

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

**Meeting Location:** New York, USA

**Meeting Date:** December 2–5, 2025

## Agenda Item 10

For:

☐ Approval

☒ Discussion

☐ Information

### IMPROVEMENTS TO IPSAS ACCOUNTING STANDARDS AND IPSAS 40, *PUBLIC SECTOR COMBINATIONS*

<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="#">10.1.1</a>
	<a href="#">Instructions up to Previous Meeting</a>	<a href="#">10.1.2</a>
	<a href="#">Decisions up to Previous Meeting</a>	<a href="#">10.1.3</a>
	<a href="#">Improvements to IPSAS Accounting Standards: Project Roadmap</a>	<a href="#">10.1.4</a>
<b>Decisions required at this meeting</b>	<a href="#">Improvements to IPSAS Accounting Standards – December 2025 Overview</a>	<a href="#">10.2.1</a>
	<a href="#">Amendments to IPSAS 4 and IPSAS 33</a>	<a href="#">10.2.2</a>
	<a href="#">Narrow Scope Amendments to IPSAS 40: Definition of an Operation and Reference to the Conceptual Framework</a>	<a href="#">10.2.3</a>
<b>Other supporting items</b>	<a href="#">Proposed Amendments to IPSAS 4 and IPSAS 33 to be Incorporated into “Improvements to IPSAS Accounting Standards – Volume 10”</a>	<a href="#">10.3.1</a>
	<a href="#">Proposed Narrow Scope Amendments to IPSAS 40, Public Sector Combinations</a>	<a href="#">10.3.2</a>

Prepared by: Edwin Ng (November 2025)

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

Topic	Past Meetings	December 2025	March 2026
<b>Overall Project Management</b>			
Amendments Relating to Financial Instruments, Public Sector Combinations and Consolidation	✓		
Amendments Relating to Foreign Exchange Rates and First-Time Adoption		📄	
Narrow Scope Amendments Relating to Public Sector Combinations		📄	
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>
June 2025	1. None.	1. N/A.
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
June 2025	1. Approve the proposed amendments to IPSAS 35 and IPSAS 2, and include the amendments in the next Exposure Draft for annual improvements planned for March 2026.	1. To be addressed when finalizing the Exposure Draft in March 2026.
June 2025	2. Address the amendments to the definition of operations and the recognition of assumed provisions and liabilities in IPSAS 40 through a separate narrow scope amendment exposure draft.	2. See <a href="#">Agenda Item 10.2.3</a> . BC to be finalized in March 2026.
March 2025	3. 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>	3. To be addressed when finalizing the Exposure Draft in March 2026.

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

Meeting	Completed Actions or Discussions / Planned Actions or Discussions:
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)
December 2025	1. Develop Improvements to IPSAS Accounting Standards – Volume 10 (Part 3 of 3, Foreign Exchange and First-Time Adoption) 2. Develop Narrow Scope Amendments to IPSAS 40, <i>Public Sector Combinations</i>
March 2026	1. Approval of ED [XX], <i>Improvement to IPSAS Accounting Standards – Volume 10</i>

## **Improvements to IPSAS Accounting Standards– December 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 and the first quarter of 2026.

### **Background**

2. At the March and June 2025 meetings, staff presented the following 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—these proposed amendments were approved in principle by the IPSASB subject to drafting comments from members; and
  - (b) June 2025 – Amendments relating to consolidation and business combinations—these proposed amendments were approved in principle by the IPSASB.
3. At this meeting, staff will present the following proposed amendments:
  - (a) Amendments to IPSAS 4, *The Effects of Changes in Foreign Exchange Rates*, and IPSAS 33, *First-time Adoption of Accrual Basis International Public Sector Accounting Standards*. These amendments were grouped together as they both affect IPSAS 33. (See [Agenda Items 10.2.2](#) and [10.3.1](#)); and
  - (b) Amendments to IPSAS 40, *Public Sector Combinations*. (See [Agenda Items 10.2.3](#) and [10.3.2](#).) These amendments will be issued as a separate narrow scope amendment exposure draft based on the IPSASB's decision in June 2025.
4. Subject to the discussions at this meeting, staff plan to bring the following documents to the March 2026 meeting for the IPSASB's final approval:
  - (a) Exposure Draft [XX], *Improvements to IPSAS Accounting Standards – Volume 10*; and
  - (b) Exposure Draft [YY], *Narrow Scope Amendments to IPSAS 40*.

