation. The IPSASB confirmed that political compulsion does not give rise to a liability and supported the staff view to add a reference to political compulsion in paragraph 3.7.

**Provisions**

Staff explained that a respondent had suggested broadening the definition of a liability to include a specific reference to provisions. Staff pointed out that provisions already meet the definition of a liability. The IPSASB agreed with staff’s proposal not to specifically identify provisions in the definition.

**Contingent Liabilities**

The IPSASB discussed the suggestion by one respondent that the Framework should acknowledge that liabilities include contingent liabilities. Members confirmed that, while contingent liabilities should be disclosed in the notes as for contingent assets, contingent liabilities do not need to be defined or discussed in the Framework. The Chair said that this should be noted in the Basis for Conclusions.

**Stand-ready Obligations**

Staff reported that one respondent considered that the approach to stand-ready obligations in CF–ED2 was flawed and should be reconsidered. Other respondents had expressed the view that only fully unconditional obligations give rise to liabilities. Staff noted that the IASB had rejected the approach that a present obligation must be strictly unconditional. Staff questioned the implications of the approach in CF–ED2 if, for example, the IPSASB were to initiate a project to develop a standard on insurance contracts.

The Chair contrasted the differences between the public and private sectors in relation to stand-ready obligations. Governments are often the lender of last resort, so there is a public sector specific reason for the IPSASB to consider a different approach to these obligations from that taken by the IASB. A member noted that, in the welfare state, the state stands ready to deliver a number of benefits which, if recognized, would have far-reaching implications. Other members acknowledged this and noted there were also other areas where the public sector is different, referring to situations in various jurisdictions where the government had stood ready to rescue banks, and where government guaranteed student loans by banks. Members considered that each program or situation had to be examined individually at standards level. The IPSASB tentatively decided not to introduce the term stand-ready obligations into the Framework and to retain the position in CF–ED2 that conditional obligations may give rise to liabilities and that the identification of circumstances where conditional obligations may give rise to liabilities is a standards-level issue. It was also suggested that whether an obligation arose from an exchange or non-exchange transaction might also be a relevant factor. Members directed that the Basis of Conclusions should reflect the discussion.
Past events
Staff explained that, as with assets, a number of respondents questioned the need to refer to past events in the definition of a liability. Staff highlighted that in the public sector commitments and obligations arise at a number of points and therefore identification of a past event that gives rise to a liability is very important. Members agreed, noting that in the context of the financial support to the victims of isolated natural disasters, earthquakes and floods are examples where past events need to have occurred for there to be any consideration of whether such an event might give rise to a liability.

Performance obligations
Staff pointed out that a number of respondents had questioned the implications for performance obligations of the forthcoming IFRS on Revenue Recognition. One member also suggested to staff a need to consider the impact of performance obligations in the context of deferred inflows and deferred outflows. The IPSASB approved staff's proposal to consider the issue of performance obligations in more detail at the next meeting.

Commitments
Staff explained one respondent had commented that commitments are not mentioned in the Framework although they are very significant in the public sector. The IPSASB agreed that consideration should be given to acknowledging commitments in the Basis for Conclusions, explaining that commitments are only liabilities if they meet all components of the definition of a liability. The IPSASB also acknowledged that commitments will need to be considered thoroughly in the context of a standards level project on social benefits.

SMC 3–Definition of Revenue & SMC 4-Definition of Expenses
Staff pointed out that many respondents who disagreed with the proposed definitions of revenue and expenses did so because of the proposal to define deferred inflows and deferred outflows as elements. Staff also highlighted that some respondents suggested expanding the definitions of revenue and expenses to provide for revaluations or enhancements. A member pointed out that the approach to revaluations depends on the approach to financial performance. The IPSASB decided to defer discussion of revenue and expenses, because of relationship with deferred inflows and deferred outflows.

SMC 6–Net Assets, Net Financial Position, Ownership Contributions, Ownership Distributions and Ownership Interests
Staff explained that this SMC had four components. The first related to the proposed descriptions of the terms net assets and net financial position. The IPSASB noted that the term net financial position arose because of the proposed introduction of deferred inflows and deferred outflows as elements and would need to be reconsidered in the light of future decisions on deferred inflows and deferred outflows. The second and third components related to defining ownership contributions and ownership distributions as elements. The Chair questioned the need for such elements. A member of the TBG explained that ownership contributions and ownership distributions are needed to distinguish inflows and outflows related to ownership interests from revenue and expenses. This member acknowledged that alternative terminology might be more appropriate. The fourth component noted that ownership interests were not defined in CF–ED2 and asked whether they should be. While respondents provided mixed views on this issue, the IPSASB tentatively decided to retain the approach in CF–ED2 on the grounds that ownership interests are not sufficiently significant in the public sector to justify a definition as an element.
SMC 7–Recognition

Staff noted that the IPSASB had already decided that ‘control’ should be a component of an asset and that a ‘past event’ should be a component of an asset and a liability. Staff pointed out respondents also questioned the absence of recognition thresholds or criteria. Staff proposed that, in the context of existence uncertainty, consideration should be given to acknowledging that it might be appropriate to establish thresholds at standards level. The IPSASB agreed that it would be difficult to specify thresholds in a Framework. The IPSASB also agreed with the staff proposal of giving an example in the Basis for Conclusions of a legal case where the outcome was unknown as an example of measurement uncertainty. The IPSASB supported the staff proposal to consider both the content of the main text and the Basis for Conclusions in more detail at the next meeting.

2B. Conceptual Framework Measurement

The IPSASB considered a collation and summary and preliminary staff analysis of the responses to the Conceptual Framework Exposure Draft (CF–ED3), Measurement of Assets and Liabilities in Financial Statements, issued in early November 2012 with a consultation period until April 30, 2013. As at May 15, 2013, 37 responses had been received. These responses were reflected in the issues paper and collation and summary at Agenda Items 2B.1 and 2B.2. Two further responses had been received subsequently. These had been posted to the website, but had not been included in the agenda papers. They would be reflected in the September agenda papers.

Overall Comments

Before discussion of the Specific Matters for Comment staff provided a view of the main points to have emerged from the consultation. These included;

- A gulf between those who were generally content with linking the selection of a measurement basis to the objectives of financial reporting and those who favored a measurement objective based on a measurement basis or a group of measurement bases;
- Strong reservations from a number of respondents over the omission of fair value from the proposed measurement bases for both assets and liabilities;
- Reservations about the fair value model in section 4 of the ED;
- Considerable support for the emphasis on entry values for assets primarily held for their operational capacity, but also misgivings, particularly from those who value the importance of alignment with International Financial Reporting Standards (IFRS); and
- Limited support for, and considerable opposition to, the deprival value model, which had been proposed as a method of selecting or confirming the use of a current value measurement basis for operational assets.

The Chair considered that the reaction of respondents was unsurprising and that all the issues identified by the Coordinator had been touched on before in development of the 2010 Consultation Paper and CF–ED3.

Specific Matter for Comment (SMC) 1–Selection of a Measurement Basis/Measurement Objective

Staff noted that CF–ED3 did not propose a specific measurement objective. It proposed that the selection of a measurement basis should be based on the extent to which a particular measurement basis meets the objectives of financial reporting: accountability and decision making. While a large majority of respondents fully or partially supported the proposal in the ED, Staff considered that the wording of the
SMC meant that care should be taken not to exaggerate the level of support for the approach in CF–ED3. Staff considered that the assertion that the selection of a measurement basis should be based on the extent to which a particular measurement basis meets the objectives of financial reporting was uncontroversial and likely to attract wide support. Nevertheless a small number of respondents took the view that the proposed approach was flawed without the insertion of a measurement objective. Most of these respondents supported the Alternative View (AV) of Ken Warren.

Staff expressed a view that a measurement objective would be beneficial, but, given the differences between those who support historical cost and those who favor current value measures, doubted whether a measurement objective linked to a measurement basis or group of bases would be appropriate. Staff highlighted the views of Respondent 017 and said that development of a measurement objective based on the wording proposed by that respondent might be feasible.

There was general support for a measurement objective that would reflect a mixed measurement approach. It was felt that this would clarify the objective of CF–ED3. A number of members indicated that the starting point should be the AV in CF–ED3. Staff questioned whether the measurement objective in the AV was too oriented to current value bases. The author of the AV agreed that the objective was aspirational and more aligned to current value, but does not preclude historical cost, particularly when historical cost is justifiable for efficiency reasons.

Other members considered that the assertion in the AV that a measurement basis will contribute to meeting the information needs of users if it provides information that enables assessments of the costs of services makes it compatible with historical cost. Compatibility with historical cost could be reinforced by reference to the objectives of financial reporting, the QCs and the constraints of financial reporting. It was also noted that different measurement bases were likely to be selected for different purposes and that cost-benefit should also play a role in selection of a measurement basis. Members directed staff and the TBG to develop a measurement objective for the September meeting. The starting point should be the objective in the AV and the objective should include references to the QCs and constraints.

**SMC2b–Current Value Measurement Bases**

Staff noted that the ED proposed four current value measurement bases for assets: market value, replacement cost, net selling price and value in use. Staff expressed a view that the most controversial aspects of the approach to current value measurement bases were that fair value was not included in the proposed measurement bases and that replacement cost was proposed as a measurement basis in its own right rather than as a valuation technique for estimating fair value.

