**Meeting:** International Public Sector Accounting Standards Board  
**Meeting Location:** Virtual Meeting  
**Meeting Date:** December 1, 2, 8–11 and 15, 2020

**Agenda Item 5**

ED 78, IPSAS 17 UPDATE, HERITAGE AND INFRASTRUCTURE

|-----------------|--------------------------------------------------------------------------------------------------------------------------|
| Task Force members* | • Ian Carruthers, IPSASB Chair  
• Bernhard Schatz, IPSASB Member and Heritage Task Force Chair  
• Marc Wermuth, IPSASB Member and Infrastructure Task Force Chair  
• David Watkins, IPSASB Technical Advisor and Measurement Task Force Chair |

*Note: This is the ED 78 Task Force, which was involved in development of this agenda Item. The Heritage, Infrastructure and Measurement projects have Task Forces engaged on issues specific to those topics, as needed.*

### Meeting objectives

#### Project management

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#### Decisions required at this meeting

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Prepared by: Amon Dhliwayo, Gwenda Jensen, Eileen Zhou and Dave Warren (November 2020)
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<th>Other supporting items</th>
<th>Approval of ED 78, Property, Plant, and Equipment</th>
<th>5.2.9</th>
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<tr>
<td>[Draft] ED 78, Property, Plant, and Equipment</td>
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<td>5.3.1</td>
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<tr>
<td>Amendments to Other IPSAS</td>
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<td>5.3.3</td>
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<tr>
<td>Issues Log</td>
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<td>5.3.4</td>
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</table>
## ED 78, PROPERTY, PLANT, AND EQUIPMENT: 
### PROJECT ROADMAP

<table>
<thead>
<tr>
<th>Meeting</th>
<th>Completed Actions or Discussions / Planned Actions or Discussions:</th>
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<tbody>
<tr>
<td></td>
<td>2. Instructions on revisions to IPSAS 17, <em>Property, Plant and Equipment</em>, to include in a [draft] ED for review in June 2020.</td>
</tr>
<tr>
<td></td>
<td>3. Provide instructions on further revisions to [draft] ED 78 (IPSAS 17 Update), <em>Property, Plant, and Equipment</em>.</td>
</tr>
<tr>
<td>Mid-July 2020</td>
<td>1. Review [draft] ED 78 (IPSAS 17 Update), <em>Property, Plant, and Equipment</em>, which reflects revisions arising from the IPSASB’s June 2020 decisions and instructions.</td>
</tr>
<tr>
<td></td>
<td>2. Review and approve text for inclusion in the [draft] ED 78 (IPSAS 17 Update), <em>Property, Plant, and Equipment</em>.</td>
</tr>
<tr>
<td>Mid-October 2020</td>
<td>1. Review [draft] ED 78 (IPSAS 17 Update), <em>Property, Plant, and Equipment</em>, which reflects revisions arising from the IPSASB’s September 2020 decisions and instructions.</td>
</tr>
<tr>
<td>December 2020</td>
<td>1. Approve ED 78 (IPSAS 17 Update), <em>Property, Plant, and Equipment</em></td>
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</table>
### INSTRUCTIONS UP TO PREVIOUS MEETING

Note: Instructions are grouped by project; Heritage, Infrastructure, and Measurement.

<table>
<thead>
<tr>
<th>Meeting</th>
<th>Instruction</th>
<th>Actioned</th>
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<tbody>
<tr>
<td><strong>Heritage</strong></td>
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</table>
| September 2020| 1. Revise the implementation guidance, working with IPSASB members who identified changes, to address the following points:  
(a) Relate the period during which the entity holds the heritage item to its useful life;  
(b) Link clearly to the conceptual basis for assessments of control;  
(c) Apply professional judgement applied to the facts of each case (and remove text to the effect that more indicators mean more likely to control);  
(d) Link guidance clearly to the application guidance factors;  
(e) Reorder the examples to move the first question to the end with appropriate editorial changes; and  
(f) Further consideration of the guidance on collection items held on loan. | See [draft] ED 78 paragraphs IG1 – IG8.                                                             |
| September 2020| 2. For the treatment of subsequent expenditures:  
(a) Revise the heading to the implementation guidance so that it only refers to heritage assets only and review other text, particularly the Basis for Conclusions for consistency.  
(b) Add more explanation to the BCs to convey the circumstances in which this issue arises. | See [draft] ED 78 paragraphs IG9 and BC26                                                          |
| September 2020| 3. For capitalization thresholds, revise the implementation guidance, working with IPSASB members who identified changes, to:  
(a) Delete reference to the cost of capital management system;  
(b) Reorder the text and have materiality as the main driver for considerations;  
(c) Delete text that refers to management control; and  
(d) Remove “substantially all” and replace with reference to materiality. | See [draft] ED 78 paragraphs IG10-IG14.                                                             |
## Agenda Item 5.1.2

<table>
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<tr>
<th>Meeting</th>
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<tbody>
<tr>
<td>September 2020</td>
<td>4. Revise the implementation guidance on measurement, working with IPSASB members who identified changes, to:</td>
<td>See [draft] ED 78 paragraphs IG15-IG18.</td>
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<tr>
<td></td>
<td>(a) Ensure terminology is consistent with measurement project developments;</td>
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<td></td>
<td>(b) Convey that measurement of heritage assets can be very difficult and complex;</td>
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<td>(c) Explain that estimates and judgement are part of accounting, so the need for an estimate (or a lack of precision in measurement) is not a sufficient basis for non-recognition; and</td>
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<tr>
<td></td>
<td>(d) Refer to measurement project work on the impact of restrictions for valuation/measurement.</td>
<td></td>
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<tr>
<td>September 2020</td>
<td>5. Revise the core text on annual impairment reviews where assets have indefinite useful lives:</td>
<td>See [draft] ED 78 paragraph 56.</td>
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<tr>
<td></td>
<td>(a) To clarify that the review is for indications of impairment only; and</td>
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<td>(b) For consistency with other IPSAS.</td>
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<td></td>
<td>(a) Apply to all property, plant, and equipment (not just non-land);</td>
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<td></td>
<td>(b) Make text on entity’s preservation actions achievable,</td>
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<td></td>
<td>(c) Convey on-going nature (not one-off); if factors not met refer back to IPSAS17’s guidance for assets with finite useful lives.</td>
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<tr>
<td>September 2020</td>
<td>7. For impairment, revise the <em>Basis for Conclusions</em> to remove examples and emphasize use of the impairment standards to identify assets that could be impaired.</td>
<td>See [draft] ED 78 paragraphs BC57-BC58.</td>
</tr>
<tr>
<td>September 2020</td>
<td>8. For disclosures related to unrecognized assets:</td>
<td>See Agenda Item 5.2.4.</td>
</tr>
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<td></td>
<td>(a) Provide the IPSASB with a recommendation on the location of the authoritative guidance, which will be a core text requirement, supported, as appropriate, by application guidance.</td>
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<td>(b) Treat this issue as of general relevance to property, plant, and equipment, and then consider whether there is anything specific to heritage.</td>
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<td>assets which indicates a need for heritage-related implementation guidance.</td>
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<td><strong>Infrastructure</strong></td>
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<tr>
<td>September 2020</td>
<td>1. Incorporate the following detailed changes in [draft] ED 78 as follows:</td>
<td>See Agenda Item 5.2.5</td>
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<tr>
<td></td>
<td>(a) Non-exchange transactions (paragraph 11) – Consider the use of the</td>
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<td>term non-exchange transaction in the context of the IPSASB decision</td>
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<td>when ED 71, <em>Revenue without Performance Obligations</em> was approved;</td>
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<tr>
<td>September 2020</td>
<td>(b) Subsequent Costs (paragraphs AG 17-AG 19)– Consider the placement of</td>
<td>June 2020 (Agenda Item 8.2.2).</td>
</tr>
<tr>
<td></td>
<td>guidance on subsequent costs in the core text of [draft] ED 78; and</td>
<td></td>
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<tr>
<td>September 2020</td>
<td>(c) Disclosure of idle assets and assets retired from use (paragraph 68) –</td>
<td>See [draft] ED 78 paragraph 76</td>
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<tr>
<td></td>
<td>Following discussions related to surplus assets in developing ED 79,</td>
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<td>consider whether the encouraged disclosures related to temporarily idle,</td>
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<td>and retired from active use, property, plant, and equipment, should be</td>
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<td>made mandatory.</td>
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<td>valuing land under or over infrastructure assets and:</td>
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<td>(a) Delete paragraph IG2 because the locational requirement is not</td>
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<td>necessary when valuing land under infrastructure assets; and</td>
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<td>(b) Consider the need for revisions to paragraph IG3 because of deleting</td>
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<td>paragraph IG2.</td>
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<td>September 2020</td>
<td>3. Clearly explain the rationale for revising the examples of significant</td>
<td>See [draft] ED 78 paragraphs IG26-IG30 and BC41-BC45.</td>
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<td></td>
<td>parts of infrastructure assets in the BC paragraphs, explaining that in</td>
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<td>making these less detailed there is no intention to prevent entities</td>
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<td>continuing to use the current more detailed categories as the basis for</td>
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<td>their accounts.</td>
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<tr>
<td>September 2020</td>
<td>4. Review the proposed non-authoritative implementation guidance for</td>
<td>See [draft] ED 78 paragraphs IG26-IG30 and BC41-BC45.</td>
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<tr>
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<td>identifying parts of infrastructure assets that</td>
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<td>should be separately depreciated and ensure it applies generically to infrastructure assets by:</td>
<td>IG30 and BC41-BC45.</td>
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<td>(a) Making the indicators of the parts in paragraphs IG3(a)-IG3(c) more generic through deleting the non-bold explanatory text; and</td>
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<td>(b) Consider revising paragraph IG3(c) references to useful lives.</td>
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<tr>
<td>September 2020</td>
<td>5. Clearly articulate the thinking on how condition-based information may provide the ‘systematic’ basis for calculating depreciation specified in IPSAS 17 and:</td>
<td>See Agenda Item 5.2.3</td>
</tr>
<tr>
<td></td>
<td>(a) Explain in more detail the steps to enable condition-based information to be used in applying ED 78 to account for property, plant, and equipment (in particular, how it might be used in determining the useful life of assets and help to estimate depreciation);</td>
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<td>(b) Consider the need for an Illustrative Example to explain the approach; and</td>
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<td></td>
<td>(c) Develop a SMC to ask whether condition-based information should only be applicable to infrastructure assets and not to other general property, plant, and equipment.</td>
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<tr>
<td>September 2020</td>
<td>6. Clearly explain the rationale for not using the terms “backlog maintenance” and “deferred maintenance” in the BC paragraphs.</td>
<td>See [draft] ED 78 paragraphs IG31-IG34 and BC56-BC58.</td>
</tr>
<tr>
<td>September 2020</td>
<td>7. Review the proposed non-authoritative implementation guidance for under-maintenance of assets and revise the wording in the first and second questions to consider the IPSASB’s discussion.</td>
<td>See [draft] ED 78 paragraphs IG31-IG34 and BC56-BC58.</td>
</tr>
<tr>
<td>Measurement (Specific to ED 78)</td>
<td></td>
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<tr>
<td>July 2020</td>
<td>1. <em>Terminology – throughout (for example, paragraph 5)</em></td>
<td>See [draft] ED 78</td>
</tr>
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<td></td>
<td>Review the measurement terminology throughout ED (IPSAS 17 Update), <em>Property, Plant, and Equipment</em> for consistency (for example, cost and historical cost, models compared to bases).</td>
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| 2.      | **Terminology – throughout**  
Review the terminology when referring to property, plant, and equipment, assets, items, etc. throughout ED (IPSAS 17 Update), *Property, Plant, and Equipment* for consistency. | See [draft] ED 78 |
DECISIONS UP TO PREVIOUS MEETING

Note: Decisions are grouped by project; Heritage, then Infrastructure, then Measurement.

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<th>BC Reference (ED 78)</th>
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<tr>
<td>Heritage</td>
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<tr>
<td>September 2020</td>
<td>1. Approved the recommended implementation guidance approach to address control over heritage items, subject to drafting revisions as per the instructions.</td>
<td>See [draft] ED 78 paragraphs BC7</td>
</tr>
<tr>
<td>September 2020</td>
<td>2. Approved the recommended implementation guidance approach, with revisions as per the instructions, to address treatment of subsequent expenditure on unrecognized heritage assets.</td>
<td>See [draft] ED 78 paragraphs BC7</td>
</tr>
<tr>
<td>September 2020</td>
<td>3. Approved the recommended implementation guidance approach to address capitalization thresholds for property, plant and equipment, subject to drafting revisions as per the instructions.</td>
<td>See [draft] ED 78 paragraphs BC7</td>
</tr>
<tr>
<td>September 2020</td>
<td>4. Approved the recommended implementation guidance approach to address measurement of heritage assets when there are either restrictions or the asset is viewed as irreplaceable, subject to drafting revisions as per the instructions.</td>
<td>See [draft] ED 78 paragraphs BC7</td>
</tr>
<tr>
<td>September 2020</td>
<td>5. Approved the recommended revision to core text, and implementation guidance approach to address identification of heritage assets with indefinite useful lives, subject to drafting revisions as per the instructions.</td>
<td>See [draft] ED 78 paragraphs BC6-BC7</td>
</tr>
<tr>
<td>September 2020</td>
<td>6. Approved the recommendation that no additional implementation guidance is needed to address the impairment of heritage and infrastructure assets.</td>
<td>See [draft] ED 78 paragraphs BC10</td>
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<tr>
<td>Meeting</td>
<td>Decision</td>
<td>BC Reference (ED 78)</td>
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<tr>
<td>September 2020</td>
<td>7. Authoritative general requirements on disclosures about unrecognized assets should be included within ED 78/IPSAS 17 and the need for non-authoritative guidance on heritage assets should be further considered.</td>
<td>See [draft] ED 78 paragraphs BC38</td>
</tr>
<tr>
<td>July 2020</td>
<td>1. The terminology of “finite” and “indefinite” useful lives should be used in ED 78 (IPSAS 17 Update)</td>
<td>See [draft] ED 78 paragraphs BC40</td>
</tr>
<tr>
<td>July 2020</td>
<td>2. A rebuttable presumption that non-land property, plant, and equipment has a finite useful life should be included in ED 78 (IPSAS 17 Update)</td>
<td>See [draft] ED 78 paragraphs BC40</td>
</tr>
<tr>
<td>June 2020</td>
<td>1. Revise IPSAS 17 to remove its heritage assets scope exclusion and related paragraphs, including deletion of paragraphs 10 and 11.</td>
<td>See [draft] ED 78 paragraphs BC3 and BC8</td>
</tr>
<tr>
<td>June 2020</td>
<td>2. IPSAS 17’s paragraph 5 should be (a) revised (for consistency and alphabetical order), and (b) moved to application guidance.</td>
<td>See [draft] ED 78 paragraphs BC9</td>
</tr>
<tr>
<td>June 2020</td>
<td>3. Remove the staff proposed term, “controlled by” from the definition of property, plant, and equipment in the core text of the Standard.</td>
<td>See [draft] ED 78 paragraphs BC13-BC23</td>
</tr>
<tr>
<td>June 2020</td>
<td>4. Supported that the control guidance added in the Application Guidance and Basis for Conclusions subject to Staff making the changes requested/instructed by the IPSASB.</td>
<td>See [draft] ED 78 paragraphs BC13-BC23</td>
</tr>
<tr>
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| March 2020    | 1. Heritage items that satisfy the definition of PP&E should be recognized as assets when they meet the IPSAS 17 recognition criteria.  
2. June 2019's previously tentative decisions are confirmed.  
3. IPSAS 17’s depreciation requirements apply to heritage assets, although in certain circumstances due to the nature of a heritage asset or the preservation approach adopted, depreciation could be zero. If this approach was adopted, it would need to be subject to regular impairment reviews.  
4. Heritage assets can be impaired and should be subject to normal impairment reviews.                                                                                                                      | See [draft] ED 78 paragraphs:  
BC3  
[See June 2019 section]  
BC23 - BC24  
BC29 |
| December 2019 | No decisions                                                                                                                                                                                                                                                                                                                          | Not applicable.                                                                    |
| September 2019| No decisions                                                                                                                                                                                                                                                                                                                          | Not applicable.                                                                    |
| June 2019     | Tentative (then confirmed in March 2020):  
1. No separate heritage standard.  
2. No definition of heritage assets.  
3. Operational/non-operational approach not to be taken forward, but “heritage purposes” and “non-heritage purposes” approach should be further explored.  
4. Heritage issues are concerned with measurement and not recognition.                                                                                                                | See [draft] ED 78 paragraphs:  
BC3(d)  
BC13  
BC16-BC17  
BC2 |
| March 2019    | 1. Focus on information in the financial statements; recognition and measurement specific to heritage assets.                                                                                                                                                               | See [draft] ED 78 paragraphs BC31-32                                               |