### **Decision Required**

5. No decision required—for information purposes only.

## **Amendments to IPSAS 4 and IPSAS 33**

### **Question**

1. Does the IPSASB agree with the proposed amendments to IPSAS 4, *The Effects of Changes in Foreign Exchange Rates*, and IPSAS 33, *First-time Adoption of Accrual Basis International Public Sector Accounting Standards*?

### **Recommendation**

2. Staff recommend:
  - (a) Amending IPSAS 4 for the amendments to IAS 21 issued by the IASB in August 2023; and
  - (b) Amending IPSAS 33 for amendments relating to the changes noted in paragraph 2(a) and for editorial changes relating to hedge accounting issued by the IASB in July 2024.

These amendments are set out in [Agenda Item 10.3.1](#).

### **Background**

3. The IASB issued *Lack of Exchangeability (Amendments to IAS 21)* in August 2023. These amendments added guidance on when a currency is considered “exchangeable” into another currency and certain disclosure requirements regarding exchangeability. The pronouncement also amended the guidance on foreign exchange and hyperinflation upon the first-time adoption of IFRS. These amendments are relevant to IPSAS 4 and IPSAS 33.
4. In addition, in July 2024, the IASB issued *IFRS Accounting Standards Annual Improvements – Volume 11 (2024 Improvements)*. These improvements included minor amendments relating to the guidance on hedge accounting upon the first-time adoption of IFRS and are relevant to IPSAS 33.

### **Analysis**

#### *Amendments for the Consideration of Exchangeability*

5. Prior to the issuance of the amendments to IAS 21, *The Effects of Changes in Foreign Exchange Rates*, the IFRS Standards did not provide guidance on a consistent approach on the determination of whether a currency is exchangeable into another currency or how to estimate the spot exchange rate to be used when a currency is not exchangeable. The IASB received feedback from the IFRS Interpretations Committee (IFRIC) indicating that there were diverse views on these issues. Although circumstances in which a currency is not exchangeable may be infrequent, such diversity in practice could lead to material differences in an entity’s financial statements.
6. In response to the IFRIC’s input and their constituents’ feedback, the IASB amended IAS 21 in 2023 to add the following:
  - (a) Guidance to clarify that a currency is exchangeable into another currency when an entity is able to obtain the other currency within a time frame allowing for normal administrative delays and through a market or exchange mechanism in which an exchange transaction would create enforceable rights and obligations. (See paragraphs 10, 10A-10B in [Agenda Item 10.3.1](#) for the proposed changes to IPSAS 4);
  - (b) Guidance to specify that a spot exchange rate when a currency is not exchangeable is estimated based on a rate at which an orderly exchange transaction would take place at the

measurement date between market participants under prevailing economic conditions at that time. (See paragraphs 22A in [Agenda Item 10.3.1](#) for the proposed change to IPSAS 4);

- (c) Disclosure requirements for information enabling a user to understand how a currency that is not exchangeable is affecting the entity, the process used to estimate the spot exchange rate, and the related risks to the entity. (See paragraphs 66A and 66B in [Agenda Item 10.3.1](#) for the proposed changes to IPSAS 4.)
  - (d) Application Guidance on:
    - (i) The assessment of whether a currency is exchangeable;
    - (ii) The estimation of the spot exchange rate when a currency is not exchangeable; and
    - (iii) The disclosures when a currency is not exchangeable. (See Appendix B, paragraphs B1-B20 in [Agenda Item 10.3.1](#) for the proposed changes to IPSAS 4); and
  - (e) Illustrative Examples on exchangeability. (See paragraphs IE20-IE37 in [Agenda Item 10.3.1](#) for the proposed changes to IPSAS 4.)
7. In the same narrow scope amendment, the IASB also updated IFRS 1, *First-time Adoption of International Financial Reporting Standards*. The previous version of IFRS 1 referred to, but did not define, exchangeability. The amendments revised IFRS 1 to refer to the definition and assessment of exchangeability in IAS 21.

### *Editorial Amendments to IPSAS 33 Regarding Hedge Accounting*

8. If a first-time adopter designated a net position as a hedged item under their previous GAAP, IFRS 1 allows the entity to designate the net position, or an individual item within that net position, as a hedged item in accordance with IFRS if the qualifying criteria for hedge accounting in IFRS 9, *Financial Instruments*, are met. Editorial amendments were made to IFRS 1 to use consistent wording as IFRS 9 and to refer to the specific paragraphs in IFRS 9 regarding the qualifying criteria for hedge accounting.