Staff stated that under half the respondents expressing a view had supported the current measurement bases. A few of these respondents had expressly supported the proposal not to include fair value as a measurement basis. Seven respondents had partially supported the approach, but some of these had encouraged the IPSASB to reconsider the proposal to adopt market value rather than fair value. Twelve respondents had opposed the approach mainly because it would lead to a divergence with IFRS. These respondents had also generally opposed the proposal to adopt replacement cost as a measurement basis in its own right and advocated treating replacement cost as method of estimating fair value where there is no market-based evidence. Staff cautioned that the proposal not to adopt fair value and for replacement cost to be a measurement basis in its own right had significant implications for IPSASB’s existing suite of IPSASs and for convergence with IFRS.

One member expressed surprise that many respondents had been negative about the proposals for current value measurement bases. Another member justified the proposals because the IASB definition of fair value had changed and was now explicitly an exit value. It was questionable whether an exit-value
measurement basis is in accordance with the objectives of financial reporting for financial reporting established in Chapter 2 of the Framework. It was also suggested that the approach to developing measurement bases needed to reflect the constraints on a public sector entity's ability to realize sale proceeds. According to this view the location of assets needs to be taken into account and a "highest and best" approach to valuation should reflect an asset’s location and the need for services to be provided from a particular location.

A view was expressed that the IPSASB may not want to be too far from the IASB position and, in particular, the IASB DP should be monitored to see whether there is any modification from the definition of fair value in IFRS 13. It was also suggested that the ED had been over-zealous in appearing to suggest that replacement cost would be the appropriate measurement basis for all operational assets. There are numerous non-specialized assets for which a "highest and best" valuation approach is appropriate, such as office accommodation.

Staff also drew members’ attention to two respondents who advocated usage of the term “optimized depreciated replacement cost” rather than “replacement cost”. Staff considered that such an approach merited further consideration, because it would reflect explicitly that the measurement basis refers to the replacement of the service potential provided by the asset rather than the asset itself.

The IPSASB tentatively decided to continue with the four measurement bases proposed for assets in CF–ED3. Members would consider further usage of the term “optimized depreciated replacement cost” at the September meeting.

SMC3a–Fair Value Model

Staff explained that, although CF–ED3 did not propose fair value as measurement basis the fair value model had been put forward as a method of estimating a measurement where it had been determined that market value is the appropriate measurement basis, but the market is inactive or otherwise not open or orderly. Staff noted that 10 respondents expressing a view had supported the fair value model, although some had requested further details of its application and others had also suggested that, while content with its substance, it might be too low level for the Framework. One of the respondents classified as partially supporting the model had aired similar reservations more forcibly, arguing that the fair value model should be a standards-level estimation technique. Some of the remaining 13 respondents that partially agreed with the model disagreed with the proposal not to propose fair value as a measurement basis and had responded to the SMC by advocating the widespread use of fair value. The fair value model had not been proposed with such a purpose. Conversely others considered it inappropriate for application to non-financial assets where they consider that historical cost is the appropriate measurement basis.

The views of those who clearly opposed the model varied. A number reaffirmed views that fair value should be proposed as a measurement basis in its own right using the definition in IFRS 13, Fair Value Measurement, while other supporters of the IASB definition of fair value wanted more detail on approaches to estimating fair value to complement its adoption as a measurement basis. Conversely others expressed a view that fair value was inappropriate for the public sector or that any departures from historical cost should be in limited circumstances. A further respondent highlighted confusion between market value and fair value.

Staff indicated that they found the views of those who considered the fair value model too low level for the Framework quite persuasive. Staff also shared the view that the fair value model was confusing and felt that a number of the responses demonstrated this. It appeared to be a device for introducing fair value into the Framework without adopting it as a measurement basis in its own right. Staff considered that
some of the material in the Fair Value model could be relocated in the Market Value sub-section of section 3 on Current Value Measurement Bases for Assets.

In discussion it was suggested that IPSASB had reached a ‘fork in the road’ and that the approach to fair value had to change because the IASB had modified the definition at standards-level. Another member cautioned against moving too far from IASB approaches and reaffirmed the need to monitor the approach in the IASB’s forthcoming DP closely.

Members tentatively agreed not to include the fair value model in the final chapter, but to relocate some of the material on the fair value model elsewhere in the Framework. They would reconsider the issue at the September meeting.

SMC 3b–Deprival Value Model

Staff noted that over half the respondents who had provided a view had expressed reservations on the deprival value model on grounds of cost and complexity. Many of these comments were the same or similar to those that had been made to the Consultation Paper. Some respondents had also challenged the model on technical grounds. Staff proposed that the model should not be retained in a final chapter, although consideration might be given to relocating some of the material in section 3.

One member questioned whether the opposition to the deprival value model was primarily grounded on opposition to deprival value, or rather to the prominence of depreciated replacement cost in the model. He did not want to lose some of the insights provided by the model. Members also acknowledged that the model could elucidate relationships between current value measurement bases, although selection of a measurement basis should be primarily made on the basis of the measurement objective to be developed, which would reflect the objectives of financial reporting.

Members tentatively agreed not to include the deprival value model in the final chapter, although the issue would be reconsidered at the September meeting.

Specific Matter for Comment 4–Liabilities

Staff explained that CF–ED 3 had proposed five measurement bases for liabilities: historical cost, market value, cost of release, assumption price and cost of fulfillment. Just over half of the 33 respondents expressing a view had supported the proposed approach. Eight respondents partially agreed with the proposed measurement bases. One of these respondents considered that the table providing the measurement bases for assets and their counterparts for liabilities was unclear and unnecessary.

The majority of the respondents who opposed the proposed approach disagreed with the omission of fair value from the proposed measurement bases and advocated the use of fair value as defined in IFRS 13. Other respondents questioned the appropriateness of cost of release for public sector entities, for which the main objective is service delivery. A further respondent advocated the measurement of liabilities at cost in order to avoid “pro-cyclical” consequences.

Staff agreed with the respondent who proposed the deletion of the table from the finalized chapter providing the corresponding asset and liability definition. However, following a view from a TA that the table was helpful, members directed that it should be retained. Members considered that measurement should be neutral and not try to predict “pro-cyclical consequences”. It was also suggested that cost of assumption, as well as cost of release might have limited applicability in the public sector. Staff acknowledged this point and said that there was a statement in the Basis for Conclusions that cost of fulfillment will often be the only practical and relevant measurement basis for liabilities arising from non-
exchange transactions. Staff suggested that this reference might be relocated into the core text in light of
the views of respondents and members.

It was suggested that the measurement basis selected for certain liabilities might have a significant
impact on the perception of a government’s financial position. An example was given of the measuring of
debt at either nominal or market value. This reflected a general view that the Framework should be
clearer on when a market value measurement is appropriate.

Members tentatively agreed that the measurement bases for liabilities should be retained. Further
consideration would be given to measurement at the September meeting.

Other Issues

Staff noted that one respondent had contrasted the discursive style of CF–ED3 and the more terse style
of CF–ED2. In his capacity as Project Coordinator, Staff accepted this point and agreed to address it as
CF–ED2 and CF–ED3 are finalized.

Staff noted a view from a respondent that the Framework should address the issue of whether
measurement of assets should be on standalone basis or on the basis that they will be used in
conjunction with other assets/liabilities. Staff considered that there should be a brief reference to the need
to indicate whether measurement should be on a standalone or group basis. Staff also noted that the
IASB’s deliberations on measurement had included discussion of “other cash flow methods”, which are
separate from the income approach technique of estimating fair value, which is a cash flow based
method. “Other cash flow methods” are used for items such as provisions, liabilities for post-employment
benefits, and the net realizable value of inventories and also for determining impairments of non-financial
cash-generating assets. Staff did not think that there needs to be much detail on such methods, but
expressed a view such that such cash flow based techniques need to be acknowledged.

Members agreed that these issues should be considered in the agenda papers for the September
meeting, but directed staff not to focus unduly on previously unconsidered issues identified in the IASB
project.

3. Review of IPSASs 6–8 (Agenda Item 3)

The IPSASB was asked to:

(a) **Decide** whether to include an exception from consolidation for investment entities in the ED based
on IFRS 10, *Consolidated Financial Statements*;

(b) **Decide** whether 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;

(c) **Decide** how to proceed in developing an Exposure Draft (ED) based on IFRS 10, *Consolidated
Financial Statements*, with regard to exceptions to consolidation; and

(d) **Note an update** on related IASB projects.

The agenda papers for this item were:

- Agenda Item 3.1 Issues Paper: Consolidation Exception for Investment Entities
- Agenda Item 3.2 Issues Paper: Consolidation and Statistical Reporting
- Agenda Item 3.3 Background Paper: Consolidation and User Needs
Agenda Item 3.1 Consolidation Exception for Investment Entities

The IPSASB:

(a) Noted that if the IPSAS based on IFRS 10 were to include an exception from consolidation for investment entities it:
   (i) Might apply to some sovereign wealth funds, pension funds and funds which hold controlling interests in PPP/PFI projects;
   (ii) Might apply to a relatively small number of entities (having regard to the types of entities that might be investment entities and the fact that these entities might be required to report in accordance with a range of accounting standards, including domestic standards);
   (iii) Would result in public sector investment entities reporting in accordance with IFRSs and IPSASs presenting similar financial statements;

(b) Noted the arguments made by respondents to the IASB for and against its proposals to create an exception from consolidation for investment entities;

(c) Noted that the IASB’s exception from consolidation for investment entities applies only to an investment entity, not to its parent. The IPSASB directed staff to consider (i) the points made by respondents that supported this exception being available to the controlling entity of an investment entity that is not itself an investment entity and (ii) the arguments made by the IASB in declining to make this exception from consolidation available to the controlling entity of an investment entity that is not itself an investment entity. The IPSASB will consider its views on this issue at a future meeting; and

(d) Noted that the IASB’s exception from consolidation for investment entities is required to be applied by investment entities – it is not an option.