**Infrastructure**

<p>| September 2020| 1. Approve the recommended implementation guidance approach to address separately accounting for land under or over infrastructure assets, subject to drafting revisions as per the instructions.                                                                                             | See [draft] ED 78 paragraphs BC47-BC48.                                               |
| September 2020| 2. Approve the recommended implementation guidance approach to address identifying parts of infrastructure assets, subject to drafting revisions as per the instructions.                                                                                                              | See [draft] ED 78 paragraphs BC41-BC45.                                               |</p>
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<th>BC Reference (ED 78)</th>
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<tbody>
<tr>
<td>September 2020</td>
<td>3. Discontinue the use of the term “renewals accounting” as it has different meanings and applications.</td>
<td>See [draft] ED 78 paragraphs BC49-BC50.</td>
</tr>
<tr>
<td>September 2020</td>
<td>4. Discontinue the use of the terms, “backlog maintenance” and “deferred maintenance” and that “under-maintenance of assets” should be used unless a better term can be identified.</td>
<td>See [draft] ED 78 paragraphs BC56-BC58.</td>
</tr>
<tr>
<td>September 2020</td>
<td>5. Approve the recommended implementation guidance approach to address under-maintenance of assets, subject to drafting revisions as per the instructions.</td>
<td>See [draft] ED 78 paragraphs BC56-BC58.</td>
</tr>
<tr>
<td>September 2020</td>
<td>6. Approve the recommendation that no additional implementation guidance is needed to address the impairment of heritage assets and infrastructure assets.</td>
<td>See [draft] ED 78 paragraphs BC54-BC55.</td>
</tr>
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**Measurement (Specific to ED 78)**

No Decisions Specific to ED 78
Coordinators Report of Cross-Cutting Issues

Purpose
1. To provide the IPSASB with an overview of the issues addressed as part of the work performed by the Infrastructure Assets and Heritage Assets teams.

Background
2. In March 2020, the IPSASB agreed the interrelationship between the measurement, heritage and infrastructure projects, and the scope of the changes expected to IPSAS 17, Property, Plant, and Equipment should result in the development of a new IPSAS.

3. Since March, the IPSASB and its staff have taken a holistic approach to the issues identified in its interrelated projects. The IPSASB has made substantial progress since March 2020 by achieving the following milestones on the heritage and infrastructure projects:
   (a) June 2020 and July 2020 meetings. Decided how to address the most significant heritage and infrastructure issues;
   (b) September 2020 meeting. Decided how to address remaining issues identified by constituents; and
   (c) October 2020 in-period review. Reviewed [draft] ED 78 and provided substantive and editorial comments.

Analysis
4. The objective of the December meeting is for the IPSASB to approve for exposure ED 78, Property, Plant, and Equipment. For December, staff finalized the ED by:
   (a) Addressing substantive comments raised in the comment templates by members as part of the in-period review (see Agenda Item 5.3.3 for comments submitted); and
   (b) Addressed all outstanding conceptual issues.

In-Period Review Comment Templates
5. On October 30, 2020, members were provided the opportunity to review a version of ED 78 that reflected all comments from the September 2020 IPSASB meeting. Members were asked to provided comments by November 11, 2020. Members submitted comments in two ways:
   (a) Editorial comments. Comments were submitted on marked-up version of ED 78; and
   (b) Substantive comments. Substantive comments were submitted on the IPSASB Comment Template. Substantive comments were limited to those that members concluded were fatal flaws in ED 78.

6. Staff received six comment templates (see Agenda Item 5.3.3 for comments submitted):

<table>
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<th>#</th>
<th>Region</th>
<th>Respondent</th>
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<tbody>
<tr>
<td>01</td>
<td>Australia</td>
<td>Submitted by IPSASB Member, Mike Blake</td>
</tr>
<tr>
<td>02</td>
<td>Brazil</td>
<td>Submitted by IPSASB Member, Patricia Varela</td>
</tr>
</tbody>
</table>
ED 78 has been updated to reflect the substantive comments raised by members through the in-period review comment template. Three substantive comments were identified:

(a) Retaining fair value as a measurement basis for PP&E (see Agenda Item 5.2.2);
(b) Including IASB May 2020 amendments to IAS 16, Property, Plant and Equipment (see Agenda Item 5.2.2); and
(c) Add transitional provisions (see Agenda Item 5.2.2).

8. Editorial comments received on marked up versions of ED 78 were submitted by a broader set of IPSASB members. All editorial comments will be considered by the Editorial Group in January 2021.

Outstanding Issues Addressed for December 2020

9. The outstanding issues addressed for December 2020 include:

(a) Use of Asset Management Plans for Financial Reporting (Agenda Item 5.2.3);
(b) Disclosure of Unrecognized PP&E (Agenda Item 5.2.4); and
(c) Extending the Heritage Scope Exclusion to Intangible Assets (Agenda Item 5.2.6).

Complete issues log has been updated for December 2020 (see Agenda Item 5.3.4).

Communication Plan

10. After the February 2021 check-in meeting, ED 76—ED 79 will all be approved. These EDs will have overlapping comment periods, so constituents can see the documents as a package. Staff have tentatively planned the following:

<table>
<thead>
<tr>
<th>Exposure Draft</th>
<th>Comment Period</th>
<th>At a Glance</th>
<th>Webinars</th>
<th>Training</th>
</tr>
</thead>
<tbody>
<tr>
<td>ED 76, Conceptual Framework – Limited-Scope Update</td>
<td>6 months</td>
<td>Joint document for ED 76 and ED 77*</td>
<td>Joint webinar for ED 76 and ED 77</td>
<td>Virtual Training**</td>
</tr>
<tr>
<td>ED 77, Measurement</td>
<td>6 months</td>
<td>Joint document for ED 76 and ED 77*</td>
<td>Joint webinar for ED 76 and ED 77</td>
<td>Virtual Training**</td>
</tr>
<tr>
<td>ED 78, Property, Plant, and Equipment</td>
<td>4 months</td>
<td>Yes</td>
<td>No</td>
<td>No</td>
</tr>
<tr>
<td>ED 79, Non-Current Assets Held of Sale and Discontinued Operations (Approved by IPSASB in September 2020)</td>
<td>4 months</td>
<td>Yes</td>
<td>No</td>
<td>No</td>
</tr>
</tbody>
</table>

* The At a Glance for ED 76 and ED 77 will consider how the likely rise in importance of distressed sales following COVID-19 is addressed.

** ED 76 and ED 77 will hold some form of virtual training. Staff is investigating technologies that facilitate a live format so that questions can be answered in session.
Overview of Changes to ED 78

Question
1. Does the IPSASB agree the substantive issues identified from the In-Period Comment Templates have been appropriately addressed?

Recommendation
2. Staff recommend actioning members’ In-Period Comments as noted in paragraph 5.

Background
3. The IPSASB reviewed ED 78 between the September and December 2020 meetings. Comments were provided to staff that were either editorial or substantive in nature.

Analysis
4. Staff has considered all comments submitted in the Comment Templates (see Agenda Item 5.3.3). Comment Templates, with staff responses, were returned to the member that submitted the template for their review.
5. Staff has actioned the significant comments from the IPSASBs in-period review. The following table summarizes these changes for members’ consideration:

<table>
<thead>
<tr>
<th>#1</th>
<th>Issue</th>
<th>Staff Response</th>
</tr>
</thead>
<tbody>
<tr>
<td>04</td>
<td>Retain Fair Value.</td>
<td>When discussing the response, staff concluded that there are two issues here. Firstly, the possibility that items of PPE within the scope of ED 78 might, in rare circumstances, be held for their financial capacity and so, using the measurement hierarchy, would be accounted for using the fair value measurement basis. Staff recommend adding a new paragraph in the core text and explanation in the BCs to reflect this. Secondly, the issue of consolidation. Staff acknowledge that, where a jurisdiction determines that the difference between fair value and current service value might be material in the context of consolidation, measuring the difference between the two bases may be onerous. However, staff is of the view that the principle of measuring assets held for their financial capacity at fair value and assets held for their operational capacity at</td>
</tr>
</tbody>
</table>

ED 78 Paragraph Reference (Added based on staff recommendation) 29 and BC32-BC34

1 Respondent Number
## ED 78–IPSAS 17 Update
IPSASB Meeting (December 2020)

## Agenda Item 5.2.2

<table>
<thead>
<tr>
<th>#1</th>
<th>Issue</th>
<th>Staff Response</th>
<th>ED 78 Paragraph Reference (Added based on staff recommendation)</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td></td>
<td>current service value remains appropriate and that a jurisdiction may determine that no consolidation adjustments would be required where assets are held for different objectives.</td>
<td></td>
</tr>
<tr>
<td>05</td>
<td>IASB Amendments. The IASB issues amendments to IAS 16, <em>Property, Plant, and Equipment</em> in May 2020. They should be included in ED 78 for the document to be comprehensive.</td>
<td>The amendment relates to “Proceeds before Intended Use”. The amendment prohibits an entity from deducting from the cost of PP&amp;E the proceeds from selling items produced before that asset is available for use. Prior to the amendment, directly attributable costs included the costs of testing whether an asset was functioning properly, after deducting the net proceeds from selling items produced while bringing the asset to the location and condition necessary for it to be capable of operating in the manner intended by management. The IASB noted there was diversity in practice: - Some entities deducted only proceeds from selling items produced while testing; and - Others deducted the proceeds of all sales until an asset was available for use. Staff concluded the amendment improves financial reporting by enhancing consistency in accounting for PP&amp;E. Staff recommend including the amendments as part of ED 78.</td>
<td>15(e), 18, 72, and 73</td>
</tr>
<tr>
<td>05 / 06</td>
<td>Transitional Provisions. There is no indication whether the IPSAS should be applied retrospectively or not. Entities may not have recognized heritage assets and guidance would be needed to assist entities with the first-time application.</td>
<td>Staff has developed transitional provisions that require retrospective application of ED 78 and provide relief when accounting for heritage items for the first time.</td>
<td>80</td>
</tr>
</tbody>
</table>

### Decision Required

6. Does the IPSASB agree with Staff’s recommendation?
Use of information in Asset Management Plans for Financial Reporting

Question

1. Does the IPSASB agree that the information included in asset management plans could be used for financial reporting?

Recommendation

2. The Task Force recommends:
   
   (a) Permitting the use of information from the asset management plans when accounting for property, plant, and equipment; and
   
   (b) Adding Implementation Guidance (IGs) and Basis for Conclusions (BCs) to clarify the circumstances when the information in the asset management plans might be useful for applying IPSAS 17 principles.

Background

3. In September 2020, the Task Force recommended to the IPSASB that in certain circumstances, information from asset management plans (referred to as “condition-based information” in the September 2020 papers) could provide information to be used to develop estimates of depreciation of property, plant, and equipment (such as railway tracks, road surfaces, water and sewer pipes, etc.).

4. In response, the IPSASB instructed the Task Force to:
   
   (a) Articulate how information from asset management plans may provide information useful for developing a ‘systematic’ basis for calculating depreciation specified in IPSAS 17, Property, Plant, and Equipment; and
   
   (b) Explain in more detail the steps to enable the use of information from asset management plans in applying IPSAS 17 to account for property, plant, and equipment.

Analysis

Clarifying the issue

5. Many public sector entities have asset management plans that facilitate the proper management of an item of property, plant, and equipment over its life cycle. These asset management plans are usually developed by qualified experts and focus on the operational aspects of the item of property, plant, and equipment. However, they can include substantial amounts of information potentially relevant to financial reporting.

6. The issue is whether IPSAS permits the use of asset management plans as a source of information for accounting.

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2 This paper refers to IPSAS 17, Property, Plant, and Equipment for ease of reference. [Draft] ED 78, Property, Plant, and Equipment will replace IPSAS 17.
Is it appropriate to use information from these asset management plans to develop estimates for depreciation?

7. IPSAS 17 indicates the service potential of an asset is consumed through use, passage of time and obsolescence. Depreciation reflects the consumption of the asset’s future economic benefits or service potential by allocating the depreciable amount using a systematic basis over its useful life.

8. While it is unlikely that the depreciation amount can be sourced directly from an asset management plan, the Task Force view is that asset management plans can provide information useful for accounting for property, plant, and equipment when such plans are prepared by qualified personnel and contain information useful to estimate depreciation when they include the following information:

   (a) **Estimates of expected useful lives of the asset.** Asset management plans may include information which could be used to determine the useful lives of the asset, such as, the condition of the asset and its maintenance history; and

   (b) **Expected patterns of consumption.** Asset management plans may include information on usage of the asset. For example, asset management plans of a road network might include projections of estimated annual vehicle usage.

9. The Task Force also notes that information from the asset management plans may also be useful to determine whether there is an indication that property, plant, and equipment may be impaired. For example, property, plant, and equipment may need to be assessed for impairment when the information in the asset management plans show that annual maintenance expenditures incurred have not restored the service potential of the asset to its desired or predetermined level of service.

How can asset management plans provide information useful to estimate depreciation?

10. In September 2020, some members of the IPSASB requested guidance on how entities could use information from asset management plans to develop depreciation estimates. While the Task Force agreed asset management plans that include information that support the application of IPSAS 17, could be used to apply the principles in the Standard, they cautioned against being prescriptive in how this would occur in practice. The level of detail and information available differs between plans, and the use of information from such plans will need to be assessed by the entity when the Standards are applied.

11. To address the IPSASB’s instruction from the September 2020 meeting (see paragraphs 4(a) and (b)), the Task Force recommends the following:

   (a) Revised Basis for Conclusions (see paragraphs BC1-BC3 in Appendix A) - to explain why asset management plans can provide useful and appropriate input for estimating depreciation; and

   (b) Implementation Guidance (see paragraphs IG1-IG2) – to help clarify information that might be appropriate to use when available in asset management plans to estimate depreciation in accordance with authoritative principles on depreciation in IPSAS 17.

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3 It is important to note, systematic does not mean depreciation has to be recognized in equal amounts in each period over asset’s useful life. Of the methods of depreciation identified in IPSAS 17.78, only the straight-line method can have equal depreciation in each period.
Decision Required

12. Does the IPSASB agree with the Task Force recommendation?

1. Consistent with the analysis in Agenda Item 5.2.3, the following table highlights the proposed text/guidance to be included in Exposure Draft (ED) 78, Property, Plant, and Equipment.

