

**Meeting:** International Public Sector Accounting Standards Board

**Meeting Location:** Toronto, Canada

**Meeting Date:** June 10–13, 2025

# Agenda Item 9

For:

Approval

Discussion

Information

## IMPROVEMENTS TO IPSAS ACCOUNTING STANDARDS

<b>Project summary</b>	To propose minor improvements to IPSAS Accounting Standards to address issues raised by stakeholders and to align, where appropriate, with amendments made to International Financial Reporting Standards.	
<b>Project staff lead</b>	<ul style="list-style-type: none"> <li>Edwin Ng, Principal</li> </ul>	
<b>Task Force members</b>	<ul style="list-style-type: none"> <li>N/A</li> </ul>	
<b>Meeting objectives</b>	<b>Topic</b>	<b>Agenda Item</b>
<b>Project management</b>	<a href="#">Improvements to IPSAS Accounting Standards: Project Management Dashboard</a>	<a href="#">9.1.1</a>
	<a href="#">Instructions up to Previous Meeting</a>	<a href="#">9.1.2</a>
	<a href="#">Decisions up to Previous Meeting</a>	<a href="#">9.1.3</a>
	<a href="#">Improvements to IPSAS Accounting Standards: Project Roadmap</a>	<a href="#">9.1.4</a>
<b>Decisions required at this meeting</b>	<a href="#">Improvements to IPSAS Standards – June 2025 Overview</a>	<a href="#">9.2.1</a>
	<a href="#">Amendments to IFRS 10 and IAS 7 from <i>IFRS Accounting Standards Annual Improvements – Volume 11</i></a>	<a href="#">9.2.2</a>
	<a href="#">Amendments to IFRS 3: Definition of a Business and Reference to the Conceptual Framework</a>	<a href="#">9.2.3</a>
<b>Other supporting items</b>	<a href="#">Proposed Amendments to IPSAS 35 and IPSAS 2 from “<i>IFRS Accounting Standards Annual Improvements – Volume 11</i>”</a>	<a href="#">9.3.1</a>

Prepared by: Edwin Ng (May 2025)

**IMPROVEMENTS TO IPSAS ACCOUNTING STANDARDS:  
 PROJECT MANAGEMENT DASHBOARD**

Topic	Past Meetings	June 2025	September 2025
<b>Overall Project Management</b>			
Financial Instruments Related Amendments	✓		
Amendments Relating to Business Combinations and Consolidation		📄	
Amendments Relating to First-Time Adoption			📄
Finalization of Exposure Draft [XX], <i>Improvements to IPSAS Accounting Standards – Volume 10</i>			📄

Legend	
✓	Task Completed
	Planned IPSASB Discussion
📄	Page-by-page Review

**INSTRUCTIONS UP TO PREVIOUS MEETING**

<b>Meeting</b>	<b>Instruction</b>	<b>Actioned</b>
March 2025	1. Include a Specific Matter for Comment regarding the prevalence of supplier finance arrangements in the public sector.	1. To be addressed when finalizing the Improvements to IPSAS 2025 Exposure Draft.
March 2025	2. Amend the example on the assessment of whether contractual cash flows are solely payments of principal and interest to refer to environmental, social, and governance targets in general, and explain this change in the basis for conclusions.	2. To be addressed when finalizing the Improvements to IPSAS 2025 Exposure Draft.

**DECISIONS UP TO PREVIOUS MEETING**

Meeting	Decision	BC Reference
March 2025	1. Subject to the instructions in Agenda Item 9.1.2, approve the inclusion of the following in an Improvements to IPSAS ED: <ul style="list-style-type: none"> <li>a) Additional disclosures regarding supplier finance arrangements;</li> <li>b) Amendments on the classification and measurement of financial instruments, including: additional guidance on when a liability is considered “discharged”; clarifications to the assessment of whether contractual cash flows are solely payments of principal and interest; and additional disclosures on accumulated fair value gains and losses in net asset/equity;</li> <li>c) Clarification and editorial amendments to IPSAS 30, <i>Financial Instruments: Disclosures</i>, and IPSAS 41, <i>Financial Instruments</i>; and</li> <li>d) Additional guidance on contracts referencing nature-dependent electricity, including: a description of these contracts; when these contracts meet the own-use exception from financial instrument accounting; when these contracts can be designated as a hedging instrument; and disclosures regarding these contracts.</li> </ul>	1. To be addressed when finalizing the Improvements to IPSAS 2025 Exposure Draft.