Following discussion of this topic and the matters outlined in agenda paper 3.1 the IPSASB tentatively agreed that the exposure draft based on IFRS 10 should:

(a) Include the investment entity exception from consolidation that is in IFRS 10. In IFRS 10 an investment entity is required to account for its investments at fair value;

(b) Use the same definition and typical characteristics of an investment entity as in IFRS 10, together with an explanation of situations in which these characteristics might be absent in the public sector; and

(c) Include, in the Basis for Conclusions:
   (i) An explanation of the types of entities that might be investment entities;
   (ii) The views that the arguments for and against an exception from consolidation for investment entities (at the investment entity level) are similar in the private and public sectors; there do not appear to be significant public sector differences that would warrant a different accounting treatment in the investment entity’s financial statements; and it would be desirable to have the same accounting requirements for investment entities in IPSASs and IFRSs to reduce the opportunity for accounting arbitrage when determining which accounting standards an investment entity should be required to apply.

In addition, the IPSASB agreed that it would like to consider further alternative accounting treatments for incorporating an investment entity in the consolidated financial statements of a controlling entity that is not itself an investment entity. IFRS 10 requires that a controlling entity consolidate any controlled investment
entities on a line by line basis (in the same way that other controlled entities are consolidated). In addition to the treatment required by IFRS 10, the IPSASB would also like to consider the consequences of a controlling entity accounting for its investment in a controlled investment entity using (i) the fair value of the investment entity, or (ii) the fair value of the investment entity's investments. The next version of the draft ED based on IFRS 10 to be considered by the IPSASB will present these three options. The next version of the draft ED based on IFRS 10 will also include draft Basis for Conclusions text outlining arguments for and against alternative accounting treatments of an investment entity in the consolidated financial statements of a (non-investment entity) controlling entity, and any possible differences between the public sector and the private sector that might justify a different accounting treatment than required by IFRS 10. This should include consideration of whether the IASB’s arguments are relevant in the public sector and whether there are any additional arguments that could be made in the public sector context.

The revised ED based on IFRS 10, taking account of these tentative decisions, will be considered for approval at a future meeting.

In addition to the matters outlined in the agenda papers and the tentative decisions noted above, the IPSASB’s discussion included the following points:

(a) Exit strategies might be expressed as general policies in relation to categories of investments. This comment was made in response to a concern that it might be difficult to identify exit strategies for entities in the public sector;

(b) Although the requirements for investment entities need to be considered in the context of this project, they are not the most significant consolidation issue in the public sector. Issues associated with consolidation at the whole of government level are the most significant issue;

(c) Although it might be expected that there will be few controlled investment entities in the public sector, the possibility of having control with less than 50% could mean that there are more such entities than expected.

(d) It is likely to be more difficult to identify an entity whose purpose is to invest solely for capital appreciation in the public sector than in the private sector. Public sector entities frequently have mixed objectives and can be subject to political influence. Even where a public sector entity has a sole objective, being a profit objective, there might be a concern that a government could change or override that mandate. This may require the Board to stipulate conditions, such as safeguards against political interference that are not necessary in the private sector context.

(e) Investment entities may not intend to obtain control of other entities but this can occur due to other parties disposing of their interest in an investment and the existence of pre-emptive rights (which might require that the other parties give the investment entity the right to purchase the interest that they are disposing of).

(f) The IASB’s requirement that investment entities account for investments at fair value was based on the fact that the business model of an investment entity is to invest for capital appreciation. If the IPSASB wishes to require the same treatment, for the same reasons as IASB, it will need to be careful to restrict this accounting treatment in the same way as the IASB. This would preclude a Government that puts money aside for strategic investment or other purposes from using the investment entity exception from consolidation. This is the one of the reasons why the IASB has not permitted the investment entity exception to be applied by a controlling entity that is not itself an investment entity.
(g) The management style of an investment entity may change when it obtains control of another entity.

(h) The phrase “exception from consolidation” used in the IASB’s literature might not be well understood in all jurisdictions.

(i) The definition of control will determine which investment entities are regarded as controlled entities for financial reporting purposes. The IPSASB noted that it had previously discussed the definition of control and agreed the public sector modifications to be incorporated in the exposure draft based on IFRS 10.

(j) Given the expectation that there will be a relatively small number of investment entities in the public sector, the proposed exception from consolidation may have a limited impact. Some members indicated that they were not aware of any investment entities in their jurisdiction. This could call into question the importance of aligning with IFRS 10 on this issue.

(k) Would requiring investment entities to account for their controlled entity investments at fair value create an incentive for public sector entities to structure their investments so as to take advantage of this treatment?

The IPSASB noted that IFRS 12 Disclosure of Interests in Other Entities includes disclosures regarding investment entities. The IPSASB agreed that the exposure draft based on IFRS 12 should:

(a) Require the same disclosures regarding investment entities as required by IFRS 12; and

(b) Include, in the Basis for Conclusions, the view that the investment entity disclosures required by IFRS 12 are appropriate in the public sector context.

**Agenda Item 3.2 Consolidation and Statistical Reporting**

The IPSASB then considered the proposal outlined in agenda paper 3.2. The IPSASB:

(a) Noted that in March 2013 it was suggested that the IPSASB consider a proposal to have optional whole of government reporting and mandatory GFS sector reporting at a whole of government level;

(b) Noted that some of the comments made by respondents to the Consultation Paper IPSASs and Government Finance Statistics Reporting Guidelines (CP) were relevant to consideration of this proposal;

(c) Noted that although this proposal was not specifically raised in the aforementioned CP, respondents were not generally supportive of the IPSASB devoting more resources to presentation of GFS information in financial statements. By contrast, most Australian respondents supported an integrated approach to GFS reporting similar to AASB 1049 Whole of Government and General Government Sector Financial Reporting;

(d) Noted that one CP respondent supported IPSAS 22, Disclosure of Financial Information about the General Government Sector being mandatory;

(e) Noted that one CP respondent proposed optional whole of government reporting;

(f) Noted that staff consider this proposal would require a detailed review of not only IPSAS 22 but also the interaction between IPSAS 22 and other IPSASs;
(g) Noted that IPSAS 18, *Segment Reporting* states that reporting information on the basis of statistical sectors alone would be unlikely to meet the requirements of IPSAS 18. However, the IPSASB considered that the interaction between IPSAS 18 and reporting of statistical information is a topic that might warrant further consideration and suggested that the IPSASB could seek feedback on the relative priority of this issue in the context of its forthcoming work plan consultation;

(h) Agreed not to proceed with the proposal outlined in agenda paper 3.2 to permit optional presentation of consolidated financial statements (in conjunction with mandatory sector reporting) at a whole of government level in the context of the project to update IPSASs 6 to 8; and

(i) Agreed that the issue of whether IPSAS 22 should be mandatory should be considered in the context of the project on *Alignment of IPSASs with Public Sector Statistical Reporting Guidance* and the full analysis of submissions on the recent CP on that topic.

The IPSASB’s discussion of this proposal included the following points:

(a) The definitions of control in current and proposed IPSASs differ from the indicators of control in statistical reporting. Some members noted ways in which jurisdictions work around this issue.

(b) Financial reporting has different objectives to statistical reporting.

(c) Some members did not support optional whole of government reporting on the grounds that the consolidated financial statements of a government should show all activities of that government.

(d) Despite the current comments in IPSAS 18 that reporting on statistical sectors alone is unlikely to meet the requirements of IPSAS 18, some members consider that statistical sectors could be regarded as segments (and consider that the statements in the Basis for Conclusions to IPSAS 18 should be revisited). In the context of this discussion it was suggested that an approach to segment reporting based on IFRS 8, *Operating Segments* might be a better way to explore the possibility of reporting statistical sectors as segments.

(e) Reporting separately on statistical sectors can provide information that is critical to an understanding of the whole of government information such as profit performance and leverage. Different sectors tend to operate under different business models.

(f) Mandating statistical sector reporting might overcome some of the objections to consolidated whole of government financial statements from certain users. Some members would favor both whole of government reporting and mandatory sector reporting.

**Agenda Item 3.3 Consolidation and User Needs**

Having considered the proposals in agenda papers 3.1 and 3.2 the IPSASB moved on to a general discussion of how to proceed in developing the exposure draft based on IFRS 10, and in particular, whether to propose any further exceptions to consolidation (other than those considered by the IPSASB at this meeting). The IPSASB noted that agenda paper 3.3 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. Agenda paper 3.3 was intended to assist the IPSASB in its deliberations and did not contain recommendations. The overall recommendations in respect of this item were set out in the memo at agenda item 3.0.