<table>
<thead>
<tr>
<th>Guidance Type</th>
<th>Format / [Analysis]</th>
<th>Guidance</th>
<th>Implementation Guidance</th>
</tr>
</thead>
<tbody>
<tr>
<td>Implementation Guidance</td>
<td>Question / answer format [The Task Force agreed the principle in the core text should be clarified to address the specific issue related to using information in the asset management plans when accounting for property, plant, and equipment.]</td>
<td><strong>Measurement after Recognition</strong>&lt;br&gt;Depreciation&lt;br&gt;Use of information in the asset management plans for financial reporting&lt;br&gt;Can asset management plans provide information useful for developing estimates of depreciation?</td>
<td>IG1. Yes, when property, plant, and equipment is maintained in accordance with a sufficiently detailed asset management plan, information from the asset management plans can be a useful input to estimate depreciation. This is because asset management plans may contain information on:&lt;br&gt;(i) The asset’s expected useful life. Asset management plans may include information on the condition of the asset and information on its maintenance history; and&lt;br&gt;(ii) Expected patterns of asset consumption. Asset management plans may include information on usage of the asset.</td>
</tr>
<tr>
<td></td>
<td></td>
<td>IG2. Information from the asset management plans may also be useful to determine whether there is an indication that property, plant, and equipment may be impaired. The relevant guidance for impairment is available in paragraph 57 of [draft] ED 78, Property, Plant, and Equipment and IPSAS 21, Impairment of Non-Cash-Generating Assets or IPSAS 26, Impairment of Cash-Generating Assets.</td>
<td></td>
</tr>
</tbody>
</table>
### Guidance Type

<table>
<thead>
<tr>
<th>Basis for Conclusions</th>
<th>Format / [Analysis]</th>
<th>Guidance</th>
</tr>
</thead>
<tbody>
<tr>
<td>Reflect IPSASB decisions</td>
<td>BCs should be developed to reflect all IPSAS decisions</td>
<td></td>
</tr>
</tbody>
</table>

#### Basis for Conclusions

**Measurement after Recognition**

**Depreciation**

**Use of information in asset management plans for financial reporting**

**BC1.** Many public sector entities have asset management plants that facilitate the proper management of an item of property, plant, and equipment over its life cycle. These asset management plans are usually developed by qualified experts and focus on the operational aspects of the item of property, plant, and equipment. However, they can include substantial amounts of information potentially relevant to financial reporting. The IPSASB considered whether entities could use information from asset management plans as an input when estimating depreciation.

**BC2.** The IPSASB noted that asset management plans developed by qualified personnel, with specific knowledge about the asset, could provide detailed information useful for estimating depreciation and for assessing potential indicators of impairment which can be relevant for accounting for property, plant, and equipment.

**BC3.** The IPSASB decided to provide implementation guidance to clarify when asset management plans might provide information useful for financial reporting purposes in particular to estimate the depreciation of property, plant, and equipment and for assessing potential indicators of impairment (see paragraphs IG1-IG2).
Disclosures on unrecognized property, plant, and equipment

Question

1. Does the IPSASB agree with the Task Force’s recommendation to include the guidance in Appendix A on disclosures related to unrecognized property, plant, and equipment?

Recommendation

2. The Task Force recommends the core text, Application Guidance (AG), and Basis for Conclusions paragraphs in Appendix A.

Background

IPSASB decisions and instructions

3. In September, the IPSASB decided that:
   (a) Authoritative requirements on disclosures about unrecognized property, plant, and equipment should be included within ED 78/IPSAS 17; and
   (b) The need for non-authoritative guidance on heritage assets should be further considered.

4. The IPSASB instructed staff to:
   (a) Provide a recommendation on the location of the authoritative guidance, which will be a core text requirement, supported, as appropriate, by application guidance.
   (b) Treat this issue as of general relevance to property, plant, and equipment, and then consider whether there is anything specific to heritage assets which indicates a need for heritage-related implementation guidance.

Cross-cutting Task Force decisions and instructions

5. The Task Force reviewed staff revisions to address the IPSASB’s instructions. It agreed with staff’s recommendation that no heritage-specific implementation guidance is required. The Task Force instructed staff to revise the core text, application guidance, and Basis for Conclusions paragraphs to:
   (a) Require disclosures on the measurement difficulties that prevented recognition;
   (b) Incorporate Conceptual Framework text on disclosures when measurement/recognition is not possible into:
      (i) The Application Guidance; and
      (ii) Basis for Conclusions; and
   (c) Convey that generally property, plant, and equipment should be capable of measurement for recognition, with the exception being a subset of heritage assets.

Analysis

6. Appendix A has the text that the Task Force recommends for insertion into draft ED 78 (IPSAS 17 Update). This core text, Application Guidance (AG), and Basis for Conclusions reflects the IPSASB’s decisions and instructions from September, staff analysis, and Task Force instructions from October-November.
Analysis to give effect to IPSASB instructions

7. The IPSASB’s comments in September indicated support for the proposed text, with the main concern being that it should be moved from Implementation Guidance to core text and application guidance. On that basis largely the same wording has been retained. (However, note Task Force’s instructions described below, which have resulted in revisions that improve the September text.) To identify core text and application guidance the original text was analyzed in terms of whether it provided generic principles, in which case it is recommended for inclusion in core text, or expands on the principles, in which case it is recommended for inclusion as application guidance. On the basis that the core text and application guidance are sufficient to address disclosures on unrecognized assets, staff and the Task Force decided to recommend that no non-authoritative guidance is needed. No heritage-specific issues, on which implementation guidance would be needed, were identified.

Analysis to give effect to the Task Force’s instructions

8. The Task Force’s instructions were addressed through consideration of the Conceptual Framework’s coverage of disclosures related to unrecognized elements. The Conceptual Framework covers this issue in Chapter 6, Recognition in Financial Statements, and Chapter 8, Presentation in General Purpose Financial Reports. These paragraphs provide coverage on why such disclosures could be important and how they meet users’ information needs.

9. Paragraph 6.9 in the Conceptual Framework considers disclosure of information on items that “…meet the definition of an element but cannot be measured in a manner that achieves the qualitative characteristics sufficiently to meet the objectives of financial reporting." It states that disclosure “…is appropriate when knowledge of the item is considered to be relevant to the evaluation of the net financial position of the entity and therefore meets the objectives of financial reporting." In Chapter 8 of the Conceptual Framework, paragraph 8.24 explains that information disclosed in the notes may also include items that do not meet the definition of an element or the recognition criteria, but are important to an understanding of the entity’s finances and ability to deliver services.

10. The AG and Basis for Conclusion paragraphs in Appendix A incorporate the Conceptual Framework coverage.

Decision Required

11. Does the IPSASB agree with the Task Force’s recommendation?
Appendix A – Format of Guidance

Consistent with the analysis in Agenda Item 5.2.4, the following table highlights the proposed text/guidance to be included in Exposure Draft (ED) 78, Property, Plant, and Equipment. (New text/guidance that is proposed is underlined and deleted text is struck through.)

<table>
<thead>
<tr>
<th>Guidance Type</th>
<th>Format / [Analysis]</th>
<th>Guidance</th>
</tr>
</thead>
</table>
| Core text     | Generic principles  | **XX If property, plant, and equipment is not recognized in the financial statements because the entity considers that it cannot be measured, the entity shall disclose:**  
|               |                     | (a) The measurement difficulties that prevented recognition;  
|               |                     | (b) The significance and nature of the unrecognized asset(s); and  
|               |                     | (c) Information that is available to the entity and is helpful in assessing the significance of those assets that are not reported in the entity’s Statement of Financial Position. |
| Application Guidance | AGs expand principles | **Application Guidance**  
|               |                     | AG1. The information that the entity discloses on measurement difficulties should describe the main difficulties preventing measurement of the assets, such that the entity has reached its view that there is:  
|               |                     | (a) No or limited information that achieves the qualitative characteristics is available on the cost or [current service value] of the assets; and  
|               |                     | (b) The entity is unable to obtain information that achieves the qualitative characteristics on [current service value] at a cost commensurate with the benefits of the information to the users of the financial statements.  
|               |                     | AG2. The disclosures relating to unrecognized property, plant, and equipment should ensure that, when read in the context of information about recognized property, plant, and equipment, the financial statements provide useful and relevant information about the entity’s overall holding of property, plant, and equipment, and thereby support users’ evaluation of the entity’s finances, including its net financial position, and understanding of its ability to deliver services.  
|               |                     | AG3. These disclosures may be presented in aggregate for groups or classes of property, plant, and equipment provided this aggregation does not obscure significant information.  
<p>|               |                     | AG4. Where one or more other documents, outside of the financial statements, have relevant information on the entity’s |</p>
<table>
<thead>
<tr>
<th>Guidance Type</th>
<th>Format / [Analysis]</th>
<th>Guidance</th>
</tr>
</thead>
<tbody>
<tr>
<td>Basis for Conclusions</td>
<td>Reflect IPSASB decisions</td>
<td>property, plant, and equipment, the entity is encouraged to provide sufficient information for users to find and read that other document(s).</td>
</tr>
</tbody>
</table>

**Basis for Conclusions**

**Disclosures related to unrecognized property, plant, and equipment**

**BC1.** The IPSASB considered the issues identified by constituents with respect to disclosures related to unrecognized heritage assets. Being capable of measurement in a way that achieves the qualitative characteristics and takes account of the constraints on information included in GPFRs is necessary for recognition of an asset in the financial statements. The IPSASB agreed with constituents that heritage assets may present measurement difficulties which prevent their recognition, but that information on such assets could be important to meet users’ needs.

**BC2.** In considering the need for additional disclosures when property, plant, and equipment is not recognized, the IPSASB noted that, as explained in the Conceptual Framework, disclosures in the notes to the financial statements:

1. Can provide information on elements that cannot be measured in a manner that achieves the qualitative characteristics sufficiently to meet the objectives of financial reporting;
2. Is appropriate when knowledge of the item is relevant to the evaluation of the net financial position of the entity and therefore meets the objectives of financial reporting; and
3. May include items that do not meet the recognition criteria but are important to an understanding of the entity’s finances and ability to deliver services.

**BC3.** The IPSASB noted that there are cases where an item of property, plant, and equipment is not capable of measurement and cannot, therefore, be recognized. This could arise due to an inability to achieve a qualitative characteristic such as faithful representation or through the constraint of cost-benefit. The IPSASB considers that most of such cases would relate to heritage property, plant, and equipment. Examples of non-heritage property, plant and equipment that cannot be measured would be extremely...
<table>
<thead>
<tr>
<th>Guidance Type</th>
<th>Format / [Analysis]</th>
<th>Guidance</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td></td>
<td>rare and exceptional. Nonetheless, on the basis that such situations could occur, the IPSASB decided that guidance on disclosures about unrecognized assets should not be restricted to heritage but apply generally to property, plant, and equipment.</td>
</tr>
<tr>
<td>BC4.</td>
<td></td>
<td>The IPSASB decided to include a requirement for additional disclosures on unrecognized property, plant, and equipment on the basis that such information contributes to:</td>
</tr>
<tr>
<td></td>
<td></td>
<td>(a) Achievement of the objectives of financial reporting; and,</td>
</tr>
<tr>
<td></td>
<td></td>
<td>(b) Users’ understanding of the entity’s finances and ability to deliver services for accountability and decision-making purposes.</td>
</tr>
<tr>
<td>BC5.</td>
<td></td>
<td>Therefore, [draft] IPSAS [X] (ED 78) has a requirement for such disclosures in paragraph XX).</td>
</tr>
<tr>
<td>BC6.</td>
<td></td>
<td>The IPSASB then considered whether application guidance would be needed to expand on the principles in the core text. On the basis that the core text’s requirement to disclose information needs to be expanded—in particular, with respect to information about measurement difficulties that prevent recognition—the IPSASB decided to include application guidance. (See paragraphs AGX-AGX.)</td>
</tr>
</tbody>
</table>
Amendments to [draft] ED 78 as a result of IPSASB’s current and developing literature

Question
1. Does the IPSASB agree with the Task Force recommendation to amend [draft] ED 78 as a result of linkages with other IPSASB’s developing literature?

Recommendation
2. The Task Force recommends the IPSASB to amend [draft] ED 78 as a result of linkages with other IPSASB’s developing literature.

Background
2. [Draft] ED 78, Property, Plant, and Equipment replaces or supersedes IPSAS 17, Property, Plant, and Equipment and includes:
   (a) Text imported directly from IPSAS 17; and
   (b) Changes to IPSAS 17 from Measurement, Infrastructure Assets and Heritage Assets.
3. IPSASB’s developing literature also has the principles that impact [draft] ED 78 that require consideration. The IPSASB’s developing literature includes:
   (a) Published in February 2020:
      (i) ED 70, Revenue with Performance Obligations (replaces IPSAS 9, Revenue from Exchange Transactions and IPSAS 11, Construction Contracts);
      (ii) ED 71, Revenue without Performance Obligations (replaces IPSAS 23, Revenue from Non-Exchange Transactions (Taxes and Transfers)); and
      (iii) ED 72, Transfer Expenses.
   (b) Approved at the September 2020 meeting:
      (i) ED 79, Non-current Assets Held for Sale and Discontinued Operations.
   (c) To be approved at the December 2020 meeting:
      (i) ED 75, Leases (replaces IPSAS 13, Leases);
      (ii) ED 76, Conceptual Framework–Limited Scope Update; and
      (iii) ED 77, Measurement.

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4 For example, ED 70, Revenue with Performance Obligations proposed amendments to IPSAS 17, Property, Plant, and Equipment to update the derecognition guidance to incorporate the performance obligation approach. These principles were proposed as amendments to the authoritative guidance of IPSAS 17 but were not incorporated into the core text and application guidance when IPSAS 17 was imported into [draft] ED 78.
Analysis

4. The Task Force analyzed the principles in the abovementioned EDs to determine whether they should be included in the core text and application guidance of [draft] ED 78. The analysis is highlighted in the table below (see Table 1).

Table 1

<table>
<thead>
<tr>
<th>IPSASB Developing Literature</th>
<th>Summary of Amendments or Principles</th>
<th>[draft] ED 78 Paragraph References</th>
</tr>
</thead>
<tbody>
<tr>
<td>ED 70</td>
<td>Proposed amendments to IPSAS 17, to update the derecognition guidance to incorporate the performance obligation approach and include the appropriate references to IPSAS on revenue (ED 70) in place of the current reference to (IPSAS 9) were included in [draft] ED 78.</td>
<td>See paragraphs 62, 63 and 66 in [draft] ED 78 which reflect the amendments included in the core text of [draft] ED 78 to reflect the principles and terminology in ED 70.</td>
</tr>
<tr>
<td>ED 75</td>
<td>Proposed amendments to IPSAS 17, to update the scope, recognition, measurement and derecognition guidance to include the terminology, principles and appropriate references to IPSAS on leases (ED 75) in place of the current reference (IPSAS 13) were included in [draft] ED 78.</td>
<td>See paragraphs 4, 5, 9, 23, 61 and 63 in [draft] ED 78 which reflect the amendments included in the core text of [draft] ED 78 to reflect the principles and terminology in ED 75.</td>
</tr>
<tr>
<td>ED 77</td>
<td>Proposed amendments to IPSAS 17 because of the measurement project have already been incorporated throughout [draft] ED 78.</td>
<td>Not Applicable (N/A). No further changes were made because most changes to [draft] ED 78 as a result of the measurement project have already been included in [draft] ED 78.</td>
</tr>
<tr>
<td>ED 79</td>
<td>Proposed amendments to IPSAS 17, to update the scope, depreciation, derecognition and disclosure guidance to include the appropriate references to IPSAS on Non-current Assets Held for Sale and Discontinued Operations (ED 79) were included in [draft] ED 78.</td>
<td>See paragraphs 3, 62, 67, 73 and AG26 in [draft] ED 78 which reflect the amendments included in the core text and application guidance of [draft] ED 78 to reflect the principles and terminology in ED 79.</td>
</tr>
</tbody>
</table>
### Agenda Item 5.2.5

<table>
<thead>
<tr>
<th>IPSASB Developing Literature</th>
<th>Summary of Amendments or Principles</th>
<th>[draft] ED 78 Paragraph References</th>
</tr>
</thead>
<tbody>
<tr>
<td>Amendments (principles) not included in [draft] ED 78</td>
<td></td>
<td></td>
</tr>
<tr>
<td>ED 71</td>
<td>Proposed amendments to IPSAS 17, to update the initial measurement guidance to replace the term “non-exchange transaction” with the term, “revenue transaction without performance obligation” were not included in [draft] ED 78 because the Task Force is of the opinion that the term, “non-exchange transaction” is still relevant in the context of [draft] ED 78 which refers to property, plant, and equipment acquired through a non-exchange transaction. Therefore, no changes were made to paragraph 11.</td>
<td>Not Applicable (N/A) because the IPSAS literature still refers to exchange and non-exchange transactions. Therefore, no amendments were included in [draft] ED 78. The Task Force developed Basis for Conclusions (see paragraphs BC1-BC2 in Appendix A) to explain the rationale for not including the terminology “revenue without performance obligations” in [draft] ED 78.</td>
</tr>
<tr>
<td>ED 72</td>
<td>There were no proposed amendments to IPSAS 17 in ED 72.</td>
<td>Not Applicable (N/A) because ED 72 did not propose any principles that needed to be included in [draft] ED 78.</td>
</tr>
<tr>
<td>ED 76</td>
<td>There were no proposed amendments to IPSAS 17 in ED 76.</td>
<td>Not Applicable (N/A) because ED 76 did not propose any principles that needed to be included in [draft] ED 78.</td>
</tr>
</tbody>
</table>

**Decision Required**

5. Does the IPSASB agree with the Task Force recommendation?

---

5 Previously, the revenue standards were split into exchange and non-exchange revenue, now they are split into, revenue with performance obligations and revenue without performance obligations.
Appendix A – Format of Guidance – Amendments to [draft] ED 78 as a result of linkages with other IPSASB’s current and developing literature

1. Consistent with the analysis in Agenda Item 5.2.5, the following table highlights the proposed text/guidance to be included in Exposure Draft (ED) 78, Property, Plant, and Equipment.