### *Are the Amendments Aligned with IPSAS Standards?*

9. Other than terminology differences, IPSAS 4 is aligned with the previous version of IAS 21 and guidance from IFRIC 22, *Foreign Currency Transactions and Advance Consideration*, as a separate appendix.
10. While IPSAS 33 is not aligned with IFRS 1, it draws from many of the concepts from IFRS 1 and uses similar wording in certain exemptions and exceptions. The underlying guidance in IPSAS 33 related to the amendments to IFRS 1 regarding foreign exchange and hedge accounting are aligned and will impact specific paragraphs in IPSAS 33 (issued in 2025).

### *Are the Amendments Applicable to the Public Sector?*

11. As noted in paragraph 9, IPSAS 4 is aligned with IAS 21 (with additional but unrelated guidance from IFRIC 22). Therefore, the diversity in practice noted in paragraph 5 is also applicable to IPSAS 4. Such diversity could result in material differences in how a lack of exchangeability is reflected in a public sector entity's financial statements.
12. The amendments to IFRS 1 are for consistency with the amendments to IAS 21 and existing wording in IFRS 9, which is aligned with IPSAS 41, *Financial Instruments*.



13. 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.
14. A full text of the amendments, adapted for inclusion in IPSAS 4 and IPSAS 33, can be found in [Agenda Item 10.3.1](#).

### Decision Required

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

## **Narrow Scope Amendments to IPSAS 40: Definition of an Operation and Reference to the Conceptual Framework**

### **Question**

1. Does the IPSASB agree with the proposed amendments to IPSAS 40, *Public Sector Combinations*?

### **Recommendation**

2. Staff recommend amending IPSAS 40 to:
  - (a) Narrow the definition of an operation as summarized in paragraph 4; and
  - (b) Amend the recognition and measurement of provisions and contingent liabilities assumed in an acquisition as summarized in paragraphs 8-9.

These amendments are set out in [Agenda Item 10.3.2](#).

### **Background**

3. In June 2025, staff presented the following two narrow scope amendments to IFRS 3, *Business Combinations*, which were issued by the IASB in 2018 and 2020:

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

4. Following their post-implementation review of IFRS 3, the IASB narrowed the definition of a business through the following amendments:
  - (a) Amended the definition of a business and related application guidance 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 'output' portion of the definition of a business to focus on the provision of goods or services or generation of investment income. (Staff noted that when the term 'business' was adapted into 'operation' for the public sector, the focus on provision of goods or services was already incorporated into IPSAS 40. In addition, the IPSASB deleted the reference to the generation of investment income to reflect the nature of public sector entities. As a result, further amendments to the definition itself in IPSAS 40 are not necessary);
  - (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;
  - (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; and
  - (f) Added nine illustrative examples regarding the amended definition of a business and the optional concentration test.
5. The above amendments are expected to have a significant impact on the assessment of whether an acquisition of assets and related liabilities is considered a business combination, which could in turn result in significant changes to the accounting for these transactions. In general, less acquisitions are expected to be classified as a business combination rather than an acquisition of assets.

6. The IASB made the above amendments based on concerns that the previous definition of a business was overly broad. Constituents were particularly concerned by the difficulty in applying the reference to 'capable of being conducted and managed', together with the requirement in the applicable guidance to consider whether theoretical market participants can replace missing elements of a business. As a result, the IASB decided to amend the application guidance to limit the assessment on what has been acquired in its current state and condition without the consideration of whether a market participant could be capable of replacing any missing inputs or processes.
7. At the June 2025 IPSASB meeting, staff noted that IPSAS 40 does not use the term 'business.' However, the term 'operation' is largely drawn from the definition of 'business' from IFRS 3 and is used in the definitions of both acquisitions and amalgamations. As a result, staff noted that the lack of clarity on the definition and application guidance of operations is also applicable to the public sector, and the amendments should be incorporated into IPSAS 40.

*Narrow Scope Amendment 2 – Reference to the Conceptual Framework (Recognition of Assumed Provisions and Contingent Liabilities)*