The IPSASB noted that, in previous meetings, members had expressed a range of views regarding the benefits and costs of consolidating certain types of controlled entities. However, for the purpose of
developing the exposure draft based on IFRS 10 and seeking feedback from constituents, the IPSASB agreed:

(a) To propose the consolidation of all controlled entities, other than the exception(s) from consolidation relating to investment entities discussed under agenda paper 3.1;

(b) To seek the views of constituents as to whether there are any categories of entities that should not be consolidated, with a request that any proposals for non-consolidation be justified having regard to user needs. In addition, respondents should be asked to indicate their preferred accounting treatment for any controlled entities that are not consolidated;

(c) To seek the views of constituents on the definition of control, noting that this definition and related guidance is what will determine the scope of the standard; and

(d) That the Basis for Conclusions for this exposure draft should reflect the wide ranging discussions of the IPSASB over previous meetings.

The IPSASB’s discussion of how to proceed in developing the exposure draft based on IFRS 10, and in particular, the proposals in agenda item 3.0, included the following points:

(a) Some members supported the proposal to require consolidation of all controlled entities apart from the investment entity exceptions (both discussed to date and yet to be discussed by the IPSASB at a future meeting). They acknowledged that this approach was demanding but considered that it is appropriate.

(b) Some members indicated a preference for focusing on the accounting treatment that is being proposed for various types of entities rather than referring to exemptions or exceptions.

(c) Respondents may consider that the definition of control (and hence the scope of the proposed standard) is a more critical issue than matters such as the treatment of investment entities.

The IPSASB considered that the classification and discussion of types of controlled entities in agenda paper 3.3 might be of interest to constituents commenting on the exposure draft and noted the possibility of making this staff paper available on the website.

4. Financial Statement Discussion and Analysis (Agenda Item 4)

The Technical Director lead a discussion of the draft Recommended Practice Guideline (RPG) on Financial Statement Discussion and Analysis (FSDA). It was noted that the IPSASB had conducted a page by page review of the draft pronouncement at the March 2013 meeting and that changes had been made to reflect those amendments as well as to reflect the change in status from a proposed IPSAS to an RPG. At this meeting a further page by page review of the RPG occurred, as well as a review of the Basis for Conclusions.

Upon reviewing the draft RPG the IPSASB directed staff to make a number of editorial changes. In addition, the IPSASB proposed the following changes:

- Revise wording of phrase “financial position and financial performance” to include cash flows consistent with the way the terms are used in the conceptual framework; in addition review the RPG to ensure the phrase is used consistently and appropriately;
- Remove paragraphs 7 and 10 of agenda item 4.2 as they are not necessary;
- Remove first sentence of paragraph 8 as it is deemed unnecessary;
- Amend paragraph 9 to address compliance with legal requirements;
• Add a footnote to paragraph 16 to reference to the qualitative characteristics in the conceptual framework;
• Amend paragraph 17 to include reference to recognition and measurement;
• Amend wording of phrase “relating to the financial statements” in several paragraphs to refer to “financial position, financial performance and cash flows” as appropriate;
• Paragraph 22 – substitute example of “protecting assets” with “managing surplus/deficit”;
• Paragraph 26 – add “the nature of and reasons for those adjustments” to first sentence; remove second sentence;
• Appendix A – change title to “Terms used in this RPG and Defined in IPSASs”; 
• BC1 – add explanation of why the scope was narrowed to financial statements;
• BC2 – rework to reflect change to RPG;
• BC6 – delete;
• BC7-BC13 – members were concerned that this description was unbalanced and directed it be modified, including an enhanced focus on the fact that FSDA is not essential for fair presentation of financial statements;
• BC 14 – delete;
• BC 15 – adding concerns about forward-looking information signaling political intent or committing an entity to future actions; adding alternative view; and
• BC 16- BC 19 – summarize to a single paragraph with less detail needed.

The IPSASB discussed a revised version of the RPG reflecting these changes and provided only minor editorial comments. After further discussion the IPSASB voted to approve the content of RPG 2, *Financial Statement Discussion and Analysis* by 17 votes to 1.

After having voted in favor of the content of the RPG the IPSASB discussed whether it needed to be re-exposed given the change in authoritative status from a proposed IPSAS to an RPG. Staff proposed that this is not necessary since a specific matter for comment had been asked about this and the responses indicated support for an RPG overall. In addition, it is unlikely that anything new would be learned on exposure. The IPSASB agreed with the staff position that re-exposure was unnecessary.

5. **Government Business Enterprises (Agenda Item 5)**

The IPSASB discussed the agenda papers on GBEs which had been prepared based on the directions provided at the March 2013 meeting.

Members discussed a number of issues raised in relation to the current definition. Members noted that within the current definition the term “full cost recovery” may be understood to mean different things. Members commented that in the context of the term “not being reliant on continued government funding to be a going concern” governments have many ways of supporting entities and therefore this could have different meanings. One member noted that the current definition does not take into account the entity’s legal form and noted that the clarity in interpreting the definition may also arise from local debates on whether an entity is a public sector entity. Another member pointed out there were three classifications of controlled entities used in his jurisdiction and highlighted the need to be aware of consistency between considering control in this project as well as the project on IPSASs 6–8. One member considered that in considering the definition, self-sufficiency in generating revenue and any other funds from non-government sources should be added to the criteria. Members considered going forward that it is important to separate and define clearly businesses and services since the objectives are different. Members also pointed out the need to consider whether markets operate in a regulated or non-regulated environment. Members further suggested a need to distinguish entities where the government is the only customer.
In considering the issues related to defining GBEs, staff had set out four options in the agenda papers:

(a) Do not specifically define GBEs;
(b) Clarify the existing definition so that it is easier to apply;
(c) Narrow the existing definition of GBEs; or
(d) Redefine GBEs using a different approach, e.g. based on services or objectives.

The Chair asked each member to comment and indicate his/her preferred option. Members made a number of observations but no overall consensus emerged. Members noted that the decision on whether to apply IPSAS, IFRS or local country private sector GAAP to any public sector entity would be taken by the relevant regulator in an individual jurisdiction. Given the wide spectrum of entities currently described as GBEs, members considered there would be difficulty in achieving a definition which would be accepted internationally. They proposed that the IPSASB might provide indicators of the characteristics of entities which each jurisdiction would consider in specifying the reporting framework of each GBE. Members noted that GBEs are not defined for GFS purposes. As GBEs are not homogeneous there is currently little reason for comparison between them. One member proposed that GBEs should only apply to profit-oriented entities, which was one of the options set out. Another member emphasized the importance of user needs as a primary driver in defining GBEs. The Chair commented he was often asked what kind of entity does IPSASB design IPSASs for and what kind of entity does IPSASB not include? Whilst noting the difficulty of being prescriptive, members noted one advantage of a fresh approach would be an opportunity for clarification and to seek to include as many entities directed to apply IPSASs as possible.

During discussion, members noted that within IPSASB literature there are several references to GBEs applying IFRSs. Members highlighted a need to amend the relevant references to GBEs in the scope and authority sections of the Preface in the Handbook to clarify IPSASB’s role is to develop IPSASs designed for use by public sector entities but the decision on which entities should use IPSAS, IFRS or local country private sector GAAP is made by the relevant regulator in each jurisdiction.

The IPSASB directed that, as a next step, staff develop a consultation paper proposing the characteristics of entities which jurisdictions should consider when deciding whether to apply IPSASs to a public sector entity.

6. First Time Adoption of Accrual IPSAS (Agenda Item 6)

At this meeting the IPSASB was asked to:

- Consider the proposed transitional accounting issues for IPSAS 28 Financial Instruments: Presentation, IPSAS 29 Financial Instruments: Recognition and Measurement and IPSAS 30 Financial Instruments: Disclosure,
- Provide staff with preliminary views on overarching issues that impact the finalization of the proposed Exposure Draft, and
- Consider a first draft of the proposed Exposure Draft.

Transitional accounting issues for IPSASs 28–30

The IPSASB considered the assessment of, and proposals for, the transitional accounting issues for financial instruments in IPSASs 28–30.

For IPSAS 28, staff proposed that the transitional provisions in IFRS 1 should be included in the proposed Exposure Draft as they deal with compound financial instruments more broadly and are easier to
understand. The transitional provisions require the retrospective application of the presentation requirements for financial instruments and the retrospective application and separation of compound financial instruments into a liability component and a net assets/equity component where the liability is outstanding on the date of transition. A compound financial instrument need not be separated into a liability and net assets/equity component if the liability is no longer outstanding on the date of transition.

The IPSASB supported the staff proposal.

For IPSAS 29, staff proposed that a first-time adopter should be given a three year relief period in which to recognize and appropriately classify financial instruments. It was also proposed that the impairment principles should be applied prospectively once the financial assets are recognized. After debating the proposal, the IPSASB agreed that a three year relief period should be provided to a first-time adopter for the recognition of financial instruments that were not recognized under its previous basis of accounting. The IPSASB further agreed that, to the extent that a first-time adopter has recognized financial instruments under its previous basis of accounting, a three year relief period should be granted for the measurement of such financial instruments. The IPSASB supported the prospective application of the impairment principles for financial assets.

For transitional provisions relating to the classification of financial instruments, hedge-accounting and derecognition, the IPSASB supported the staff proposal that the equivalent transitional provisions in IFRS 1 should be included in the proposed Exposure Draft.