<table>
<thead>
<tr>
<th>Guidance Type</th>
<th>Format / [Analysis]</th>
<th>Guidance</th>
</tr>
</thead>
<tbody>
<tr>
<td>Basis for Conclusions</td>
<td>Reflect IPSASB decisions [BCs should be developed to reflect all IPSAS decisions]</td>
<td><strong>Basis for Conclusions</strong>&lt;br&gt;<strong>Amendments to [draft] ED 78 as a result of linkages with other IPSASB’s current and developing literature</strong>&lt;br&gt;BC1. <strong>ED 71, Revenue without Performance Obligations</strong> which replaces IPSAS 23, <em>Revenue from Non-Exchange Transactions (Taxes and Transfers)</em>, adopted the concept of transactions with and without performance obligations when distinguishing between types of revenue transactions (as opposed to “non-exchange transactions” in IPSAS 23).&lt;br&gt;BC2. However, the IPSASB decided not to replace the term “non-exchange transaction” with the term “revenue transaction without performance obligations” in [draft] ED 78 because the term “non-exchange” continues to be relevant in the context of acquiring property, plant, and equipment at no or reduced consideration.</td>
</tr>
</tbody>
</table>
Impact on Effective Date in [draft] ED 78 as a result of linkages with IPSASB’s current and developing literature

Question
1. Does the IPSASB agree with the staff recommendation that the effective date in [draft] ED 78 should be aligned to the effective dates of the final IPSAS based on EDs 70, 75, 77 and 79?

Recommendation
2. Staff recommends an effective date for [draft] ED 78 should:
   (a) Be on or after the effective dates of final IPSAS based on ED 70, ED 75, ED 77 and ED 79; and
   (b) Require that public sector entities apply final IPSAS based on ED 70, ED 75, ED 77 and ED 79 at the same time or before applying [draft] ED 78.

Background
3. The principles from ED 70, Revenue with Performance Obligations; ED 75, Leases; ED 77, Measurement and ED 79, Non-current Assets Held for Sale and Discontinued Operations have been incorporated in [draft] ED 78, Property, Plant, and Equipment because the exposure drafts (EDs) are linked (see Agenda Item 5.2.5).

Analysis
4. When considering the impact of the IPSASB’s literature under development, (ED 70–ED 79), on [draft] ED 78, staff noted:
   (a) [Draft] ED 78 incorporated the principles of ED 70, ED 75, ED 77 and ED 79 and can only be applied when those EDs are effective; and
   (b) The principles of ED 70, ED 75, ED 77 and ED 79 can be applied without [draft] ED 78.

   See paragraph 77 of [draft] ED78 for the effective date paragraph.

Decision Required
5. Does the IPSASB agree with the staff recommendation?
Heritage Revisions to IPSAS 31, *Intangible Assets*, Resulting from [draft] ED 78

**Question**

1. Does the IPSASB agree that IPSAS 31, *Intangible Assets* should be revised to align its treatment of heritage intangibles with ED 78’s treatment of heritage property, plant, and equipment?

**Recommendation**

2. The Task Force recommends that the revisions to IPSAS 31 in Appendix A be included in ED 78, *Property, Plant, and Equipment*, as consequential revisions.

**Background**

3. When IPSAS 31 was first developed its heritage scope exclusion was based on that in IPSAS 17.

4. IPSASB members have commented that removal of IPSAS 31’s scope exclusion clause for heritage intangible assets follows logically from the IPSASB’s decision to not include IPSAS 17’s heritage scope exclusion clause in ED 78. However, the IPSASB has not made an explicit decision to remove IPSAS 31’s scope exclusion for heritage.

5. Constituents’ responses to the Heritage consultation paper did not identify any accounting issues raised by intangible heritage assets covered by IPSAS 31. The CP explained that intangible heritage within IPSAS 31’s scope covers heritage intellectual property such as (a) rights over recordings of significant historical events and (b) rights to use culturally significant films or pictures.

**Analysis**

6. The Task Force recommends removing IPSAS 31’s scope exclusion clause on the basis that:

   (a) **Consistency**: This is consistent with the accounting treatment proposed for heritage property, plant, and equipment. The same conceptual arguments apply to intangible heritage as those that apply to property, plant, and equipment. Recognition of intangible heritage assets that meet IPSAS 31’s recognition criteria will provide information that users of the financial statements will find useful for accountability and decision-making.

   (b) **No issues raised**: As noted above, constituents have not identified any accounting issues that are specific to intangible heritage assets covered by IPSAS 31.

7. ED 78 includes further heritage-related changes which staff do not recommend including in IPSAS 31. ED 78 includes:

   (a) The addition of “heritage collections” to a list of example property, plant, and equipment in ED 78’s core text;

   (b) Application guidance on scope, asset existence, and useful lives; and,

   (c) Implementation guidance, which addresses various heritage-related issues raised by the treatment of heritage property, plant, and equipment.

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6 Constituents’ comments on intangible heritage focused on excluding items that UNESCO defines to be intangible heritage from further consideration on the basis that such items are not assets from a financial reporting perspective. (See agenda item 7.3, IPSASB meeting December 2017.)
8. Staff does not recommend adding similar text to IPSAS 31 on the basis that constituents have not raised similar issues with respect to intangible heritage assets.

**Decision Required**

9. Does the IPSASB agree with the Task Force’s recommendation?
Appendix A Heritage-Related Amendments to IPSAS 31, *Intangible Assets*

Amendments to *IPSAS 31, Intangible Assets*

Paragraphs 3 and 11-15, are amended. New text is underlined, and deleted text is struck through.

**Scope**

...  

3. **This Standard shall be applied in accounting for intangible assets, except:**
   
   (a) Intangible assets that are within the scope of another Standard;  
   
   (b) Financial assets, as defined in IPSAS 28, *Financial Instruments: Presentation*;  
   
   (c) The recognition and measurement of exploration and evaluation assets (see the relevant international or national accounting standard dealing with exploration for, and evaluation of, mineral resources);  
   
   (d) Expenditure on the development and extraction of minerals, oil, natural gas and similar non-regenerative resources;  
   
   (e) [Deleted]  
   
   (f) [Deleted]  
   
   (g) Powers and rights conferred by legislation, a constitution, or by equivalent means;  
   
   (h) Deferred tax assets (see the relevant international or national accounting standard dealing with income taxes);  
   
   (i) Deferred acquisition costs, and intangible assets, arising from an insurer's contractual rights under insurance contracts within the scope of the relevant international or national accounting standard dealing with insurance contracts. In cases where the relevant international or national accounting standard does not set out specific disclosure requirements for those intangible assets, the disclosure requirements in this Standard apply to those intangible assets; and  
   
   (j) [Deleted]  
   
   (k) In respect of intangible heritage assets. However, the disclosure requirements of paragraphs 115–127 apply to those heritage assets that are recognized.

**Intangible Heritage Assets**

11. This Standard does not require an entity to recognize intangible heritage assets that would otherwise meet the definition of, and recognition criteria for, intangible assets. If an entity does recognize

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7 Note that these amendments only show those related to the heritage asset scope exclusion clause. Other amendments to IPSAS 31 (for example, replacement of references to IPSAS 17) are already captured in the overall set of consequential amendments in agenda item 5.3.2.
intangible heritage assets, it must apply the disclosure requirements of this Standard and may, but is not required to, apply the measurement requirements of this Standard.

42. Some intangible assets are described as intangible heritage assets because of their cultural, environmental, or historical significance. Examples of intangible heritage assets include recordings of significant historical events and rights to use the likeness of a significant public person on, for example, postage stamps or collectible coins. Certain characteristics, including the following, are often displayed by intangible heritage assets (although these characteristics are not exclusive to such assets):

(a) Their value in cultural, environmental, and historical terms is unlikely to be fully reflected in a financial value based purely on a market price;
(b) Legal and/or statutory obligations may impose prohibitions or severe restrictions on disposal by sale;
(c) Their value may increase over time; and
(d) It may be difficult to estimate their useful lives, which in some cases could be several hundred years.

13. Public sector entities may have large holdings of intangible heritage assets that have been acquired over many years and by various means, including purchase, donation, bequest, and sequestration. These assets are rarely held for their ability to generate cash inflows, and there may be legal or social obstacles to using them for such purposes.

14. Some intangible heritage assets have future economic benefits or service potential other than their heritage value, for example, royalties paid to the entity for use of an historical recording. In these cases, an intangible heritage asset may be recognized and measured on the same basis as other items of cash-generating intangible assets. For other intangible heritage assets, their future economic benefit or service potential is limited to their heritage characteristics. The existence of both future economic benefits and service potential can affect the choice of measurement base.

15. The disclosure requirements in paragraphs 117–124 require entities to make disclosures about recognized intangible assets. Therefore, entities that recognize intangible heritage assets are required to disclose in respect of those assets such matters as, for example:

(a) The measurement basis used;
(b) The amortization method used, if any;
(c) The gross carrying amount;
(d) The accumulated amortization at the end of the period, if any; and
(e) A reconciliation of the carrying amount at the beginning and end of the period showing certain components thereof.

Basis for Conclusions

Revision of IPSAS 31 as a result of ED 78

BCXX. During development of [draft] IPSAS [X] (ED 78), Property, Plant, and Equipment, the IPSASB concluded that the heritage nature of an asset does not prevent its recognition. On the basis that
the same conceptual arguments apply to intangible heritage as those that apply to property, plant, and equipment the IPSASB decided to remove the heritage scope exclusion in IPSAS 31. This ensures that IPSAS 31’s treatment of intangible heritage assets is consistent with the accounting treatment for heritage property, plant, and equipment. Recognition of intangible heritage assets that meet IPSAS 31’s recognition criteria will provide information that users of the financial statements find useful for accountability and decision-making.

Comparison with IAS 38

IPSAS 31, *Intangible Assets*, is drawn primarily from IAS 38, *Intangible Assets* (as at December 31, 2008). The main differences between IPSAS 31 and IAS 38 are as follows:

- IPSAS 31 includes a scope exclusion for the powers and rights conferred by legislation, a constitution, or by equivalent means.
- IPSAS 31 incorporates the guidance contained in the Standing Interpretation Committee’s Interpretation 32, *Intangible Assets—Web Site Costs as Application Guidance* to illustrate the relevant accounting principles.
- IPSAS 31 does not require or prohibit the recognition of intangible heritage assets. An entity that recognizes intangible heritage assets is required to comply with the disclosure requirements of this Standard with respect to those intangible heritage assets that have been recognized and may, but is not required to, comply with other requirements of this Standard in respect of those intangible heritage assets. IAS 38 does not have similar guidance.
- IAS 38 contains guidance on intangible assets acquired by way of a government grant. Paragraphs 31 of IPSAS 31 modifies this guidance to refer to intangible assets acquired through non-exchange transactions. IPSAS 31 states that where an intangible asset is acquired through a non-exchange transaction, the cost is its fair value as at the date it is acquired.
- IAS 38 provides guidance on exchanges of assets when an exchange transaction lacks commercial substance. IPSAS 31 does not include this guidance.
- The examples included in IAS 38 have been modified to better address public sector circumstances.
- IPSAS 31 uses different terminology, in certain instances, from IAS 38. The most significant examples are the use of the terms “revenue,” “statement of financial performance,” “surplus or deficit,” “future economic benefits or service potential,” “accumulated surpluses or deficits,” “operating/operation,” “rights from binding arrangements (including rights from contracts or other legal rights),” and “net assets/equity” in IPSAS 31. The equivalent terms in IAS 38 are “income,” “statement of comprehensive income,” “profit or loss,” “future economic benefits,” “retained earnings,” “business,” “contractual or other legal rights,” and “equity.”
Specific Matters for Comment

1. Does the IPSASB agree with the Specific Matters for Comment (SMC) proposed for [draft] IPSAS [X] (ED 78), *Property, Plant, and Equipment*?

Recommendation

2. Staff recommend including the seven SMCs outlined in paragraph 3.

Analysis

3. Staff developed the following SMCs for inclusion in ED 78, *Property, Plant, and Equipment*:

   (a) Heritage Issue Identification

   **Specific Matter for Comment 1:**

   Do you agree this Exposure Draft has set out the characteristics of heritage assets that present complexities when applying the principles of IPSAS 17, *Property, Plant, and Equipment* in practice?

   If not, please provide your reasons, stating clearly what further characteristics present complexities when accounting for heritage assets, and why.

   **Specific Matter for Comment 2:**

   Do you agree the Implementation Guidance developed as part of this Exposure Draft has addressed the most important challenges when accounting for heritage assets?

   If not, please provide your reasons, stating clearly challenges when accounting for heritage assets requires incremental guidance, and why.

   (b) Infrastructure Issue Identification

   **Specific Matter for Comment 3:**

   Do you agree this Exposure Draft has set out the characteristics of infrastructure assets that present complexities when applying the principles of IPSAS 17, *Property, Plant, and Equipment* in practice?

   If not, please provide your reasons, stating clearly what further characteristics present complexities when accounting for infrastructure assets, and why.

   **Specific Matter for Comment 4:**

   Do you agree the Implementation Guidance developed as part of this Exposure Draft has addressed the most important challenges when accounting for infrastructure assets?

   If not, please provide your reasons, stating clearly challenges when accounting for infrastructure assets requires incremental guidance, and why.

   (c) Heritage Scope Exclusion

   **Specific Matter for Comment 5:**

   Do you agree heritage assets are within the scope of this Exposure Draft and should be accounted for accordingly?
If not, please provide your reasons, stating clearly why heritage assets are outside the scope of this Exposure Draft, or why they should not be accounted for based on the principles proposed in this Exposure Draft.

(d) Current Service Value

Specific Matter for Comment 6:

Do you agree when an entity choose the current value model, property, plant, and equipment held for its operational capacity should be measured at current service value?

If not, please provide your reasons, stating clearly what changes are required to current service value, or what measurement basis better addresses the needs of the users of the financial information, and why.

(e) Fair Value

Specific Matter for Comment 7:

Do you agree when an entity choose the current value model, property, plant, and equipment held for its financial capacity should be measured at fair value?

If not, please provide your reasons, stating clearly what measurement basis better measures property, plant, and equipment held for its financial capacity, and why.

Decision Required

4. Does the IPSASB agree with the staff recommendation?
ED 78–IPSAS 17 Update
IPSASB Meeting (December 2020)
A

Agenda Item
5.2.9

Approval of ED 78, Property, Plant, and Equipment

Question
1. Does the IPSASB:
   (a) Agree there are no additional issues to be discussed by the IPSASB at this time;
   (b) Approve ED 78, Property, Plant, and Equipment for exposure; and
   (c) Agree a 4-month exposure period is appropriate.