**IMPROVEMENTS TO IPSAS ACCOUNTING STANDARDS:  
PROJECT ROADMAP**

<b>Meeting</b>	<b>Completed Actions or Discussions / Planned Actions or Discussions:</b>
March 2025	1. Develop Improvements to IPSAS Accounting Standards – Volume 10 (Part 1 of 3, Financial Instruments)
June 2025	1. Develop Improvements to IPSAS Accounting Standards – Volume 10 (Part 2 of 3, Business Combinations and Consolidation)
September 2025	1. Develop Improvements to IPSAS Accounting Standards – Volume 10 (Part 3 of 3, First-Time Adoption) 2. Develop Narrow Scope Amendments to IPSAS 40, <i>Public Sector Combinations</i> 3. Approval of ED [XX], <i>Improvement to IPSAS Accounting Standards – Volume 10</i>

## **Improvements to IPSAS Accounting Standards– June 2025 Overview**

### **Purpose**

1. To provide the IPSASB with an overview of the workplan for Improvements to IPSAS Accounting Standards for the remainder of 2025.

### **Background**

2. At the March 2025 meeting, staff presented the following workplan to analyze the proposed amendments to IPSAS as a result of the IASB's Improvements to IFRS and narrow scope amendments:
  - (a) March 2025 – Amendments relating to financial instruments;
  - (b) June 2025 – Amendments relating to consolidation and business combinations;
  - (c) September 2025 – Amendments relating to first-time adoption of IPSAS Standards; and
  - (d) September 2025 – Approval of the Exposure Draft [XX], *Improvements to IPSAS Accounting Standards – Volume 10*.
3. Staff presented the amendments for financial instruments in March 2025, which were approved in principle by the IPSASB subject to specific instructions.
4. This paper summarizes how staff addressed the instructions from March 2025 and walks through the proposed amendments for consolidation and business combinations.

### **Addressing the Instructions from March 2025**

5. Staff addressed the instructions from March 2025 as follows:
  - (a) Drafted a Specific Matter for Comment on whether supplier finance arrangements are used or could be used in the public sector in their jurisdiction; and
  - (b) Amended the example on the assessment of whether contractual cash flows are solely payments of principal and interest and drafted an explanation for the change in the basis for conclusions; and
6. In addition to the above, staff have revised the proposed amendments for editorial changes received from members. The revised amendments, along with the SMC and basis for conclusions, will be presented in September 2025 when ED [XX], *Improvements to IPSAS Accounting Standards – Volume 10*, will be reviewed by the IPSASB.

### **Amendments Relating to Consolidation and Business Combinations**

7. Staff analyzed the following amendments to IFRS:
  - (a) Amendments to IFRS 10, *Consolidated Financial Statements (IFRS Accounting Standards Annual Improvements – Volume 11)* issued July 2024;
  - (b) Amendments to IAS 7, *Statement of Cash Flows (IFRS Accounting Standards Improvements – Volume 11)* issued July 2024;
  - (c) Definition of a Business (Amendments to IFRS 3) issued October 2018; and
  - (d) References to the Conceptual Framework (Amendments to IFRS 3) issued May 2020.

8. Staff analyzed items 7(a) and 7(b) in [Agenda Item 9.2.2](#), and items 7(c) and 7(d) in [Agenda Item 9.2.3](#).

**Decision Required**

9. No decision required—for information purposes only.

## **Amendments to IFRS 10 and IAS 7 from *IFRS Accounting Standards Annual Improvements – Volume 11***

### **Question**

1. Does the IPSASB agree with amending IPSAS 35, *Consolidated Financial Statements*, and IPSAS 2, *Cash Flow Statements*, for the amendments from *IFRS Accounting Standards Annual Improvements – Volume 11*?

### **Recommendation**

2. Staff recommend:
  - (a) Amending the application guidance of IPSAS 35 for better internal consistency; and
  - (b) Amending IPSAS 2 for better consistency with the wording in IPSAS 35, IPSAS 36, *Investments in Associates and Joint Ventures*, IPSAS 37, *Joint Arrangements*, and IPSAS 38, *Disclosure of Interests in Other Entities*.

These amendments are set out in [Agenda Item 9.3.1](#).

### **Background**

3. In July 2024, the IASB issued *IFRS Accounting Standards Annual Improvements – Volume 11 (2024 Improvements)*. The 2024 Improvements included minor amendments relating to the guidance on consolidation and editorial changes to the guidance on cash flow statements relating to investments in associates and joint ventures. These amendments are relevant to IPSAS 35 and IPSAS 2.

### **Analysis**

#### *Amendment to the Application Guidance of IFRS 10*

4. The IASB noted that paragraphs B73 and B74 of IFRS 10 could lead to inconsistencies, as paragraph B73 indicates that the determination of whether a party is a 'de facto agent' requires judgment, but paragraph B74 uses definitive and conclusive language when describing a scenario that could lead to the conclusion that a party is a de facto agent of the entity assessing control.
5. To resolve this inconsistency, paragraph B74 was amended to use less conclusive language, so that the relationship described in the paragraph is only one example of when a party may be acting as a de facto agent for the entity.