For IPSAS 30, staff proposed that the disclosure requirements relating to financial instruments should be applied prospectively as and when the financial instruments are recognized and/or measured. To the extent that a first-time adopter has elected to present comparative information, staff proposed that a first-time adopter need not present comparative information for disclosures relating to the nature and extent of risks arising from financial instruments as it may not be practical to obtain such information. The IPSASB agreed with all the staff proposals relating to the disclosure of financial instruments.

*Overarching issues impacting the finalization of the proposed Exposure Draft*

The IPSASB debated various overarching issues that impact the finalization of the proposed Exposure Draft.

A general matter related to the possible expectation gap between what first-time adopters expect or would like compared to the purpose of the project was discussed. The IPSASB supported the staff's proposal that an explanatory paragraph should be included in the introductory material of the Exposure Draft to explain the objective of the project and to highlight that the focus of the pronouncement will be to provide a comprehensive set of principles that will replace the current transitional provisions in existing IPSASs. The IPSASB also agreed that the introductory note should emphasize that the IPSASB’s role is to develop accounting guidance and not to provide technical assistance or to develop implementation guidance. It was further agreed that the introductory note should highlight that, with the development of future IPSAS pronouncements, the IPSASB will have to consider the impact of transitional arrangements for those pronouncements in light of the guidance developed in this Exposure Draft.

The IMF noted that they are in the process of updating their guidance on the transition to accrual accounting in response to assistance needed in this regard. The EPSASs also noted that they are considering setting up an implementation committee in providing assistance during the transition to accrual accounting.
On the technical matters, the IPSASB was requested to consider its previous decision to allow a first-time adopter to apply a deemed cost in all circumstances, irrespective of whether information about the cost of those assets is known on the date of transition to IPSASs. The IPSASB agreed that a first-time adopter should only be allowed to apply deemed cost where reliable cost information about the historical cost of the asset is not readily available on adoption of accrual basis IPSASs. It was agreed that a specific matter for comment will be included in the Exposure Draft to request respondents’ views on the limitation. It was also agreed that the principle should be explained in the Implementation Guidance, using an illustrative example.

The IPSASB was also asked to consider whether it would be appropriate to include a measurement alternative for inventory and investment property in determining a deemed cost on the date of adoption of IPSASs. After some debate, the IPSASB agreed that an alternative measurement basis could be used in determining deemed cost for inventory, and investment properties that are of a specialized nature, when a first-time adopter is not able to estimate fair value on the date of transition due to a lack of an active market.

The IPSASB then considered at what point in time a first-time adopter should be allowed to determine a deemed cost where it has taken advantage of the three year transitional relief period. It also considered whether the opening accumulated surplus or deficit on the date of adoption of IPSASs should be adjusted or the opening accumulated surplus or deficit of the year in which the asset is recognized. The IPSASB agreed that a first-time adopter should be allowed to determine a deemed cost at any point within the three year transitional period where it has elected to take advantage of the three year relief period to not recognize assets. Where a first-time adopter has taken advantage of this relief period, it should not adjust the value of the asset retrospectively, but should adjust the opening accumulated surplus or deficit in the year that deemed cost is determined.

The timing of impairment testing for assets was discussed where the relief period is adopted by an entity. The IPSASB agreed with the staff proposal that IPSAS 21 and IPSAS 26 should be applied prospectively from the date when the transitional provisions relating to the recognition of assets expire and/or when the relevant assets have been recognized in accordance with the applicable IPSAS (whichever is earlier).

The IPSASB also considered the impact of the three year relief period on lease liabilities and on the recognition of provisions included in the initial cost of property, plant and equipment. It was agreed that the recognition of finance lease liabilities should be delayed where a first-time adopter applies the three year relief period for the recognition of assets. The IPSASB also agreed that a similar relief should be provided for the recognition of provisions relating to the initial estimate of costs of dismantling and removing an item and restoring the site on which it is allocated. The IPSASB agreed that the impact of the recognition of borrowing costs on assets should also be addressed in the proposed Exposure Draft.

As a result of the relief provided for the recognition and/or measurement of certain items, the IPSASB agreed that, in addition to preparing a reconciliation on the date of adopting IPSASs that explains the transition from the previous basis of accounting, a first-time adopter should also be required to prepare a reconciliation in subsequent years when it recognizes and/or measures items to explain the changes from the previous year. The IPSASB also agreed that comparative information should be presented for reporting periods following the first year of adoption of IPSASs for those items that were recognized in prior periods.

The IPSASB agreed with the staff proposal that a first-time adopter should be allowed to recognize an internally generated intangible asset on the date of transition if it meets the recognition and other criteria in IPSAS 31, irrespective of whether past costs were expensed in terms of its previous basis of
accounting. The IPSASB also agreed that the Basis for Conclusions should explain why a first-time adopter will not be allowed to determine a deemed cost for internally generated intangible assets based on its decision taken at a previous meeting.

The IPSASB also agreed to provide transitional relief to address timing differences between the adoption of IPSASs by a controlled entity and controlling entity by including the equivalent transitional guidance from IFRS 1 in the proposed Exposure Draft. Likewise, the IPSASB agreed that the IFRS 1 transitional relief guidance on severe hyperinflation should be included in the proposed Exposure Draft.

**Proposed Exposure Draft on First-time Adoption of Accrual Basis IPSASs**

The IPSASB reviewed a first draft of the proposed Exposure Draft. It was agreed that the proposed Exposure Draft should rather use the term ‘date of adoption of IPSASs’ as opposed to ‘date of transition’. Reference should also be made to the ‘period of transition’ where an entity has elected to adopt the three year relief period. The IPSASB also agreed that ‘first IPSAS financial statements’ should be further clarified through Implementation Guidance. The IPSASB also agreed that the Implementation Guidance should also explain at what point in time an entity will be able to claim compliance with IPSASs i.e. if a first-time adopter takes advantage of the transitional provisions in this IPSAS, they can only claim compliance once the transitional exemptions that provided the relief have expired, and/or the assets and/or liabilities have been recognized and/or measured (whichever is earlier).

The IPSASB also agreed that a first-time adopter should be required to disclose the date of adoption of IPSASs as part of the required disclosure requirements.

It was also agreed that the reference to ‘voluntarily exemption’ should be deleted in paragraph 10 and that the exemptions referred to in this paragraph be clarified. The IPSASB also agreed that the guidance in paragraph 13 should reflect a more general discussion.

With regards to the ordering of guidance in the proposed Exposure draft, the IPSASB agreed that all the guidance relating to deemed cost, should be dealt with in one section. It was also agreed that the transitional arrangements that may affect the fair presentation of a first-time adopter’s financial statements should be dealt with separately from the other transitional arrangements.

Some IPSASB members questioned the inclusion of the transitional arrangements in IPSAS 12 that allows an entity to determine a deemed cost for inventories distributed at no or for a nominal charge, or inventories that are to be consumed in the production process or that will be distributed in the rendering of services. After some consideration, the IPSASB agreed that these reference should be deleted as the principle that allows the use of a deemed cost for inventory is already dealt with in part (a) and (b) of the paragraph.

The IPSASB agreed that transitional relief relating to the elimination of balances, transactions, revenue and expenditure, similar to that included for IPSAS 6, should be considered for IPSAS 7.

With regards to the disclosure requirements, the IPSASB agreed that a general disclosure requirement should be included to require entities to disclose its progress towards the recognition of items for which it has adopted the transitional relief period.

It was proposed that the transitional provisions for each specific IPSAS should be included as a separate annexure, similar to the approach adopted in IFRS 1. The IPSASB did not support this proposal but agreed that the format of the proposed Exposure Draft should be retained as it is easier and more practical. It was further agreed that a table should be included as an annexure to summarize the transitional arrangements that should be considered per IPSAS.
The IPSASB will consider a revised version of the proposed Exposure Draft, which includes the transitional accounting issues for financial instruments and the overarching issues agreed, at its next meeting in September 2013.

7. Reporting on the Long-Term Sustainability of Public Finances (Agenda Item 7)

Staff highlighted that the objective of the session was to approve the draft Recommended Practice Guideline (RPG) 1, Reporting on the Long-term Sustainability of an Entity’s Finances. Staff noted that, in accordance with directions at the March meeting, a revised RPG had been circulated in late April 2013. Comments had been received from six members, four TAs and an observer. The draft RPG had been revised in light of these comments. Staff thanked those who had provided comments.

Members proceeded to a page-by-page review. At the outset a member questioned the use of the term ‘fiscal’ noting that in many jurisdictions the word has a narrow connotation limited to taxation. Staff explained that this issue had been raised and considered in some detail during the development of the Consultation Paper, Reporting on the Long-Term Sustainability of Public Finances, which had been issued in late 2009. It had been agreed that while the title of the Consultation Paper should not include the word ‘fiscal’ it would be included in the text to avoid unwieldy drafting. This approach had flowed through into the ED and draft RPG. Staff suggested that a footnote be included in the first reference to ‘fiscal’ in the RPG acknowledging that in a number of jurisdictions the term ‘fiscal’ has a narrow interpretation related to taxation. In this RPG the term is used with a broader meaning to include both inflows and outflows. Members supported this proposal and directed that such a footnote should be inserted.

Members also confirmed that the RPG applies to both cash-based and accrual-based projections. The definitions of ‘Outflows’ and ‘Inflows’ should be revised to reflect this.