Recommendation
2. Staff recommend the core text and application guidance of ED 78, Property, Plant, and Equipment be approved for exposure.

Due Process
3. ED 78 primarily updates IPSAS 17 based on work performed in the infrastructure, heritage and measurement projects. The IPSASB considered stakeholders inputs as follows:
   (a) Infrastructure. The IPSASB received feedback from constituents at various stakeholder events throughout 2018 and 2019 on challenges identified in applying existing literature to infrastructure. The IPSASB assessed the issues in the second half of 2019 and addressed them accordingly throughout 2020;
   (b) Heritage. The IPSASB released CP, Heritage in April 2017. After an initial review of responses in December 2017, the project was paused during 2018 while the IPSASB progressed work on the measurement project. Responses were considered further throughout 2019 and 2020; and
   (c) Measurement. The IPSASB released CP, Measurement in April 2019. Responses were considered throughout 2020 (see Agenda Item 3.2.7 for details on measurement due process).

In March 2020, given the linkages between the measurement project, the conceptual framework – limited-scope update, infrastructure and heritage projects, the IPSASB directed staff to move forward by considering issues holistically across the related projects.

4. The CAG was consulted at various points during the developed of ED 78 in order to seek their advice on each project. Most recently in June 2020, CAG members were supportive of the approach the IPSASB had followed in considering the projects holistically.

5. As of December 2020, the IPSASB has considered all issues identified as part of the infrastructure, heritage and measurement projects. The IPSASB has reviewed three iterations of ED 78, Property, Plant, and Equipment, once in July, once in September, and once as part of the October in-period review.

Exposure Period
6. The measurement suite of projects, ED 76 – ED 79, are to be released with overlapping comment periods, so constituents can review them as a package. In order to provide constituents relief in their response deadline, staff recommend staggering the deadlines as follows:

Comment Period

ED 76, Conceptual Framework – Limited-Scope Update 6 months
ED 78, Property, Plant, and Equipment 4 months
ED 79, Non-Current Assets Held of Sale and Discontinued Operations 4 months

7. Staff are of the view the standard 4-month exposure period is appropriate for ED 78.

Next Steps
8. A final editorial review of ED 78 will be performed by the editorial group in early Q1 2020. This editorial review will coincide with the reviews of ED 76 – ED 78 (The editorial process has been performed on ED 79).

Decision Required
9. Does the IPSASB agree with the Staff recommendation?
Supporting Documents 1 – [draft] ED 78, Property, Plant and Equipment

1. IPSASB members, Technical Advisors, and Observers are asked to note the following when reviewing ED 78:

   (a) Authoritative Text (Core Text, Application Guidance and Amendments to Other IPSAS):

      (i) A significant portion of ED 78 is imported from IPSAS 17.

      (ii) Changes made to IPSAS 17 since the October In-Period review are tracked and based on substantive comments provided to staff during members’ review.

          a. Deleted IPSAS 17 paragraphs are noted in the “Notes” column. Deleted paragraphs are not tracked to enhance readability.

2. These components are formatted as follows for easier reference:

<table>
<thead>
<tr>
<th>Format</th>
<th>Format description</th>
</tr>
</thead>
<tbody>
<tr>
<td>Text</td>
<td>Text imported from IPSAS 17, 2020 Handbook, is shaded grey</td>
</tr>
<tr>
<td>Text</td>
<td>Text changed and previously reviewed by Board</td>
</tr>
<tr>
<td>Track changes</td>
<td>Text changed resulting from substantive issues identified by members as part of their in-period review</td>
</tr>
</tbody>
</table>
### Objective

1. The objective of this [draft] Standard is to prescribe the accounting treatment for property, plant, and equipment so that users of financial statements can discern information about an entity’s investment in its property, plant, and equipment and the changes in such investment. The principal issues in accounting for property, plant, and equipment are (a) the recognition of the assets, (b) the determination of their carrying amounts, and (c) the depreciation charges and impairment losses to be recognized in relation to them.

### Scope

2. An entity that prepares and presents financial statements under the accrual basis of accounting shall apply this [draft] Standard in accounting for property, plant, and equipment (see paragraphs AG1-AG7 in Appendix A), except when another Standard requires or permits a different accounting treatment (see paragraphs AG1-AG7 in Appendix A of this [draft] Standard).

3. This [draft] Standard does not apply to:
   - (a) Biological assets related to agricultural activity other than bearer plants (see IPSAS 27, Agriculture). This [draft] Standard applies to bearer plants but does not apply to the produce on bearer plants;
   - (b) Mineral rights and mineral reserves such as oil, natural gas, and similar non-regenerative resources (see the relevant international or national accounting standard dealing with mineral rights, mineral reserves, and similar non-regenerative resources); and
   - (c) Property, plant, and equipment classified as held for sale in accordance with [draft] IPSAS [X] (ED 79), Non-current Assets Held for Sale and Discontinued Operations.

   However, this [draft] Standard applies to property, plant, and equipment used to develop or maintain the assets described in 3(a) or 3(b).

4. [Deleted]

5. An entity using the historical cost model for investment property in accordance with IPSAS 16, Investment Property shall use the historical cost model in this [draft] Standard for owned investment property.
<table>
<thead>
<tr>
<th>NOTES</th>
<th>[DRAFT] IPSAS [X] (ED 78), Property, Plant, and Equipment</th>
<th>IAS 16?</th>
</tr>
</thead>
<tbody>
<tr>
<td>IPSAS 17.10 is moved to AG. Paragraph 5 has been amended to incorporate the consequential amendments to IPSAS 17 from ED 75, Leases.</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Definitions</th>
</tr>
</thead>
<tbody>
<tr>
<td>6. The following terms are used in this [draft] Standard with the meanings specified:</td>
</tr>
<tr>
<td><strong>A bearer plant</strong> is a living plant that:</td>
</tr>
<tr>
<td>(a) Is used in the production or supply of agricultural produce;</td>
</tr>
<tr>
<td>(b) Is expected to bear produce for more than one period; and</td>
</tr>
<tr>
<td>(c) Has a remote likelihood of being sold as agricultural produce, except for incidental scrap sales.</td>
</tr>
<tr>
<td>(Paragraphs 9A–9C of IPSAS 27 elaborate on this definition of a bearer plant.)</td>
</tr>
</tbody>
</table>

**Carrying amount** (for the purpose of this [draft] Standard) is the amount at which an asset is recognized after deducting any accumulated depreciation and accumulated impairment losses.

**Class of property, plant, and equipment** means a grouping of assets of a similar nature or function in an entity’s operations that is shown as a single item for the purpose of disclosure in the financial statements.

**Depreciable amount** is the cost of an asset, or other amount substituted for cost, less its residual value.

**Depreciation** is the systematic allocation of the depreciable amount of an asset over its useful life.

**Entity-specific value** is the present value of the cash flows an entity expects to arise from the continuing use of an asset and from its disposal at the end of its useful life or expects to incur when settling a liability.

**Property, plant, and equipment** are tangible assets that:

(a) Are held for use in the production or supply of goods or services, for rental to others, or for administrative purposes; and

(b) Are expected to be used during more than one reporting period.

The residual value of an asset is the estimated amount that an entity would currently obtain from disposal of the asset, after deducting the estimated costs of disposal, if the asset were already of the age and in the condition expected at the end of its useful life.

**Useful life** is:
<table>
<thead>
<tr>
<th><strong>NOTES</strong></th>
<th><strong>[DRAFT] IPSAS [X] (ED 78), Property, Plant, and Equipment</strong></th>
<th><strong>IAS 16?</strong></th>
</tr>
</thead>
<tbody>
<tr>
<td>Recoverable (service) amount is defined in IPSAS 21 and IPSAS 26. Reference made to those definitions.</td>
<td>(a) The period over which an asset is expected to be available for use by an entity; or</td>
<td>separately defined for CG asset vs non-CG asset.</td>
</tr>
<tr>
<td>Definition amended by IPSASB decision in June 2020 (Agenda Item 10.2.3).</td>
<td>(b) The number of production or similar units expected to be obtained from the asset by an entity.</td>
<td></td>
</tr>
<tr>
<td>Reference to ED 78 definitions added by IPSASB decision in July 2020 (Agenda Item 2.2.2).</td>
<td>Terms defined in other IPSAS are used in this [draft] Standard with the same meaning as in those Standards, and are reproduced in the Glossary of Defined Terms published separately.</td>
<td></td>
</tr>
<tr>
<td>Paragraph 7 is IPSAS 17.14, amended by (a) IPSASB decision to change reference to Fair Value to [Current Value] in June 2020 (Agenda Item 8.2.2), and for consequences of defining PP&amp;E to be assets. IPSAS 17.15 and IPSAS 17.16 had been deleted in IPSAS 17. IPSAS 17.17 is moved to AG by IPSASB decision in July 2020 (Agenda Item 2.2.2).</td>
<td>The following terms are defined in [draft] IPSAS [X] (ED 77), Measurement and are used in this [draft] Standard with the same meaning as in [draft] IPSAS [X] (ED 77):</td>
<td></td>
</tr>
<tr>
<td>Paragraphs 8 to 9 are IPSAS 17.18 to IPSAS 17.19.</td>
<td>(a) Current service value; and</td>
<td></td>
</tr>
<tr>
<td></td>
<td>(b) Historical cost.</td>
<td></td>
</tr>
<tr>
<td>IPSAS 17.20 is moved to AG. Paragraph 9 has been amended to</td>
<td>The following term is defined in IPSAS 21, Impairment of Non-Cash-Generating Assets and are used in this [draft] Standard with the same meaning as in IPSAS 21:</td>
<td></td>
</tr>
<tr>
<td></td>
<td>(a) Recoverable Service Amount.</td>
<td></td>
</tr>
<tr>
<td></td>
<td>The following term is defined in IPSAS 26, Impairment of Cash Generating Assets and are used in this [draft] Standard with the same meaning as in IPSAS 26:</td>
<td></td>
</tr>
<tr>
<td></td>
<td>(a) Recoverable Amount.</td>
<td></td>
</tr>
<tr>
<td>Recognition 7. An item of property, plant, and equipment shall be recognized if, and only if:</td>
<td>Terms that are separately defined for CG asset vs non-CG asset.</td>
<td></td>
</tr>
<tr>
<td></td>
<td>(a) It is probable that future economic benefits or service potential associated with the item will flow to the entity; and</td>
<td></td>
</tr>
<tr>
<td></td>
<td>(b) The cost or [current value] of the item can be measured reliably(^1).</td>
<td></td>
</tr>
</tbody>
</table>

\(^1\) Information that is reliable is free from material error and bias, and can be depended on by users to faithfully represent that which it purports to represent or could reasonably be expected to represent. Paragraph BC16 of IPSAS 1, *Presentation of Financial Statements* discusses the transitional approach to the explanation of reliability.
<table>
<thead>
<tr>
<th><strong>NOTES</strong></th>
<th><strong>[DRAFT] IPSAS [X] (ED 78), Property, Plant, and Equipment</strong></th>
<th><strong>IAS 16?</strong></th>
</tr>
</thead>
<tbody>
<tr>
<td>incorporate the consequential amendments to IPSAS 17 from ED 75, Leases.</td>
<td>of property, plant, and equipment and costs incurred subsequently to add to, replace part of, or service it. The cost of an item of property, plant, and equipment may include costs incurred relating to leases of assets that are used to construct, add to, replace part of or service an item of property, plant, and equipment, such as depreciation of right-of-use assets.</td>
<td></td>
</tr>
<tr>
<td>Paragraph 10 is IPSAS 17.22. Text retained in core text by IPSASB decision in June 2020 (Agenda Item 8.2.2).</td>
<td>10. Items of property, plant, and equipment may be required for safety or environmental reasons. The acquisition of such property, plant, and equipment, although not directly increasing the future economic benefits or service potential of any particular existing item of property, plant, and equipment, may be necessary for an entity to obtain the future economic benefits or service potential from its other assets. Such items of property, plant, and equipment qualify for recognition as assets, because they enable an entity to derive future economic benefits or service potential from related assets in excess of what could be derived had those items not been acquired. For example, fire safety regulations may require a hospital to retro-fit new sprinkler systems. These enhancements are recognized because, without them, the entity is unable to operate the hospital in accordance with the regulations. However, the resulting carrying amount of such an asset and related assets is reviewed for impairment in accordance with IPSAS 21 and IPSAS 26.</td>
<td></td>
</tr>
<tr>
<td>IPSAS 17.23 to 25 moved to AG by IPSASB decision in June 2020 (Agenda Item 8.2.2).</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Paragraphs 11-13 are IPSAS 17.26, IPSAS 17.27 and IPSAS 17.29 amended by IPSASB decisions. IPSAS 17.28 is moved to AG Paragraph 11 was combined with following paragraph by IPSASB decision in July 2020 (Agenda Item 2.2.2). Paragraph 11 has not been amended to incorporate the consequential amendments to IPSAS 17 from ED 71, Revenue without Performance Obligations.</td>
<td>Initial Measurement</td>
<td></td>
</tr>
<tr>
<td>11. An item of property, plant, and equipment that qualifies for recognition shall be measured at its cost, unless it is acquired through a non-exchange transaction. Property, plant, and equipment acquired through a non-exchange transaction shall be measured at its deemed cost.</td>
<td></td>
<td></td>
</tr>
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<td>Paragraph has been deleted as no reference to ED 77 is required for initial measurement. Guidance is included directly in ED 78. IPSAS 17.30 to IPSAS 17.31 are moved to IPSAS, Measurement by IPSASB decision in June 2020 (Agenda Item 8.2.2).</td>
<td>12. When measuring the item of property, plant, and equipment at recognition, an entity shall apply [draft] IPSAS [X], Measurement [ED 77].</td>
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<td>13. For the purposes of this [draft] Standard, the measurement at recognition of an item of property, plant, and equipment, acquired at no or nominal cost, at its [current value]deemed cost consistent with the requirements of paragraph 11, does not constitute a revaluation. Accordingly, the revaluation requirements in paragraph 28, and the supporting Application Guidance, only apply where an entity elects to revalue an item of property, plant, and equipment in subsequent reporting periods.</td>
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14. The cost of an item of property, plant, and equipment comprises:

(a) Its purchase price, including import duties and non-refundable purchase taxes, after deducting trade discounts and rebates.

(b) Any costs directly attributable to bringing the asset to the location and condition necessary for it to be capable of operating in the manner intended by management.

(c) The initial estimate of the costs of dismantling and removing the item and restoring the site on which it is located, the obligation for which an entity incurs either when the item is acquired, or as a consequence of having used the item during a particular period for purposes other than to produce inventories during that period.

15. Examples of directly attributable costs are:

(a) Costs of employee benefits (as defined in IPSAS 39, Employee Benefits) arising directly from the construction or acquisition of the item of property, plant, and equipment;

(b) Costs of site preparation;

(c) Initial delivery and handling costs;

(d) Installation and assembly costs;

(e) Costs of testing whether the asset is functioning properly (i.e., assessing whether the technical and physical performance of the asset is such that it is capable of being used in the production or supply of goods or services, for rental to others, or for administrative purposes) after deducting the net proceeds from selling any items produced while bringing the asset to that location and condition (such as samples produced when testing equipment); and

(f) Professional fees.

16. An entity applies IPSAS 12, Inventories, to the costs of obligations for dismantling, removing, and restoring the site on which an item is located that are incurred during a particular period as a consequence of having used the item to produce inventories during that period. The obligations for costs accounted for in accordance with IPSAS 12 and this [draft] Standard are recognized and measured in accordance with IPSAS 19, Provisions, Contingent Liabilities and Contingent Assets.
17. Recognition of costs in the carrying amount of an item of property, plant, and equipment ceases when the item is in the location and condition necessary for it to be capable of operating in the manner intended by management. Therefore, costs incurred in using or redeploying an item are not included in the carrying amount of that item. For example, the following costs are not included in the carrying amount of an item of property, plant, and equipment:

(a) Costs incurred while an item capable of operating in the manner intended by management has yet to be brought into use or is operated at less than full capacity;

(b) Initial operating losses, such as those incurred while demand for the item's output builds up; and

(c) Costs of relocating or reorganizing part or all of the entity's operations.