#### *Amendments to IAS 7*

6. Prior to the amendments, IAS 7 referred to an investment in an associate, a joint venture, or a subsidiary accounted for by use of the 'equity or cost method.' The IASB noted that the definition of 'cost method' was previously removed from IFRS standards when the accounting guidance on subsidiaries, associates, and joint ventures was updated, but IAS 7 was not revised.
7. To resolve this inconsistency, IAS 7 was amended to refer to investments as follows "...accounted for by use of 'the equity method or at cost-~~method~~.' This amendment is editorial in nature and does not change the guidance in IAS 7.

*Are the Amendments Aligned with IPSAS Standards?*

8. The IASB's amendments to IFRS 10 and IAS 7 are editorial changes made for better consistency within IFRS 10 and between IAS 7, IAS 28, and IFRS 10-12. The editorial changes to paragraphs in IFRS 10 and IAS 7 exist and are aligned with IPSAS 35 and IPSAS 2, respectively. Other than terminology (e.g., the use of 'controlled entity' instead of 'subsidiary' in IPSAS Standards), the IPSASB did not omit or amend the related IFRS 10 or IAS 7 paragraphs in the past for public sector differences.

*Are the Amendments Applicable to the Public Sector?*

9. As noted in paragraphs 5 and 7, the IASB's amendments to IFRS 10 and IAS 7 were made for editorial corrections and for better consistency with existing standards. Making the corresponding amendments to IPSAS 35 and IPSAS 2 would also resolve editorial issues and inconsistencies within IPSAS 35 and between IPSAS 2 and IPSAS 35-38. This benefits public sector users with clearer guidance.
10. Based on these reasons, the amendments are applicable and appropriate for the public sector, will maintain alignment with IFRS, clarify existing guidance, and have been tested through the IASB's due process.
11. A full text of the amendments, adapted for inclusion in IPSAS 35 and IPSAS 2, can be found in [Agenda Item 9.3.1](#).

**Decision Required**

12. Does the IPSASB agree with the staff's [recommendation](#)?

## **Amendments to IFRS 3: Definition of a Business and Reference to the Conceptual Framework**

### **Question**

1. Should the amendments to IFRS 3, *Business Combinations*, be included as part of the Improvements to IPSAS Accounting Standards exposure draft (ED) or in a separate narrow scope amendment ED?

### **Recommendation**

2. Staff recommend analyzing the amendments to IFRS 3 separately for inclusion in a narrow scope amendment ED to be presented to the IPSASB in September 2025.

### **Background**

3. The IASB updated IFRS 3 in 2018 and 2020 as part of two narrow scope amendments which were separate from their Improvements to IFRS.

#### *Narrow Scope Amendment 1 – Definition of a Business*

4. As a result of their post-implementation review of IFRS 3, the IASB revised the definition of a 'business' and amended the related application guidance in October 2018.
5. The key changes were as follows:
  - (a) Amended the definition of a business to explicitly require an acquired set of activities to have at least an input and a substantive process that together contributes to the ability to create outputs to be considered a business;
  - (b) Narrowed the definition of 'output' to focus on the provision of goods or services or generation of investment income;
  - (c) Removed the consideration of whether a market participant can provide any missing inputs or processes to generate outputs;
  - (d) Added guidance on how to assess if an acquired process is substantive; and
  - (e) Added an optional 'concentration test', where the acquired activities and assets are not a business if substantially all of the fair value of the acquired items are concentrated in a single identifiable asset or group of similar assets.
6. The above amendments are expected to have a significant impact on the assessment of whether an acquisition of assets and assumption of liabilities is considered a business combination, which could in turn result in significant changes to the accounting for these transactions. In general, the definition of a business has been narrowed, and less acquisitions are expected to be classified as a business combination rather than an acquisition of assets.

#### *Narrow Scope Amendment 2 – Reference to the Conceptual Framework*

7. In May 2020, the IASB amended IFRS 3 to refer to its updated conceptual framework. Concurrently, the IASB noted that in some situations, the recognition of liabilities and contingent liabilities based on the definitions in the updated conceptual framework could result in situations where a contingent liability was recognized in a business combination, then immediately derecognized through the subsequent application of IAS 37, *Provisions, Contingent Liabilities and Contingent Assets*. This would result in a day-2 gain which would not reflect the underlying economics of the transaction.

8. To avoid such a day-2 gain, the IASB amended IFRS 3 so that an assumed provision or contingent liability which would have otherwise been within the scope of IAS 37 would be recognized in accordance with the requirements of IAS 37 rather than the recognition and measurement principles in IFRS 3. In addition, IFRS 3 was also amended to explicitly prohibit the recognition of contingent assets, which is also in line with the requirements of IAS 37.
9. Like the changes to the definition of a business, the above amendments are expected to have a significant impact on the accounting of a business combination, particularly in transactions which involve the assumption of a provision or contingent liability.