Members further directed that:

- The term ‘current policy assumptions’ should be defined using text in paragraph 44;
- Paragraph 10 stating that the RPG does not provide guidance on the level of assurance, if any, to which long-term fiscal sustainability information should be subjected should be relocated as a general statement in the inside front cover and the same material included in RPG 2, Financial Statement Discussion and Analysis;
- The footnotes on the QCs and constraints should be reviewed for consistency with RPG 2; Paragraph 26 on the relationship between dependence on other entities for funding and time horizons should be deleted and funding dependence inserted in the following paragraph as an example of a characteristic of an entity influencing the time horizon for projections;
- A note disclosure should be inserted stating that projections are not forecasts;
- The Basis for Conclusions (BC) should explain the rationale behind the development of the definition of a ‘projection’ and, in particular, why the IPSASB had decided that projections should permit departures from current legislation or regulation in limited cases in order to provide more relevant information; and
- The BC should also explain how projections differ from budgets and forecasts.

Members also directed that a number of other editorial changes should be made. The Chair of the Task Force suggested that consideration be given to inserting a brief reference to the Integrated Reporting Framework in the BC, acknowledging that long-term fiscal sustainability information would be an input to integrated reporting for public sector entities and that the guidance in the RPG is consistent with the approach under development in the Integrated Reporting Framework. It was noted that the project on
“Reporting on the Long-Term Sustainability of an Entity’s Finances” had been initiated before the IIRC had launched the development of its Framework and that the relationship between the IPSASB’s project and the IIRC Framework had not been considered in any detail. It was therefore decided not include such a reference in the BC.

The IPSASB voted to approve RPG 1 by 17 votes to 0 with one abstention.

8. Strategy and Work Planning (Agenda Item 8)

Governance and oversight update

The observers from the OECD and the World Bank provided an update on the oversight of the IPSASB. Since the March 2013 meeting a number of steps have been taken to press ahead with the review of the oversight and governance arrangements of the IPSASB. The IMF, the OECD and the World Bank co-chaired the first meeting of IPSASB Governance Review Group (the Review Group) at the end of May in Paris, at which some important tasks were addressed.

The Review Group’s composition has been determined, and its terms of reference finalized. The Review Group will be chaired by representatives of the IMF, the OECD and the World Bank, and its members will include the FSB, IOSCO and INTOSAI. In addition, the observers to the Review Group will include representatives from the European Commission/Eurostat, IFAC and of course, the IPSASB.

The observer from the World Bank reiterated that the initiative is intended to support the IPSASB, and NOT in any way to detract from it. The Review Group will operate by consensus of its members.

It is anticipated that a consultation paper will be published this summer - 2013 - and the Review Group’s final recommendations will be issued during the first half of 2014. These recommendations will be reported to the G20 and Financial Stability Board (FSB). The Review Group expects to meet again about six months from now. The next meeting will consider the consultation responses, how best to prioritize and deal with all the responses received, and to finalize its recommendations for enhancing the oversight and governance arrangements of the IPSASB.

The Review Group has agreed that review will consider oversight arrangements as well as the broader questions of IPSASB governance, including measures to enhance the perceived relevance, quality and legitimacy of IPSAS. The Review Group has identified two broad options for improving the public interest oversight of the IPSASB that will form the basis of the consultation. These options are:

1. Bringing the IPSASB under the purview of the oversight bodies for private sector accounting standards, but with enhanced participation of the International Financial Institutions (IFIs), governments, and users; and

2. Establishing a free-standing oversight board comprised of the IFIs, standard-setters, governments, and users.

The Chair noted he was very glad the Review Group has taken up the issue and started working so promptly. He also expressed concern about including two options when it will be highlighted that bringing the IPSASB under private sector accounting standards oversight is likely a nonstarter at this stage. The observer from the World Bank explained that it was considered appropriate to outline all possible options and some IPSASB members agreed with this and supported the inclusion of two options.

The observer from the OECD noted that he has taken over as the lead author of the consultation paper. The observer from the World Bank expressed his gratitude for the earlier participation of John Hegarty of the World Bank who prepared the initial draft but who is currently on medical leave.
IPSASB members asked a number of questions of clarification about the process. In addition, one member asked if there is any serious consideration of a model that is outside the IFAC structures. The observer from the World Bank expressed his view that this would have to be assessed based on the answers to the public consultation. Members expressed the hope that oversight changes could be implemented fairly quickly, possibly as early as 2015. They also encouraged the Review Group to be open minded when looking at governance structures about related changes such as the implementation of a Consultative Advisory Group.

Work planning

The Technical Director lead a discussion of the IPSASB’s work plan noting that the purpose of this meeting is to prove the addition of two to three projects to the work program.

Prior to any discussion around approval of projects the Technical Director updated the members on the meeting with the IASB and the discussion with them about doing a collaborative project on Emissions Trading Schemes (ETS). It was noted that the IASB expressed interest in working collaboratively on a research project to develop a consultation paper on ETS, though it was unwilling to commit to further work beyond that at this time. At that stage however, the IPSASB would be free to undertake further work for the public sector as it sees fit.

Some members asked for clarification of what a research project would be and about the IPSASB’s ability to manage such a project. Caution was also expressed about being clear up front about what collaboration means, including whether any document issued would be joint. The need for an exit path to be able to proceed as the IPSASB sees fits for its constituents was highlighted.

Staff noted that generally they saw this as the usual first stage that would be undertaken on a project regardless of the IASB’s involvement and that the benefit would be the opportunity to leverage the IASB’s resources. Because the IPSASB can proceed subsequent to the consultation paper as it sees fit, staff sees the risks as mitigated and considers this a “win-win” situation.

The IPSASB agreed ultimately that the key consideration should be whether ETS is a priority project for the public sector.

Members then had a more general discussion about the potential projects. Members generally expressed the view that only two additional projects should be approved given the challenges of staff resources. Many also highlighted concerns about a project on revenue recognition noting that it is of lower priority to the public sector and may be premature having regard to the IASB’s intention to consider what, if any, action will be needed to resolve diversity in practice. One member suggested that this potential project to update IPSASs 9 and 11 could be combined with the project on improvements to IPSAS 23 and all revenue recognition issues addressed in a single project in the future. There was general agreement that now is not the time to initiate any project on revenue recognition.

Many members supported a project on social benefits as the highest priority. While concerns were expressed about the challenges of this project it was also highlighted that a lot of work has already been done on this and we should ensure to build on previous work. Members generally agreed that a project on social benefits is critical for the public sector and that the IPSASB should approve this.

Members also generally supported the staff recommendation that a research project on ETS should be approved. As noted, some concerns about collaboration were expressed but overall members supported this as an important public sector project and saw this as a unique opportunity to leverage resources.
One member expressed the view that a project on heritage assets should be initiated. The member acknowledged that it could be resource intensive but was concerned that such an important public sector specific project was not being endorsed. Other members disagreed, noting that heritage assets were of less significance in their jurisdictions.

After discussing further the IPSASB voted to initiate projects on Social Benefits and ETS and asked that these be added to the IPSASB’s work program. Staff were directed to prepare project briefs on both projects for review in the future.

Members then discussed the planned strategic review for the period post 2014. The Technical Director noted that a TBG has been formed consisting of the Chair, Deputy Chair and two other IPSASB members. The TBG will commence work over the summer with the expectation that the IPSASB will have an in-depth discussion on this topic at the September meeting. The plan is to approve a consultation document in March 2014. It was noted that this timing should tie in reasonably well to the IPSASB Governance Review Group’s work.

Members were asked to provide feedback on any specific items or issues they would like the TBG to consider. The following issues were raised for potential follow up:

- Status of cash basis IPSAS;
- Getting the input of adopters and users prior to issuing to allow them to bring their knowledge and experience to the review;
- Is there a need to address processes for outreach;
- Processes for standards setting and whether there is any ability to streamline these in certain areas e.g. IFRS convergence projects;
- Impact of the introduction of an oversight body and related governance changes;
- Consequence of conceptual framework on existing IPSASs;
- How to deal with calls for implementation guidance (adoption of IPSASs may often be a “capacity issue”)
- Post implementation review of jurisdictions that have adopted IPSASs; and
- Interpretations committee.

The TBG will meet by telephone conference in early July to further discuss these and other issues with a view to having a lengthy discussion in September 2013.

9. Reporting Service Performance (Agenda Item 9)

The IPSASB considered four issues that had been identified during drafting of an RPG on reporting service performance information.

The RPG’s Overall Approach—Guidance or Minimum Characteristics?

With respect to the RPG’s overall approach members considered whether the RPG should (a) establish minimum standards, consistent with an RPG’s role as providing good practice and requirements; or (b) provide a framework that identifies decisions that preparers need to make and guidance on those decisions, which would be consistent with the framework approach in the service performance consultation paper and an RPG’s function as guidance. Members directed that the RPG should provide a mixture of guidance on decisions and identification of minimum characteristics for reporting service performance information. That approach would provide useful guidance, without attempting to establish global requirements that may not be appropriate for the variety of different services and different service delivery contexts that exist globally. That would also be consistent with the approach taken in RPG 1,
where minimum information has been identified, along with guidance on key decisions. Since an RPG does not establish standards, the approach involves identifying minimum “characteristics” or “recommendations” rather than minimum standards.