18. Items may be produced while bringing an item of property, plant and equipment to the location and condition necessary for it to be capable of operating in the manner intended by management (such as samples produced when testing whether the asset is functioning properly). An entity recognizes the proceeds from selling any such items, and the cost of those items, in surplus or deficit in accordance with applicable Standards. The entity measures the cost of those items applying the measurement requirements of IPSAS 12.
Measurement of Cost

19.20. The cost of an item of property, plant, and equipment is the cash price equivalent or, for an item referred to in paragraph 11, its deemed cost at the recognition date. If payment is deferred beyond normal credit terms, the difference between the cash price equivalent and the total payment is recognized as interest over the period of credit, unless such interest is recognized in the carrying amount of the item in accordance with the allowed alternative treatment in IPSAS 5, Borrowing Costs.

20.21. One or more items of property, plant, and equipment may be acquired in exchange for a non-monetary asset or assets, or a combination of monetary and non-monetary assets. The following discussion refers simply to an exchange of one non-monetary asset for another, but it also applies to all exchanges described in the preceding sentence. The cost of such an item of property, plant, and equipment is measured at fair value unless (a) the exchange transaction lacks commercial substance, or (b) the fair value of neither the asset received nor the asset given up is reliably measurable. The acquired item is measured in this way even if an entity cannot immediately derecognize the asset given up. If the acquired item is not measured at fair value, its cost is measured at the carrying amount of the asset given up.

21.22. An entity determines whether an exchange transaction has commercial substance by considering the extent to which its future cash flows or service potential is expected to change as a result of the transaction. An exchange transaction has commercial substance if:

(a) the configuration (risk, timing, and amount) of the cash flows of service potential of the asset received differs from the configuration of the cash flows or service potential of the asset transferred; or

(b) the entity-specific value of the portion of the entity’s operations affected by the transaction changes as a result of the exchange; and

(c) the difference in (a) or (b) is significant relative to the current service value of the assets exchanged.

For the purpose of determining whether an exchange transaction has commercial substance, the entity-specific value of the portion of the entity’s operations affected by the transaction shall reflect post-tax cash flows, if tax applies. The result of these analyses may be clear without an entity having to perform detailed calculations.

22.23. The current service value of an asset for which comparable market transactions do not exist is reliably measurable if (a) the variability in the range of reasonable current service value
Subsequent Measurement

Measurement Model

24.25. An entity shall choose either the historical cost model in paragraph 27 or the current value model in paragraph 28 as its accounting policy and shall apply that policy to an entire class of property, plant, and equipment.

25.26. When the measurement requirements are applied to the item of property, plant, and equipment after recognition, an entity shall apply [draft] IPSAS [X] - Measurement (ED 77).

Historical Cost Model

26.27. After recognition, an item of property, plant, and equipment shall be carried at its historical cost, less any...
### Current Value Model

#### Paragraph 28
27.28. After recognition, an item of property, plant, and equipment whose current service value can be measured reliably shall be carried at a revalued amount, being its current service value at the date of the revaluation, less any subsequent accumulated depreciation, and subsequent accumulated impairment losses. Revaluations shall be made with sufficient regularity to ensure that the carrying amount does not differ materially from that which would be determined using current service value at the reporting date. The accounting treatment for revaluations is set out in paragraphs 38-40.

#### Paragraph 29
29. In rare circumstances, where an item of property, plant, and equipment within the scope of this [draft] Standard is held for its financial capacity, and its fair value can be measured reliably, the item shall be carried at a revalued amount, being its fair value at the date of revaluation, less any subsequent accumulated depreciation, and subsequent accumulated impairment losses. Revaluations shall be made with sufficient regularity to ensure that the carrying amount does not differ materially from that which would be determined using current service value at the reporting date.

#### Paragraph 30
30. The current value of items of property is usually determined from market-based evidence by appraisal. The current value of items of plant and equipment is usually determined by appraisal. An appraisal of the value of an asset is normally undertaken by a member of the valuation profession, who holds a recognized and relevant professional qualification. For some non-specialized items of property, plant, and equipment, a current value will be readily ascertainable by reference to quoted prices in an active and liquid market. For example, current market prices can usually be obtained for land, non-specialized buildings, motor vehicles, and many types of plant and equipment.

#### Paragraph 31
31. For many public sector items of property, plant, and equipment, it may be difficult to establish their current value because of the absence of market transactions for these assets. Some public sector entities may have significant holdings of such assets.

#### Paragraphs 32-33
28.32. The frequency of revaluations depends upon the changes in the current service values of the items of property, plant, and equipment being revalued. When the current service value of a revalued asset differs materially from its carrying amount, a further revaluation is necessary. Some items of property, plant, and equipment experience significant and volatile changes in current service value, thus necessitating annual revaluation. Such frequent revaluations are unnecessary for items of property, plant, and equipment with only insignificant changes in current service value.
Instead, it may be necessary to revalue the item only every three or five years.

29.33. When an item of property, plant, and equipment is revalued, the carrying amount of that asset is adjusted to the revalued amount. At the date of the revaluation, the asset is treated in one of the following ways:

(a) The gross carrying amount is adjusted in a manner that is consistent with the revaluation of the carrying amount of the asset. For example, the gross carrying amount may be restated by reference to observable market data or it may be restated proportionately to the change in the carrying amount. The accumulated depreciation at the date of the revaluation is adjusted to equal the difference between the gross carrying amount and the carrying amount of the asset after taking into account accumulated impairment losses; or
(b) The accumulated depreciation is eliminated against the gross carrying amount of the asset.

The amount of the adjustment of accumulated depreciation forms part of the increase or decrease in carrying amount that is accounted for in accordance with paragraphs 38 and 39.

30.34. If an item of property, plant, and equipment is revalued, the entire class of property, plant, and equipment to which that asset belongs shall be revalued.

31.35. Impairment losses and reversals of impairment losses of an asset under IPSAS 21 and IPSAS 26 do not necessarily give rise to the need to revalue the class of assets to which that asset, or group of assets, belongs.

32.36. A class of property, plant, and equipment is a grouping of assets of a similar nature or function in an entity’s operations. The following are examples of separate classes:

(a) Land;
(b) Operational buildings;
(c) Roads;
(d) Machinery;
(e) Electricity transmission networks;
(f) Ships;
(g) Aircraft;
(h) Weapons systems;
(i) Motor vehicles;
(j) Furniture and fixtures;
(k) Office equipment;
(l) Oil rigs;
(m) Bearer plants;
(n) Heritage collections; and
(o) Infrastructure items.

When grouping property, plant, and equipment into classes, an entity may identify items with similar nature, but held for different functions, or vice versa. For example, while various...
parcels of land might be similar in nature, some may be held for agricultural purposes and others for commercial purposes. This may result in the entity identifying two classes of land and presenting information using historical cost for one class and [current value] for the other.

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<th>Paragraph</th>
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<tr>
<td>33.37</td>
<td>The items within a class of property, plant, and equipment are revalued simultaneously in order to avoid selective revaluation of assets and the reporting of amounts in the financial statements that are a mixture of costs and values as at different dates. However, a class of assets may be revalued on a rolling basis provided revaluation of the class of assets is completed within a short period and provided the revaluations are kept up to date.</td>
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<td>34.38</td>
<td>If the carrying amount of a class of assets is increased as a result of a revaluation, the increase shall be credited directly to revaluation surplus. However, the increase shall be recognized in surplus or deficit to the extent that it reverses a revaluation decrease of the same class of assets previously recognized in surplus or deficit.</td>
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<td>35.39</td>
<td>If the carrying amount of a class of assets is decreased as a result of a revaluation, the decrease shall be recognized in surplus or deficit. However, the decrease shall be debited directly to revaluation surplus to the extent of any credit balance existing in the revaluation surplus in respect of that class of assets.</td>
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<td>36.40</td>
<td>Revaluation increases and decreases relating to individual assets within a class of property, plant, and equipment must be offset against one another within that class but must not be offset in respect of assets in different classes.</td>
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<td>37.41</td>
<td>Some or all of the revaluation surplus included in net assets/equity in respect of property, plant, and equipment may be transferred directly to accumulated surpluses or deficits when the assets are derecognized. This may involve transferring some or the whole of the surplus when the assets within the class of property, plant, and equipment to which the surplus relates are retired or disposed of. However, some of the surplus may be transferred as the assets are used by the entity. In such a case, the amount of the surplus transferred would be the difference between depreciation, based on the revalued carrying amount of the assets and depreciation, based on the assets’ original cost. Transfers from revaluation surplus to accumulated surpluses or deficits are not made through surplus or deficit.</td>
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<td>38.42</td>
<td>Guidance on the effects on taxes on surpluses, if any, resulting from the revaluation of property, plant, and equipment can be found in the relevant international or national accounting standard dealing with income taxes.</td>
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<th>Paragraph</th>
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<tr>
<td>39.43</td>
<td>Each part of an item of property, plant, and equipment with a cost or value that is significant in relation to the total cost or value of the item shall be depreciated separately.</td>
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<td>40.44</td>
<td>A significant part of an item of property, plant, and equipment may have a useful life and a depreciation method that are the same as the useful life and the depreciation method of another</td>
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significant part of that same item. Such parts may be grouped in determining the depreciation charge.

41.45. To the extent that an entity depreciates separately some parts of an item of property, plant, and equipment, it also depreciates separately the remainder of the item. The remainder consists of the parts of the item that are individually not significant. If an entity has varying expectations for these parts, approximation techniques may be necessary to depreciate the remainder in a manner that faithfully represents the consumption pattern and/or useful life of its parts.

42.46. An entity may choose to depreciate separately the parts of an item that do not have a cost that is significant in relation to the total cost of the item.

43.47. The depreciation charge for each period shall be recognized in surplus or deficit, unless it is included in the carrying amount of another asset.

44.48. The depreciation charge for a period is usually recognized in surplus or deficit. However, sometimes, the future economic benefits or service potential embodied in an asset is absorbed in producing other assets. In this case, the depreciation charge constitutes part of the cost of the other asset, and is included in its carrying amount. For example, the depreciation of manufacturing plant and equipment is included in the costs of conversion of inventories (see IPSAS 12). Similarly, depreciation of property, plant, and equipment used for development activities may be included in the cost of an intangible asset recognized in accordance with IPSAS 31, Intangible Assets.

Depreciable Amount and Depreciation Period

45.49. The depreciable amount of an asset shall be allocated on a systematic basis over its useful life.

46.50. The residual value and the useful life of an asset shall be reviewed at least at each annual reporting date and, if expectations differ from previous estimates, the change(s) shall be accounted for as a change in an accounting estimate in accordance with IPSAS 3, Accounting Policies, Changes in Accounting Estimates and Errors.

47.51. Depreciation is recognized even if the current value of the asset exceeds its carrying amount, as long as the asset's residual value does not exceed its carrying amount. Repair and maintenance of an asset does not negate the need to depreciate it. Conversely, some assets may be poorly maintained or maintenance may be deferred indefinitely because of budgetary constraints. Where asset management policies exacerbate the wear and tear of an asset, its useful life should be reassessed and/or the asset tested for impairment in accordance with paragraph 61, and adjusted accordingly.

48.52. Land and buildings are separable assets and are accounted for separately, even when they are acquired together. With some exceptions, such as quarries and sites used for landfill, land has an indefinite useful life and therefore is not depreciated. Buildings generally have a finite useful life and therefore are depreciable assets. An increase in the value of the land on which a building
<table>
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<th>NOTES</th>
<th>IPSAS 31.87 with minor revisions (e.g. to refer to “PP&amp;E” instead of “intangible.”)</th>
<th>IPSAS 31.88 with minor revisions.</th>
<th>IPSAS 31.90 revised to refer to property, plant and equipment.</th>
<th>Paragraph inserted by IPSASB decision of September 2020 (Agenda Item 9.2.8)</th>
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<td>53. If the carrying amount of land includes the cost of site dismantlement, removal, and restoration, that portion of the land asset is depreciated over the period of benefits or service potential obtained by incurring those costs. In some cases, the land itself may have a finite useful life, in which case it is depreciated in a manner that reflects the benefits or service potential to be derived from it.</td>
<td>An entity shall assess whether the useful life of property, plant, and equipment is finite or indefinite and, if finite, the length of, or number of production or similar units constituting, that useful life. Land usually has an indefinite useful life. There is a rebuttable presumption that non-land property, plant, and equipment have finite useful lives. Property, plant, and equipment shall be regarded by the entity as having an indefinite useful life when, based on an analysis of all of the relevant factors, there is no foreseeable limit to the period over which the asset is expected to provide service potential to, or be used operationally to generate net cash inflows for the entity.</td>
<td>A property, plant, and equipment asset with a finite useful life is depreciated. A property, plant, and equipment asset with an indefinite useful life is not depreciated.</td>
<td>The term “indefinite” does not mean “infinite.” The useful life of property, plant, and equipment should reflect evidence on factors that could affect the useful life at the time of estimating the asset’s useful life, and realistic projections of those factors and the estimated useful life should be realistic rather than optimistic, which means they should be supported by objective evidence and generate relevant and faithfully representative measures of asset value and depreciation, rather than optimistic, projections going forward of those factors. For example, a conclusion that the useful life of property, plant, and equipment is indefinite should not depend on planned future expenditure in excess of that required to maintain the asset at its current standard of performance. Nor should such a conclusion depend on preservation actions for which there is no realistic likelihood under present and projected budget constraints.</td>
<td>Annual impairment reviews for assets with indefinite useful lives. An entity is required to review property, plant, and equipment with an indefinite useful life annually for indications of impairment in accordance with IPSAS 21, and IPSAS 26. If the cost carrying amount of land includes the cost of site dismantlement, removal, and restoration, that portion of the land asset is depreciated over the period of benefits or service potential obtained by incurring those costs. In some cases, the land itself may have a limited finite useful life, in which case it is depreciated.</td>
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in a manner that reflects the benefits or service potential to be derived from it.

Depreciation Method

54.59. The depreciation method shall reflect the pattern in which the asset’s future economic benefits or service potential is expected to be consumed by the entity.

55.60. The depreciation method applied to an asset shall be reviewed at least at each annual reporting date and, if there has been a significant change in the expected pattern of the consumption of the future economic benefits or service potential embodied in the asset, the method shall be changed to reflect the changed pattern. Such a change shall be accounted for as a change in an accounting estimate in accordance with IPSAS 3.

Impairment

56.61. To determine whether an item of property, plant, and equipment is impaired, an entity applies IPSAS 21 or IPSAS 26, as appropriate. These Standards explain how an entity reviews the carrying amount of its assets, how it determines the recoverable service amount or recoverable amount of an asset, and when it recognizes, or reverses the recognition of, an impairment loss.

Compensation for Impairment

57.62. Compensation from third parties for items of property, plant, and equipment that were impaired, lost, or given up shall be included in surplus or deficit when the compensation becomes receivable.

58.63. Impairments or losses of items of property, plant, and equipment, related claims for or payments of compensation from third parties, and any subsequent purchase or construction of replacement assets are separate economic events and are accounted for separately as follows:

(a) Impairments of items of property, plant, and equipment are recognized in accordance with IPSAS 21 or IPSAS 26, as appropriate;

(b) Derecognition of items of property, plant, and equipment retired or disposed of is determined in accordance with this [draft] Standard;

(c) Compensation from third parties for items of property, plant, and equipment that were impaired, lost, or given up is included in determining surplus or deficit when it becomes receivable; and

(d) The cost of items of property, plant, and equipment restored, purchased, or constructed as replacement is determined in accordance with this [draft] Standard.

Derecognition

59.64. The carrying amount of an item of property, plant, and equipment shall be derecognized:

(a) On disposal; or
Paragraph 65 has been amended to incorporate the consequential amendments to IPSAS 17 from ED 75, Leases.