### **Analysis**

#### *Are the Amendments Relevant to IPSAS?*

10. The acquisition accounting requirements in IPSAS 40, *Public Sector Combinations*, are drawn primarily from IFRS 3, and the term 'operation' in IPSAS 40 is based on the definition of a business. If the above amendments to the definition of a business are incorporated into the definition of an operation, they are expected to have a significant impact on the accounting for acquisitions in IPSAS 40.
11. Similarly, if IPSAS 40 is amended to refer to IPSAS 19, *Provisions, Contingent Liabilities, and Contingent Assets*, for the recognition of provisions, contingent liabilities, and contingent assets, the likelihood of the recognition of these items is expected to decrease.

#### *How Should the Amendments be Addressed?*

12. Due to the potentially significant impact of the amendments, staff considered if they should be incorporated into IPSAS 40 through the Improvements ED or in a separate narrow scope amendment ED. To make this assessment, staff considered the following criteria:
  - (a) Complexity—Amendments that are technically complex and warrant more in-depth analysis would be more appropriate as a separate narrow scope amendment ED;
  - (b) Conceptual Changes—When an amendment introduces new concepts or significantly amends the existing requirements in IPSAS such that there could be substantial changes in the recognition, measurement, presentation or disclosure requirements, it would be more appropriate to analyze the proposals in detail as a separate narrow scope amendment;
  - (c) Impact on Other IPSAS Standards—When the amendment impacts more than one IPSAS, it may be more appropriate to analyze the amendment in more depth in a separate narrow scope amendment ED;
  - (d) Urgency—When there is urgency in introducing an amendment (for example, to comply with new regulatory changes), using the improvements process may accelerate the finalization of the amendment; and
  - (e) Controversy—When the amendment is susceptible to raising disagreements, it may be more appropriate to analyze the proposals in greater depth and separately expose the proposed changes as a narrow scope amendment.
13. In general, improvements to IPSAS Accounting Standards are typically minor or editorial amendments, while narrow scope amendments tend to be more complex and could result in significant changes to accounting. However, the application of the above criteria requires judgment.

In some cases, an individual criterion on its own may not be conclusive, while in other cases, a single criterion may sufficiently determine whether an amendment should be an improvement or a narrow scope amendment.

*Application of the Criteria*

14. Applying the above criteria to the two amendments, staff noted:
- (a) Complexity—The amendments, particularly the narrowing of the definition of an operation, are complex, as they involve changes to areas involving significant judgment. In addition to assessing if there are any public sector specific reasons to not adopt the amendment, because IPSAS 40 includes public sector-specific guidance on amalgamations, there will be added complexity from the need to consider if the amendments could interact with this guidance and result in unintended consequences;
  - (b) Conceptual Changes—Both amendments involve conceptual changes that could significantly change the accounting in IPSAS 40. A change in the definition of operations could result in less transactions being classified as acquisitions of operations, while the amendments relating to provisions, contingent liabilities and contingent assets will lower the likelihood that these items are recognized;
  - (c) Impact on Other IPSAS Standards—While the amendments do not involve direct changes to other IPSAS Standards, both are expected to affect the application of other standards subsequent to a public sector combination. The narrowing of the definition of an operation will impact whether an entity subsequently applies IPSAS 35, *Consolidated Financial Statements*, to the acquired set of activities and related assets. The amendment relating to assumed provisions and contingent liabilities will impact whether the subsequent application of IPSAS 19 may result in the recognition of a day-2 gain;
  - (d) Urgency—As public sector combinations do not frequently occur, the amendments are not considered urgent; and
  - (e) Controversy—The amendments may be susceptible to disagreement if they are proposed without a thorough analysis of their potential impact due to their complexity as noted in subparagraph (a), the potentially significant impact on accounting as noted in subparagraph (b), and the impacts on other IPSAS Standards as noted in subparagraph (c).
15. Based on the considerations in paragraph 14, staff is of the view that a more in-depth analysis is required and that the potential amendments to IPSAS 40 should be included in a separate narrow scope amendment ED.

*Proposed Timeline*

16. Staff propose to perform a detailed analysis of the amendments in Q3 of 2025 and present their findings to the IPSASB at the September 2025 meeting.

*Decision Required*

17. Does the IPSASB agree with the staff's [recommendation](#)?

**Supporting Document 1 – Proposed Amendments to IPSAS 35 and IPSAS 2 from  
“*IFRS Accounting Standards Annual Improvements – Volume 11*”**

1. The proposed amendments on the determination of de facto agents and the reference to ‘cost method’ are posted separately for easier readability.