Members raised several areas where the RPG could identify options and provide guidance. For example, there are two models that the RPG should address: (a) an output focus, which involves reporting services; and, (b) an outcome focus, which involves reporting on achievement of objectives. Service performance reporting, can be conceived as either (a) an account of services provided, which is aimed at resource providers, and focuses on the services received for resources provided and on efficiency; or (b) a performance story, focused on objectives and achievements, which explains how well the entity is doing in terms of its objectives.

Members agreed that reporting service performance information is a developing area, which means that the RPG should not be overly prescriptive. Members expressed different views on whether service performance reporting is at an earlier stage of development than reporting on fiscal sustainability, and whether practice is still evolving or has reached a steady state with two basic reporting models available—an outputs focus and an outcomes (objectives) focus.

**Services Reported—Basis for Selection?**

Staff then asked members to confirm that the RPG should provide guidance on how an entity should select those services on which it will report, allowing either a comprehensive basis or selective basis for that choice. Members noted that there will always be some level of selection involved when reporting services. There is a trade-off between comprehensive, detailed coverage and understandability. Since it is impossible to report on all services, given the number of different services usually provided by an entity, there will always be a process of selection and aggregation. The RPG should acknowledge that some selection of services will always be necessary, and should establish guidance on how this should be done. The RPG’s guidance should focus on factors or criteria that apply to this decision.

One approach proposed for the service selection decision was to use a decision tree, which began by identifying the objectives of reporting service performance information. If the reporting objective is to explain how resources have been used, then all the services provided with those resources should be reported. This would be the “account of services” approach, which would then involve a decision on how best to summarize services. If the reporting objective is to describe what the services are expected to achieve in terms of results or outcomes and whether or not the services have achieved the expected results or outcomes, then the focus will be on outcomes rather than services. Then indicators that relate to outcomes or services objectives will be the reporting focus rather than individual services or groups of services. The next decision would be on selection of key indicators and useful targets.

The choice (selection of services on either a comprehensive or selective basis) was characterized by one member as a false dichotomy, on the basis that the real choice is between reporting that is either (a) output based or (b) outcome based (more valuable information, but more difficult to do).

Members noted that information reported on services should be representative. Key indicators and targets should impact on decision-making and accountability. They should relate to the entity’s expected achievements. Information on services should not focus on easy to count items, but on information that achieves the reporting objectives, and is useful to users, while meeting the qualitative characteristics. The RPG should establish criteria for services on which information will be reported. One way to make the selection more objective is to link it to an external reference such as (a) commitments made to an external party, or (b) the services specified in multi-year funding agreements. It was also noted that a report on services does not operate like a single report. There will be multiple users interested in particular services.
that the entity provides. Materiality may not be applicable, or may apply differently, given users’ interest in particular services. If an outcome focus is taken then the RPG guidance should address situations where outcomes are not achieved due to factors outside of an entity’s control, despite provision of services expected to achieve those outcomes.

In conclusion, members agreed that reporting services will involve selection. If the information is too comprehensive then it will not be understandable. The choice of services should be linked to the entity’s objectives/targets. The users of the information, particularly Parliament or elected representatives, should also be considered.

**Selection of Service Performance Indicators and Information Organization**

The IPSASB was asked to confirm that the RPG should provide guidance on selection of types of performance indicators reported on services. Staff noted that CP, *Reporting Service Performance Information*, proposed definitions for five performance indicators—inputs, outputs, outcomes, efficiency indicators and effectiveness indicators—and stated that there should be comprehensive reporting of indicators. The CP also stated that indicators should not overwhelm users with too much information, and should achieve a balance between being (i) concise enough to be understandable, and (ii) providing detailed coverage of multiple aspects related to each service objective.

Members discussed the choice of indicators. They confirmed that the RPG should provide guidance on which types of performance indicators are chosen—inputs, outputs, outcomes, efficiency indicators, and/or effectiveness indicators. The guidance should (a) tie the choice of indicators back to objectives, (b) encourage reporting that goes beyond outputs to outcomes, and (c) note that the circumstances within which an entity is reporting could be important.

Other points raised during the discussion included (a) the importance of inputs, particularly information about the cost of services and the linking of cost to outputs; (b) application of the QCs and constraints, especially relevance, to indicator selection; and (c) scope to link selection of indicators to commitments that are agreed or imposed externally by, for example, a sponsoring entity.

Staff then asked the IPSASB to provide direction on whether the RPG should: (a) require that service performance information be presented in a tabular format (a statement of service performance), with accompanying discussion and analysis; or (b) require that preparers organize information with reference to the particular types of services and desired outcomes and objectives reported; or, (c) provide guidance on how an entity should choose between two or more formats, with a tabular format (a statement of service performance) being one choice within the allowable set of different information organization approaches. Members directed that the RPG should focus on principles rather than choices between particular information organization approaches. Information organization will need to be appropriate for the types of services reported, their outcomes and objectives. Phase 4 of the Conceptual Framework identifies principles for information organization that can be applied.

Next steps are for the draft RPG to be further developed, for consideration at the IPSASB’s September 2013 meeting.

**10. IPSAS and GFS Reporting Guidelines (Agenda Item 10)**

The IPSASB carried out a high level review of responses received on the Consultation Paper (CP), *IPSASs and Government Finance Statistics Reporting Guidelines*. The review began with discussion of possible reasons for the low number of responses to the CP (twenty-five), particularly the low number of responses from statistical offices. Some potential respondents had not provided a response on the basis
that they are not experts on government statistics guidelines. It was noted that some of the responses from governments’ accounting or finance departments had also involved consultation with the statistical office, so that the response reflected both perspectives.

**Specific Differences between IPSASs and GFS Reporting Guidelines**

The IPSASB agreed with the staff and Task Force chair’s recommendation that responses received on the table of differences between IPSASs and GFS reporting guidelines (Table 2 in the CP) should be considered in depth by the Task Force. The Task Force will review those issues in order to refine Table 2, and then bring the refined set of issues back to a future IPSASB meeting, with Task Force recommendations.

In addition to differences susceptible to resolution, Table 2 also includes past differences which are classified as resolved. Members discussed the reasons that some respondents disagreed with Table 2’s list of resolved differences. Members’ views included that: (a) existence of a GFS-aligned option does mean resolution, although from both the statistician’s and accounting standard setter’s perspective retention of options in standards/guidelines is not considered desirable in the longer term; (b) the IPSASB should not attempt to address differences in practice that exist below the level of standards, when alignment exists between IPSASs and GFS guidelines; and, (c) Table 2 may overstate the amount of resolution, for example with respect to measurement of financial instruments.

**Guidance on Options and Chart of Accounts Development**

Members noted respondents’ support for different types of guidance proposed in the CP. They then discussed the need to consider guidance within the context of competing priorities and staff resources. The Board’s IPSAS implementation and adoption efforts would be enhanced by guidance on (a) choice of options within IPSASs, and (b) how to address GFS needs as well when developing an IPSAS-based Chart of Accounts. Members noted that respondents agreed with the CP’s view that attempting to develop a global Chart of Accounts would not be beneficial. There were different views on whether this type of guidance falls within the IPSASB’s mandate, and whether it should be a priority for staff resources. The possibility of another body producing this guidance should be explored. It was noted that the IMF’s Fiscal Affairs Department had started work in this area, and then postponed it while the IPSASB project proceeded. The focus of such guidance would need to be kept narrow. The IPSASB concluded that the Task Force should be asked to develop proposals on guidance (choice of options, and development of integrated Charts of Accounts), for the IPSASB’s consideration.

**Changes to Policies and Procedures**

The CP listed possible changes to the IPSASB’s policies and procedures to make consideration of GFS difference reductions more systematic. Members noted that respondents had mixed views on the importance of the reduction of differences between IPSASs and GFS Reporting Guidelines and the need for systematic changes to policies or procedures. An overarching concern of many respondents was that achievement of financial reporting objectives should not adversely affect higher considerations, such as application of the Conceptual Framework or IFRS convergence.

The IPSASB agreed that the Task Force should be asked to develop a proposal on possible changes, for inclusion in the 2014 work plan consultation. Members were agreed that any policy and process changes should not impact on either (a) the integrity of the standards and standards-setting process, or (b) the independence of the Board. Changes should not unnecessarily complicate the IPSASB’s standard setting. Changes that would involve significant additional work for staff or the IPSASB, or those that could imply that IPSASs must converge with GFS reporting guidelines should not be pursued. Changes such as
including additional information included in Bases for Conclusions or in EDs could help to educate constituents who do not understand the extent of overlap and the few differences. Eurostat, for example, provides comparison in documents that it produces in order to educate the statistical community about the significant overlap between IPSAS requirements and the ESA reporting guidelines. In addition to possible process changes, it will be important to continue working cooperatively with the statistical community and consider future opportunities for this.

**Future of IPSAS 22, Disclosure of Financial Information about the General Government Sector**

Members noted that respondents’ views on the future of IPSAS 22 were divided between the three options in the CP—withdraw, replace and revise—with relatively little support for revision. Two respondents commented that more information about IPSAS 22’s usage should be gathered, before making a decision to withdraw or replace the standard. One respondent commented that, as a first step, IPSAS 22 should be made mandatory, to increase its application. Members noted that only one country, Costa Rica, has applied IPSAS 22. Many of the respondents seemed to be commenting in the abstract, rather than through experience either with IPSAS 22 or with reporting GGS information. The underlying issue is how to assess users’ needs for this type of information.