Paragraph 66 was amended to add reference to ED 79 by IPSASB decision in July 2020 (Agenda Item 2.2.2) and was amended to incorporate the consequential amendments to IPSAS 17 from ED 70, Revenue with Performance Obligations and ED 79, Non-current Assets Held for Sale and Discontinued Operations.

Paragraph 67 has been amended to incorporate the consequential amendments to IPSAS 17 from ED 70, Revenue with Performance Obligations and ED 75, Leases.

Paragraph 70 has been amended to incorporate the consequential amendments to IPSAS 17 from ED 70, Revenue with Performance Obligations.

(b) When no future economic benefits or service potential is expected from its use or disposal.

The gain or loss arising from the derecognition of an item of property, plant, and equipment shall be included in surplus or deficit when the item is derecognized (unless [draft] IPSAS [X] (ED 75), Leases requires otherwise on a sale and leaseback).

However, an entity that, in the course of its activities, routinely provides items of property, plant, and equipment that it has held for rental to others shall transfer such assets to inventories at their carrying amount when they cease to be rented and become held
The disposal of an item of property, plant, and equipment may occur in a variety of ways (e.g., by sale, by entering into a finance lease or by donation). The date of disposal of an item of property, plant, and equipment is the date the recipient obtains control of that item in accordance with the requirements for determining when a performance obligation is satisfied in [draft] IPSAS [X] (ED 70). [draft] IPSAS [X] (ED 75) applies to disposal by a sale and leaseback.

The gain or loss arising from the derecognition of an item of property, plant, and equipment shall be determined as the difference between the net disposal proceeds, if any, and the carrying amount of the item.

The amount of consideration to be included in the surplus or deficit arising from the derecognition of an item of property, plant, and equipment is determined in accordance with the requirements for determining the transaction price in paragraphs 46–71 of [draft] IPSAS [X] (ED 70). Subsequent changes to the estimated amount of consideration included in surplus or deficit shall be accounted for in accordance with the requirements for changes in the transaction price in [draft] IPSAS [X] (ED 70).

Disclosure
General Disclosure for Property, Plant, and Equipment

The financial statements shall disclose, for each class of property, plant, and equipment recognized in the financial statements:

(a) The measurement bases used for determining the gross carrying amount;
(b) The depreciation methods used;
(c) The useful lives or the depreciation rates used;
(d) The gross carrying amount and the accumulated depreciation (aggregated with accumulated impairment losses) at the beginning and end of the period; and
(e) A reconciliation of the carrying amount at the beginning and end of the period showing:

(i) Additions;
(ii) Assets classified as held for sale or included in a disposal group classified as held for sale in
accordance with [draft] IPSAS [X] (ED 79) and other disposals;

(iii) Acquisitions through public sector combinations;

(iv) Increases or decreases resulting from revaluations under paragraphs 28, 38, and 39 and from impairment losses (if any) recognized or reversed directly in net assets/equity in accordance with IPSAS 21 or IPSAS 26, as appropriate;

(v) Impairment losses recognized in surplus or deficit in accordance with IPSAS 21 or IPSAS 26, as appropriate;

(vi) Impairment losses reversed in surplus or deficit in accordance with IPSAS 21 or IPSAS 26, as appropriate;

(vii) Depreciation;

(viii) The net exchange differences arising on the translation of the financial statements from the functional currency into a different presentation currency, including the translation of a foreign operation into the presentation currency of the reporting entity; and

(ix) Other changes.

Paragraph 72 added to reflect May 2020 Annual Improvement to IAS 16 to prohibit an entity from deducting from the cost of an item of property, plant and equipment the proceeds from selling items produced before that asset is available for use (proceeds before intended use).

The financial statements shall also disclose for each class of property, plant, and equipment recognized in the financial statements:

(a) The existence and amounts of restrictions on title, and property, plant, and equipment pledged as securities for liabilities;

(b) The amount of expenditures recognized in the carrying amount of an item of property, plant, and equipment in the course of its construction; and

(c) The amount of contractual commitments for the acquisition of property, plant, and equipment; and

(d) If it is not disclosed separately on the face of the statement of financial performance, the amount of compensation from third parties for items of property, plant, and equipment that were impaired, lost or given up that is included in surplus or deficit.

Paragraph 73 added to reflect May 2020 Annual Improvement to IAS 16 to prohibit an entity from deducting from the cost of an item of property, plant and equipment the proceeds from selling items produced before that asset is available for use (proceeds before intended use).

If not presented separately in the statement of financial performance, the financial statements shall also disclose:

(a) The amount of compensation from third parties for items of property, plant and equipment that were impaired, lost or given up that is included in surplus or deficit; and

(a)(b) The amounts of proceeds and cost included in surplus or deficit in accordance with paragraph 18 that relate to items produced that are not an output of the entity's ordinary activities, and which line item(s) in the statement of financial performance include(s) such proceeds and cost.

Selection of the depreciation method and the estimation of the useful life of the assets are matters of judgment. Therefore,
Disclosure of the methods adopted and the estimated useful lives or depreciation rates provides users of financial statements with information that allows them to review the policies selected by management, and enables comparisons to be made with other entities. For similar reasons, it is necessary to disclose:

(a) Depreciation, whether recognized in surplus or deficit or as a part of the cost of other assets, during a period; and
(b) Accumulated depreciation at the end of the period.

69.75. In accordance with IPSAS 3, an entity discloses the nature and effect of a change in an accounting estimate that has an effect in the current period or is expected to have an effect in subsequent periods. For property, plant, and equipment, such disclosure may arise from changes in estimates with respect to:

(a) Residual values;
(b) The estimated costs of dismantling, removing, or restoring items of property, plant, and equipment;
(c) Useful lives; and
(d) Depreciation methods.

70.76. If a class of property, plant, and equipment is stated at revalued amounts, the following shall be disclosed:

(a) The effective date of the revaluation;
(b) Whether an independent valuer was involved;
(c) The methods and significant assumptions applied in estimating the assets’ current service values (current service value or fair value);
(d) The extent to which the assets’ current values (current service value or fair value) were determined directly by reference to observable prices in an active market or recent market transactions on arm’s length terms, or were estimated using other measurement techniques;
(e) The revaluation surplus, indicating the change for the period and any restrictions on the distribution of the balance to owners;
(f) The sum of all revaluation surpluses for individual items of property, plant, and equipment within that class; and
(g) The sum of all revaluation deficits for individual items of property, plant, and equipment within that class.

71.77. In accordance with IPSAS 21 and IPSAS 26, an entity discloses information on impaired property, plant, and equipment in addition to the information required by paragraph 71(e)(iv)–(vi).

72.78. Users of financial statements may also find the following information relevant to their needs:

(a) The carrying amount of temporarily idle property, plant, and equipment;
(b) The gross carrying amount of any fully depreciated property, plant, and equipment that is still in use;
(c) The carrying amount of property, plant, and equipment retired from active use and not classified as held for sale in accordance with [draft] IPSAS [X] (ED 79); and
(d) When the historical cost model is used, the current values (current service value or fair value) of property, plant, and equipment when this is materially different from the carrying amount.

Therefore, entities are encouraged to disclose these amounts.

**Disclosures on unrecognized property, plant, and equipment**

**Transitional Provisions**

80. An entity shall apply this [draft] Standard retrospectively, in accordance with IPSAS 3, Accounting Policies, Changes in Accounting Estimates and Errors, except that:

(a) An entity may elect to measure heritage assets at their deemed cost when reliable cost information about the asset is not available at the date of application of this [draft] Standard. Deemed cost can only be determined where the acquisition cost of the asset is not available. Deemed cost assumes that had the entity initially recognized the heritage asset at the date it assumed control.

74.81. For entities that have previously applied IPSAS 17 (2001), the requirements of paragraphs 21–23 regarding the initial measurement of an item of property, plant, and equipment acquired in an exchange of assets transaction shall be applied prospectively only to future transactions;

75. Paragraph 5029 was amended by Improvements to IPSASs 2014 issued in January 2015. An entity shall apply those amendments to all revaluations recognized in annual periods beginning on or after the date of initial application of that amendment and in the immediately-preceding annual period.

**Effective Date**

76.82. An entity shall apply this [draft] Standard for annual financial statements covering periods beginning on or after MM DD, YYYY. Earlier application is encouraged permitted for entities that apply [draft] IPSAS [X] (ED 70), [draft] IPSAS [X] (ED 75), [draft] IPSAS [X] (ED 77) and [draft] IPSAS [X] (ED 79), at or before the date of initial application of the [draft] Standard. If an entity applies this [draft] Standard for a period beginning before MM DD, YYYY, it shall disclose that fact.

77.83. When an entity adopts the accrual basis IPSASs of accounting as defined in IPSAS 33, First-time Adoption of Accrual Basis International Public Sector Accounting Standards (IPSASs) for financial reporting purposes subsequent to this effective date, this [draft] Standard applies to the entity's annual financial statements covering periods beginning on or after the date of adoption of IPSASs.

**Withdrawal of IPSAS 17 (2006)**

78.84. This [draft] Standard supersedes IPSAS 17, Property, Plant, and Equipment, issued in 2006. IPSAS 17 remains applicable until
| IPSAS [X] (ED 78) is applied or becomes effective, whichever is earlier. |
## Appendix A

### Application Guidance

This Appendix is an integral part of [draft] IPSAS [X] (ED 78), Property, Plant, and Equipment.

### Scope

AG1. This [draft] Standard applies to all property, plant, and equipment including:

- (a) Heritage;
- (b) Infrastructure;
- (c) Service concession arrangement property, plant, and equipment after initial recognition and measurement in accordance with IPSAS 32, Service Concession Arrangements: Grantor, and
- (d) Weapons systems.

### Heritage assets

AG2. Some property, plant, and equipment are described as heritage assets because of their rarity and/or significance in relation, but not limited, to their archeological, architectural, agricultural, artistic, cultural, environmental, historical, natural, scientific, or technological features. Entities usually intend to hold heritage assets for long periods and preserve them for the benefit of present and future generations. Examples of heritage assets include historic buildings, monuments, museum collections, and works of art.

AG3. Heritage assets typically have the following distinguishing characteristics:

- (a) They have restrictions on their use;
- (b) They are irreplaceable; and
- (c) They have long and sometimes indefinite useful lives.

### Infrastructure assets

AG4. Some property, plant, and equipment are described as infrastructure assets because they comprise a number of assets that make up networks or systems that serve the community at large. Generally, infrastructure assets have long lives because the number of assets that make up these networks or systems are continually maintained, replaced and refurbished. If a number of these components are an integral part of a total network or system, then, if the component assets were removed, the network or system may not achieve its service potential objective.

AG5. Infrastructure assets typically have the following distinguishing characteristics:

- (a) They are networks or systems; and
- (b) They have long useful lives.
### Definitions

#### Property, Plant, and Equipment as Assets

AG8. In the public sector, there may be uncertainty whether certain items of property, plant, and equipment meet the definition of an asset. An item of property, plant, and equipment meets the definition of an asset if it satisfies all of the following characteristics:

1. **Resource.** A resource provides benefits to an entity in the form of service potential or the ability to generate economic benefits. The service potential or ability to generate economic benefits can arise directly from the resource itself or from the rights to use the resource (see paragraphs AG10-AG12).

2. **Control.** An entity must have control of the resource (see paragraphs AG13-AG15); and

3. **Past Event.** The definition of an asset requires that a resource that an entity presently controls must have arisen from a past transaction or other past event. Past events that could indicate that an entity controls an asset include purchase from an external party, receipt by way of a donation, passing of legislation and construction or development.

AG9. An item of property, plant, and equipment is recognized when it meets the definition of an asset and satisfies the recognition criteria. To satisfy the recognition criteria, it should be recognized:

| Paragraph AG6(a)-(c) are IPSAS 17.21 amended for IPSASB decisions and instructions in March and June 2020 (Agenda Item 9.2.2) | IPSAS 17.20. |
| AG6. Although not confined to entities in the public sector, significant infrastructure assets are frequently found in the public sector. Examples include: |
| | AG7. Weapons systems will normally meet the definition of property, plant, and equipment, and should be recognized in accordance with this [draft] Standard. Weapons systems include vehicles and other equipment, such as warships, submarines, military aircraft, tanks, missile carriers and launchers that are used continuously in the provision of defense services, even if their peacetime use is simply to provide deterrence. Some single-use items, such as certain types of ballistic missiles, may provide an ongoing service of deterrence against aggressors and, therefore, can be classified as weapons systems. |
| Paragraph AG8(a)-(c) are amended here for IPSASB instructions in June 2020 (Agenda Item 10.2.3). |
| Paragraph AG9 is new to reflect IPSASB instructions in June 2020. |

<p>| (a) Electricity Power systems, which may comprise assets such as power generating plants, substations, switchyards, transmission line towers, distribution system equipment, energy control centers, communication systems and equipment, emergency power backup equipment, emergency operations centers and service and maintenance facilities. |
| (b) Road networks, which may comprise assets such as pavements, formation, curbs and channels, footpaths, bridges, signal and lighting; and |
| (c) Water systems, which may comprise assets such as dams, pipelines, tunnels, canals, terminal reservoirs, tanks, wells, pumps and treatment plants. |</p>
<table>
<thead>
<tr>
<th>Paragraph</th>
<th>Description</th>
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<tr>
<td>AG10</td>
<td>In the public sector there may be uncertainty as to whether items of property, plant, and equipment are resources because it may appear that they do not create benefits in the form of service potential or economic benefits. For example, an entity may hold heritage items for the purpose of providing access to the public to view heritage items, and some may view this as providing services to the public rather than contributing to the reporting entity’s achievement of its objectives.</td>
</tr>
<tr>
<td>AG11</td>
<td>A resource is an item with service potential or the ability to generate economic benefits. Economic benefits reflect the ability of an asset to generate net cash inflows. Most public sector entities hold assets primarily to deliver services rather than generate economic benefits. Service potential is the capacity of an asset to provide services that contribute to achieving an entity’s service delivery and other objectives without necessarily generating net cash inflows.</td>
</tr>
<tr>
<td>AG12</td>
<td>Items that a reporting entity uses to deliver services to the public will be resources from the reporting entity’s perspective when those services contribute to achieving the entity’s service delivery and other objectives. For example, heritage items that are used purely for the benefit of the public (sometimes described as “for heritage purposes”) can have service potential and be resources because the entity has the objective of making heritage accessible to the public. Where an entity’s objectives are to provide heritage-related services such as the appreciation and study of heritage, the entity holds heritage items to achieve those objectives and the heritage items have service potential and are resources from the entity’s perspective. Similarly, infrastructure assets that are used to deliver public services (e.g., road networks or water systems) will be resources to an entity that holds them if those services contribute to achieving the entity’s service delivery and other objectives.</td>
</tr>
<tr>
<td>AG13</td>
<td>An entity controls the resource if it has the ability to use the resource or direct other parties on its use or prevent other parties from using the resource so as to derive service potential or economic benefits embodied in the resource in the achievement of its service delivery or other objectives.</td>
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<tr>
<td>AG14</td>
<td>In assessing whether it presently controls a resource, an entity assesses whether one or more of the following indicators of control exists:</td>
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<td>(a) Legal ownership;</td>
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<td>(b) Access to the resource, or the ability to deny or restrict others to access the resource;</td>
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<tr>
<td></td>
<td>(c) The means to ensure that the resource is used to achieve its objectives; or</td>
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**Notes:**
- Paragraphs AG10-AG12 are new paragraphs to reflect IPSASB instructions in June 2020.
- Paragraphs AG13-AG15 are amended here for IPSASB instructions in June 2020 (Agenda Item 10.2.3). Further revisions to address comments received from the IPSASB’s mid-period review of ED 78.
### Recognition

**AG16.** Items such as spare parts, stand-by equipment and servicing equipment are recognized in accordance with this IPSAS when they meet the definition of property, plant, and equipment. Otherwise, such items are classified as inventory.

**AG17.** Under the recognition principle in paragraph 7, an entity does not recognize in the carrying amount of an item of property, plant, and equipment the costs of the day-to-day servicing of the item. Rather, these costs are recognized in surplus or deficit as incurred. Costs of day-to-day servicing are primarily the costs of labor and consumables, and may include the cost of small parts. The purpose of these expenditures is often described as for the “repairs and maintenance” of the item of property, plant, and equipment.