8. Previously, IFRS 3 specified that identifiable assets acquired and liabilities assumed in a business combination which meet the definitions of assets and liabilities in the IASB's Conceptual Framework qualify for recognition. After initial recognition, an entity generally accounts for the recognized assets and liabilities in accordance with the guidance in the applicable IFRS Standards. Because the recognition of provisions and contingent liabilities in IAS 37, *Provisions, Contingent Liabilities and Contingent Assets*, does not strictly align with the IASB's Conceptual Framework, IFRS 3 was amended to refer to guidance in IAS 37 to determine whether a present obligation exists on acquisition date as a result of past events. The amendments also specify that only contingent liabilities which are present obligations in accordance with IAS 37, and whose fair value can be measured reliably, can be recognized.
9. In addition, the IASB's amendments also revised IFRS 3 as follows:
  - (a) Updated the reference to the title of the current version of the IASB's conceptual framework. (Staff noted that this amendment is not necessary for IPSAS 40, as the title of the IPSASB's updated conceptual framework was not changed from the previous version);
  - (b) References to IFRIC 21, *Levies*, were added for consistency in the recognition of liabilities to pay levies. (Staff noted that these amendments are not applicable to IPSAS 40, as IFRIC 21 was not incorporated into IPSAS 19); and
  - (c) To be consistent with the requirements on contingent assets in IAS 37, an explicit prohibition against the recognition of such assets was added.
10. 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 contingent liability.
11. The amendments in paragraphs 8-9 were made because the previous guidance in IFRS 3 could lead to situations where certain liabilities could be recognized upon an acquisition, then be immediately derecognized through the subsequent application of IAS 37 and result in a day-2 gain. Such gains would not reflect the underlying economics of an acquisition transaction. The remaining amendments were made for consistency with other aspects of the IASB's literature.

12. As the guidance on acquisitions in IPSAS 40 is aligned with the guidance in IFRS 3, the above amendments are relevant to IPSAS Standards. Staff noted in June 2025 that the issue of day-2 gains exists under the current version IPSAS 40, so the amendments are applicable to the public sector.

*Decisions on Relevance of the Amendments from June 2025*

13. The IPSASB agreed that the above amendments should be a narrow scope amendment to IPSAS 40, separate from the improvements process. The Board also instructed staff to analyze whether there are unintended consequences from the above amendments, particularly in relation to the public sector-specific guidance on amalgamations in IPSAS 40.

**Analysis**

*Amendments Regarding the Definition of an Operation*

14. As noted in paragraph 7, amending the application guidance regarding the definition of 'operation' will impact both acquisitions and amalgamations as defined in IPSAS 40. Based on a narrower definition of operations, less acquisitions or receipts of an asset or a group of assets (and any related liabilities) are expected to be accounted for as acquired operations or amalgamations within the scope of IPSAS 40.
15. Conceptually, staff noted the following:
- (a) The previous definition of a business and its related application guidance was too broad and the IASB concluded that this resulted in implementation difficulties for its constituents. Staff noted that because the application guidance regarding the definition of an operation is aligned, public sector entities could also have difficulties when applying the underlying concepts. As a result, the amendments summarized in paragraph 4 should be incorporated into IPSAS 40 to resolve these implementation difficulties and maintain alignment with IFRS for acquisition accounting;
  - (b) When IPSAS 40 was developed, the IPSASB intended for same definition of an operation to apply to both acquisitions and amalgamations. As a result, the fact that the proposed amendments will result in less acquired operations or amalgamations is an *intended* consequence; and
  - (c) The basis for conclusions in IPSAS 40 explains that amalgamations are distinguished from acquisitions on the basis that, economically, no party to the combination gains control of one or more operations. A change to what constitutes an operation would not result in any changes to this assessment of control or the subsequent classification and accounting for amalgamations and acquisitions. Therefore, there would be no unintended impacts on the classification and accounting of public sector combinations.
16. Based on the reasons in paragraph 15, staff noted that there are no unintended consequences to the public sector specific guidance on amalgamations, and that the amendments in paragraph 4 should be incorporated into IPSAS 40.

*Amendments Regarding the Recognition of Assumed Provisions and Contingent Liabilities*

17. Staff noted that the amendments regarding the recognition of assumed provisions and contingent liabilities only affect the guidance on acquisition accounting and will therefore have no impact on the public-sector specific guidance on amalgamations. As a result, staff concluded that the amendments

in paragraphs 8-9 will not have any unintended consequences and should be incorporated into IPSAS 40.

**Decision Required**

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

**Supporting Document 1 – Proposed Amendments to IPSAS 4 and IPSAS 33 to be Incorporated into “*Improvements to IPSAS Accounting Standards – Volume 10*”**

1. The proposed amendments to IPSAS 4, *The Effects of Changes in Foreign Exchange Rates*, and IPSAS 33, *First-time Adoption of Accrual Basis International Public Sector Accounting Standards*, are posted separately for easier readability.

**Supporting Document 2 – Proposed Narrow Scope Amendments to IPSAS 40,  
*Public Sector Combinations***

2. The proposed narrow scope amendments to IPSAS 40, *Public Sector Combinations*, are posted separately for easier readability.