Members noted that IPSAS 22’s Basis for Conclusions explains that the IPSASB’s view, when IPSAS 22 was developed, was that the benefits of applying IPSAS 22 might not exceed the costs for those governments that do not regularly report this information. On that basis IPSAS 22 was not made mandatory. (Entities are not required to disclose GGS information along with their financial statements. But entities must apply IPSAS 22, if they choose to disclose GGS information along with their financial statements.) Some Members supported development of guidance on reconciliations between GGS totals and GPFR totals. Reconciliations provide GPFR users with useful information. Members noted that the discussion of IPSASs 6 to 8, later in the meeting, would also raise issues with respect to IPSAS 22’s future, because of its linkage to consolidated financial information and reporting on sectors. (The later discussion identified a potential link with a review of IPSAS 18, Segment Reporting).

In conclusion, the Task Force and staff were asked to give further consideration to the IPSAS 22 options, with a view to potential inclusion in the 2014 work plan consultation.

**Guidance on Options in Study 14**

The CP included the IPSASB’s preliminary view that the IPSASB should amend Study 14, Transition to the Accrual Basis of Accounting: Guidance for Governments and Government Entities, to include a chapter on IPSAS options that reduce differences with GFS reporting guidelines. Members noted that there was good support for such guidance, although comments included a view that Study 14 was not the right place for such guidance. The IPSASB decided that, consistent with support for IPSAS adoption and implementation, the Task Force should be asked to: (a) develop a short document summarizing, on an IPSAS by IPSAS basis, where there are choices in treatment in existing standards, and which should be adopted in order to provide GFS compliant information as well; and, (b) consider further the best method for publication of the guidance for future discussion with the Board.

**Next Steps**

A summary of next steps for the project was provided. These are to carry out further review and analysis in order to:
(a) Refine Table 2;
(b) Develop proposals on guidance (choice of options, and development of integrated Charts of Accounts); and
(c) Develop proposals for the IPSASB’s 2014 work plan consultation, which will cover GFS difference reductions, the IPSASB’s approach to considering options that reduce differences during development of IPSASs, and the future of IPSAS 22.

The timetable for this will be considered by the Task Force, noting the need to (i) keep momentum on review of responses (Table 2 issues); (ii) allow for competing priorities for Task Force members, particularly Members involved in TBGs that provide input into other papers for the September and December 2013 meetings.

11. Closing Remarks and Conclusion of Meeting

The Chair noted the progress on a number of projects and the approval of the first two RPGs on the Long-Term Sustainability of an Entity’s Finances and FSDA. He thanked the technical and support staff. Additionally he also thanked staff from other standard setters for their very significant and high quality input.

The meeting was adjourned at 3:00 pm on June 20, 2013.
# 12. Appendix 1 – June 2013 Action List

<table>
<thead>
<tr>
<th>Action Required</th>
<th>Person(s) Responsible</th>
<th>Date to be Completed</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>1. Conceptual Framework—General</strong></td>
<td>John Stanford</td>
<td></td>
</tr>
<tr>
<td>• Update and re-circulate CF project plan</td>
<td></td>
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<tr>
<td>• Review IASB Discussion Paper and analyze</td>
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<tr>
<td>• Post Preface on Internet as Preliminary Board View</td>
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<tr>
<td><strong>2. Conceptual Framework—Preface (Key Characteristics)</strong></td>
<td>John Stanford</td>
<td></td>
</tr>
<tr>
<td>• Develop Issues Paper analyzing financial performance and financial position in public sector for discussion with TBG</td>
<td>Ross Smith/John Stanford/IPSASB staff</td>
<td>August 12, 2013</td>
</tr>
<tr>
<td>• Revise Issues Paper and circulate as agenda item for September meeting</td>
<td>IPSASB staff</td>
<td>September 3, 2013</td>
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<tr>
<td><strong>3. Conceptual Framework—Elements</strong></td>
<td>John Stanford</td>
<td></td>
</tr>
<tr>
<td>• Update collation and summary of responses to include responses received after May 15, 2013</td>
<td>John Stanford/Ross Smith</td>
<td></td>
</tr>
<tr>
<td>• Develop Issues Paper analyzing financial performance and financial position in public sector for discussion with TBG</td>
<td>John Stanford</td>
<td></td>
</tr>
<tr>
<td>• Revise Issues Paper and circulate as agenda item for September meeting</td>
<td>John Stanford</td>
<td></td>
</tr>
<tr>
<td>• Develop measurement objective and circulate to TBG for comments</td>
<td>John Stanford</td>
<td>July 15, 2013</td>
</tr>
<tr>
<td>• Update collation and summary of responses to include responses received after May 15, 2013</td>
<td>John Stanford/Ross Smith</td>
<td>July 31, 2013</td>
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<tr>
<td>• Develop further Issues Paper and circulate to TBG</td>
<td>John Stanford</td>
<td>August 7, 2013</td>
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<tr>
<td><strong>5. Financial Statement Discussion and Analysis</strong></td>
<td>Stephenie Fox</td>
<td>June 28, 2013</td>
</tr>
<tr>
<td>• Prepare RPG 2 for publication</td>
<td></td>
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<tr>
<td><strong>6. Reporting on the Long-Term Sustainability of an Entity’s Finances</strong></td>
<td>John Stanford</td>
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<tr>
<td>• Prepare RPG 1 for publication</td>
<td></td>
<td>July 26, 2013</td>
</tr>
<tr>
<td>• Prepare and agree press release in conjunction with Chair and New York Communications</td>
<td></td>
<td>July 26, 2013</td>
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<tr>
<td><strong>7. Update of IPSASs 6–8</strong></td>
<td>Joanne Scott</td>
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<tr>
<td>• Update EDs for decisions made in June 2013</td>
<td></td>
<td>September 3, 2013</td>
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<tr>
<td>• Draft Basis for Conclusions for each ED</td>
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<td>September 3, 2013</td>
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<tr>
<td>• Draft issues paper regarding treatment of investment entities by their controlling entities</td>
<td></td>
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<td><strong>8. First-Time Adoption of Accrual Basis IPSASs</strong></td>
<td>Amanda Botha</td>
<td>September 3, 2013</td>
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<tr>
<td>• Revise and update draft Exposure Draft with issues discussed at June 2013 meeting and post for meeting</td>
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<tr>
<td>Action Required</td>
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<td>9. Strategy and Work Planning</td>
<td>Stephenie Fox</td>
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<td>• Develop project briefs for Social Benefits and Emissions Trading Schemes</td>
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<tr>
<td>• Form TBGs for both projects</td>
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<tr>
<td>• Liaise with IASB regarding timing of collaborative research project</td>
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<td>• Develop a CP proposing the characteristics of entities that jurisdictions should consider when deciding whether to apply IPSAS to a public sector entity</td>
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<td>11. Reporting Service Performance</td>
<td>Gwenda Jensen</td>
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<tr>
<td>• Develop RPG Exposure Draft</td>
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<tr>
<td>12. IPSASs and GFS Reporting Guidelines</td>
<td>Gwenda Jensen</td>
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<tr>
<td>• Refine Table 2 from the CP, with reference to responses received</td>
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<td>August 30, 2013</td>
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<tr>
<td>• Develop proposals on guidance with respect to development of integrated Charts of Accounts and choice of options</td>
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<td>August 30, 2013</td>
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<tr>
<td>• For the post 2014 work plan consultation, develop proposals on GFS difference reduction, approach to considering options during development of IPSASs, and the future of IPSAS 22</td>
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<td>13. Communications</td>
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<tr>
<td>• Action List posted to IFAC Extranet</td>
<td>Leah Weselowski</td>
<td>June 28, 2013</td>
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<tr>
<td>• Power Point presentations posted to IFAC Extranet</td>
<td>Leah Weselowski</td>
<td>June 28, 2013</td>
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<tr>
<td>• Draft minutes posted to IFAC Extranet</td>
<td>Leah Weselowski</td>
<td>July 31, 2013</td>
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<tr>
<td>• Update IPSASB Summary of IASB Work Plan and Tracking Table</td>
<td>Ross Smith</td>
<td>September 3, 2013</td>
</tr>
<tr>
<td>• Meeting Highlights posted to IFAC website</td>
<td>Ross Smith</td>
<td>July 2, 2013</td>
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## 13. Appendix 2 – Voting Record

### 13.1 – Vote #1– Approve RPG 1– Reporting on the Long-Term Sustainability of Public Finances

<table>
<thead>
<tr>
<th>Agenda Item 7</th>
<th>Minutes Item 7</th>
<th>Date Vote Taken</th>
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<tr>
<td>Description</td>
<td>Final Pronouncement</td>
<td>Reporting on the Long-Term Sustainability of Public Finances</td>
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<td>Final Standard</td>
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<th>ABSTAIN</th>
<th>ABSENT</th>
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13.2 – Vote #2 – Approve RPG 2 – Financial Statement Discussion and Analysis

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<th>Agenda Item 4</th>
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<th>Final Pronouncement</th>
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<td>Financial Statement Discussion and Analysis</td>
<td>Final Standard</td>
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TOTAL 17 1 0 0 18