**AG18.** Parts of some items of property, plant, and equipment may require replacement at regular intervals. For example, a road may need resurfacing every few years, a furnace may require relining after a specified number of hours of use, or aircraft interiors such as seats and galleys may require replacement several times during the life of the airframe. Items of property, plant, and equipment may also be required to make a less frequently recurring replacement, such as replacing the interior walls of a building, or to make a non-recurring replacement. Under the recognition principle in paragraph 7, an entity recognizes in the carrying amount of an item of property, plant, and equipment the cost of replacing part of such an item when that cost is incurred if the recognition criteria are met. The carrying amount of those parts that are replaced is derecognized in accordance with the derecognition provisions of this [draft] Standard (see paragraphs 64–70).

**AG19.** A condition of continuing to operate an item of property, plant, and equipment (for example, an aircraft) may be performing regular major inspections for faults regardless of...
whether parts of the item are replaced. When each major inspection is performed, its cost is recognized in the carrying amount of the item of property, plant, and equipment as a replacement if the recognition criteria are satisfied. Any remaining carrying amount of the cost of previous inspection (as distinct from physical parts) is derecognized. This occurs regardless of whether the cost of the previous inspection was identified in the transaction in which the item was acquired or constructed. If necessary, the estimated cost of a future similar inspection may be used as an indication of what the cost of the existing inspection component was when the item was acquired or constructed.

### Measurement at Recognition

#### Elements of cost

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<tr>
<th>Paragraph</th>
<th>AG20. Examples of costs that are not costs of an item of property, plant, and equipment are:</th>
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<td>(a) Costs of opening a new facility;</td>
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<td>(b) Costs of introducing a new product or service (including costs of advertising and promotional activities);</td>
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<td></td>
<td>(c) Costs of conducting business in a new location or with a new class of purchasers (including costs of staff training);</td>
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<td></td>
<td>(d) Administration and other general overhead costs; and</td>
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<td></td>
<td>(e) Costs of day-to-day servicing or repairs and maintenance.</td>
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<tr>
<th>Paragraph</th>
<th>AG21. The cost of a self-constructed asset is determined using the same principles as for an acquired asset. If an entity makes similar assets for sale in the normal course of operations, the cost of the asset is usually the same as the cost of constructing an asset for sale (see IPSAS 12). Therefore, any internal surpluses are eliminated in arriving at such costs. Similarly, the cost of abnormal amounts of wasted material, labor, or other resources incurred in self-constructing an asset is not included in the cost of the asset. IPSAS 5, Borrowing Costs, establishes criteria for the recognition of interest as a component of the carrying amount of a self-constructed item of property, plant, and equipment.</th>
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<tr>
<th>Paragraph</th>
<th>AG22. Bearer plants are accounted for in the same way as self-constructed items of property, plant, and equipment before they are in the location and condition necessary to be capable of operating in the manner intended by management. Consequently, references to ‘construction’ in this [draft] Standard should be read as covering activities that are necessary to cultivate bearer plants before they are in the location and condition necessary to be capable of operating in the manner intended by management.</th>
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#### Depreciation

<table>
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<tr>
<th>Paragraph</th>
<th>AG23. An entity allocates the amount initially recognized in respect of an item of property, plant, and equipment to its significant parts and depreciates separately each such part. For</th>
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2 Title is likely to change to reflect IPSASB’s decisions with respect to the Measurement project.
example, it may be required to depreciate separately the substructure and the surface of a road. Similarly, it may be appropriate to depreciate separately the airframe and engines of an aircraft. If an entity acquires property, plant, and equipment subject to an operating lease in which it is the lessor, it may also be appropriate to depreciate separately amounts reflected in the cost of that item that are attributable to favorable or unfavorable lease terms relative to market terms.

### Depreciable Amount and Depreciation Period

AG24. The depreciable amount of an asset is determined after deducting its residual value. In practice, the residual value of an asset is often insignificant, and therefore immaterial in the calculation of the depreciable amount.

AG25. The residual value of an asset may increase to an amount equal to or greater than the asset's carrying amount. If it does, the asset's depreciation charge is zero unless and until its residual value subsequently decreases to an amount below the asset's carrying amount.

AG26. Depreciation of an asset begins when it is available for use, i.e., when it is in the location and condition necessary for it to be capable of operating in the manner intended by management. Depreciation of an asset ceases at the earlier of the date that the asset is classified as held for sale (or included in a disposal group that is classified as held for sale) in accordance with [draft] IPSAS [X] (ED 79), Non-current Assets Held for Sale and Discontinued Operations and the date that the asset is derecognized. Therefore, depreciation does not cease when the asset becomes idle or is retired from active use and held for disposal unless the asset is fully depreciated. However, under usage methods of depreciation, the depreciation charge can be zero while there is no production.
### Expected Physical Wear and Tear

Expected physical wear and tear, which depends on operational factors such as the number of shifts for which the asset is to be used and the repair and maintenance program, and the care and maintenance of the asset while idle.

### Technical or Commercial Obsolescence

Technical or commercial obsolescence arising from changes or improvements in production, or from a change in the market demand for the product or service output of the asset. Expected future reductions in the selling price of an item that was produced using an asset could indicate the expectation of technical or commercial obsolescence of the asset, which, in turn, might reflect a reduction of the future economic benefits or service potential embodied in the asset.

### Legal or Similar Limits

Legal or similar limits on the use of the asset, such as the expiry dates of related leases.

### Useful Life of an Asset

The useful life of an asset is defined in terms of the asset's expected utility to the entity. The asset management policy of an entity may involve the disposal of assets after a specified time, or after consumption of a specified proportion of the future economic benefits or service potential embodied in the asset. Therefore, the useful life of an asset may be shorter than its economic life. The estimation of the useful life of the asset is a matter of judgment based on the experience of the entity with similar assets.

### Depreciation Method

A variety of depreciation methods can be used to allocate the depreciable amount of an asset on a systematic basis over its useful life. These methods include the straight-line method, the diminishing balance method, and the units of production method. Straight-line depreciation results in a constant charge over the useful life if the asset's residual value does not change. The diminishing balance method results in a decreasing charge over the useful life. The units of production method results in a charge based on the expected use or output. The entity selects the method that most closely reflects the expected pattern of consumption of the future economic benefits or service potential embodied in the asset. That method is applied consistently from period to period unless there is a change in the expected pattern of consumption of those future economic benefits or service potential.

### Depreciation – Useful Life of an Asset

The future economic benefits or service potential embodied in an item of property, plant, and equipment are consumed by the entity principally through the use of the asset.
However, economic, political, social, and legal factors may also affect the useful life. Technical or commercial obsolescence and wear and tear while an asset remains idle may also result in the diminution of the economic benefits or service potential that might otherwise have been obtained from the asset. The useful life is the shorter of the periods determined by these factors. Consequently, the following factors are considered in determining the useful life of an asset:

- **(a)** Expected usage of the asset. Usage is assessed by reference to the asset’s expected capacity or physical output.
- **(b)** Expected physical wear and tear, which depends on operational factors such as the number of shifts for which the asset is to be used and the repair and maintenance program, and the care and maintenance of the asset while idle.
- **(c)** The level of maintenance expenditure required to obtain the expected future economic benefits or service potential from the asset and the entity’s ability and intention to reach such a level.
- **(d)** Technical or commercial obsolescence arising from changes or improvements in production, or from a change in the market demand for the product or service output of the asset. Expected future reductions in the selling price of an item that was produced using an asset could indicate the expectation of technical or commercial obsolescence of the asset, which, in turn, might reflect a reduction of the future economic benefits or service potential embodied in the asset.
- **(e)** The period of control over the asset and legal or similar limits on the use of the asset, such as the expiry dates of related leases.
- **(f)** Typical product life cycles for the asset and public information on estimates of useful lives of similar assets that are used in a similar way;
- **(g)** The stability of the industry in which the asset operates and changes in the market or government and service recipients’ demand for the products or services output from the asset;
- **(h)** Expected actions by competitors or potential competitors.
- **(i)** Whether the useful life of the asset is dependent on the useful life of other assets of the entity.

Paragraphs AG34 is IPSAS 17.73

AG34 AG30. The useful life of an asset is defined in terms of the asset’s expected utility to the entity. The asset management policy of an entity may involve the disposal of assets after a specified time, or after consumption of a specified proportion of the future economic benefits or service potential embodied in the asset. Therefore, the useful life of an asset may be shorter than its economic life. The estimation of the useful life of the asset is a matter of judgment based on the experience of the entity with similar assets.

**Finite and Indefinite Useful Lives**

**New – example of a non-land asset with an**

AG32 AG31. The useful lives of property, plant, and equipment assets, including buildings, are generally finite. However, there are circumstances in which property, plant, and equipment
<table>
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<tr>
<th>Notes</th>
<th>[DRAFT] IPSAS [X] (ED 78), Property, Plant, and Equipment</th>
<th>IAS 16?</th>
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<tr>
<td>indefinite useful life</td>
<td>could have an indefinite useful life. For example, land is usually considered to have an indefinite useful life. A heritage painting or sculpture held in a protective environment that is carefully controlled to preserve the asset, could be considered to have an indefinite useful life, so long as those conditions continue to apply.</td>
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<tr>
<td>IPSAS 31.91 revised to refer to property, plant and equipment.</td>
<td>Given the history of rapid changes in technology, computers and many other property, plant, and equipment assets are susceptible to technological obsolescence. Therefore, it will often be the case that their useful life is short. Expected future reductions in the selling price of an item that was produced using a property, plant, and equipment asset could indicate the expectation of technological or commercial obsolescence of the asset, which, in turn, might reflect a reduction of the future economic benefits or service potential embodied in the asset.</td>
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<tr>
<td>IPSAS 17.74 sentence and new – sentence on land having a definite useful life</td>
<td>With some exceptions, such as quarries and sites used for landfill, land has an indefinite useful life and therefore is not depreciated. Another example of land with a finite useful life is when land is being encroached by rising sea levels with the result that the entity expects that, within a finite period of time, the land will no longer be useable due either to a severe and continual risk of regular flooding or actual submersion beneath the water.</td>
<td>No</td>
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<td>Paragraphs AG34 and AG35 are new paragraphs to reflect IPSASB instructions in March 2020.</td>
<td>An entity that controls land that is being consumed as a result of, for example, mining or quarrying activities will need to consider the period over which benefits or service potential are expected to be derived from, and the effect of carrying out those activities on the value of the land to determine the appropriate depreciable period and amount.</td>
<td>No</td>
</tr>
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<td>AG33. Where land is being lost or displaced as a result of, for example, coastline erosion, the entity will need to apply:</td>
<td>Depending on the factors associated with the loss or displacement of land, an entity may need to consider the appropriateness of depreciating the land in future reporting periods, and will continue to assess for impairment in accordance with the requirements of this [draft] Standard.</td>
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<tr>
<td>Disclosure</td>
<td>Disclosures on unrecognized property, plant, and equipment</td>
<td>No</td>
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<td>AG36. [Placeholder]</td>
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<td>AG37. [Placeholder]</td>
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<td>AG38. [Placeholder]</td>
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Placeholders to reflect IPSASB decision (September 2020) to add core text and application guidance on disclosures for unrecognized assets (Agenda Item 9.2.3)
Basis for Conclusions

This Basis for Conclusions accompanies, but is not part of, [draft] IPSAS [X] (ED 78), Property, Plant, and Equipment.

Replacement of IPSAS 17: Revisions from the Heritage, Infrastructure and Measurement Projects

The IPSASB’s Heritage, Infrastructure, and Measurement Projects

BC1. [Draft] IPSAS [X] (ED 78) is based on and replaces IPSAS 17, Property, Plant, and Equipment. It reflects revisions to the underlying IPSAS 17 text as a result of the IPSASB’s Heritage, Infrastructure Assets, and Measurement projects. For these projects the IPSASB issued two consultation papers (CPs) (for Heritage and Measurement) and consulted with constituents on infrastructure-related issues through regional roundtables and national standard setter fora.

BC2. This Basis for Conclusions focuses on heritage and infrastructure related revisions to the underlying IPSAS 17 text. The Basis for Conclusions in [Draft] IPSAS [X] (ED 77), Measurement explains the IPSASB’s measurement-related decisions, which were to:
   (a) Move IPSAS 17’s generic measurement requirements into [Draft] IPSAS [X] (ED 77);
   (b) Clarify the initial measurement principles; and
   (c) Replace references to fair value with [current value][current service value] where appropriate.

Overview of Heritage and Infrastructure Revisions

BC3. This section provides an overview of revisions to address constituents’ views with respect to IPSAS 17’s application to heritage and infrastructure assets. Further detail on specific decisions is provided in subsequent sections.

BC4. After considering responses to the Heritage CP and constituents’ feedback on infrastructure assets the IPSASB concluded that:
   (a) [Draft] IPSAS [X] (ED 78) should fully apply to heritage assets that are property, plant, and equipment; and
   (b) Additional authoritative and non-authoritative guidance should be included in [Draft] IPSAS [X] (ED 78) to clarify its application to heritage and infrastructure assets.

Heritage Assets: Application of IPSAS XX and Additional Guidance
BC5. The IPSASB concluded that the principles in [draft] IPSAS [X] (ED 78) should fully apply to heritage assets, on the basis that:

(a) Recognition of heritage assets will increase the transparency of heritage-related financial information so that users are better able to hold entities accountable for their heritage-related decisions, particularly those that support heritage preservation;
(b) Their heritage nature does not prevent heritage items being assets for financial reporting purposes;
(c) Many heritage items are assets and should be recognized in the statement of financial position when they meet the Conceptual Framework for General Purpose Financial Reporting by Public Sector Entities (the Conceptual Framework) recognition criteria;
(d) Since the heritage nature of an item is not, by itself, a reason for special financial reporting requirements a separate, heritage focused IPSAS is unnecessary; and
(e) Where heritage items are within the scope of another IPSAS, that Standard should apply. (for example, heritage assets that are intangible in nature).

BC6. The IPSASB considered whether [draft] IPSAS [X] (ED 78) should include additional authoritative and/or non-authoritative guidance to support its application to heritage assets. On the basis that no principles existed to address these topics the IPSASB decided to add authoritative guidance on:

(a) Scope (see paragraphs AG2-AG3);
(b) Resource (see paragraphs AG10-AG12);
(c) Depreciation (see paragraphs 49–57 and AG31); and
(d) Disclosures (see paragraphs AGXX-AGXX).

BC7. On the basis that additional non-authoritative guidance was needed to enhance the consistency of entities’ application of [draft] IPSAS [X] (ED 78), the IPSASB decided to add non-authoritative guidance on:

(a) Control (see paragraphs IG6-IG8);
(b) Recognition related to subsequent expenditure on unrecognized heritage assets (see paragraphs IG9); and
(c) Capitalization thresholds (see paragraphs IG10 – IG14);
(d) Measurement at [current value] (see paragraphs IG15-IG18); and
(e) Depreciation related to useful lives (see paragraphs IG22-IG25).

Infrastructure Assets: Additional Guidance
BC8. The IPSASB considered the issues raised by constituents related to accounting for infrastructure assets. When evaluating whether additional guidance should be included in [draft] IPSAS [X] (ED 78), the IPSASB concluded where existing principles were clear, non-authoritative guidance should be added. Where no principle existed, a principle should be developed. The IPSASB decided to add authoritative guidance to [draft] IPSAS [X] (ED 78) on the following topics:

(a) Identifying parts of infrastructure assets (see paragraph AG23);
(b) Characteristics and examples of infrastructure assets (see paragraphs AG4-AG6); and
(c) Control and resource (see paragraphs 6 and AG8-AG15).

BC9. The IPSASB further concluded that, on the basis that this is needed to enhance the consistency of entities' application of [draft] IPSAS [X] (ED 78), additional non-authoritative guidance should be added to address:

(a) Control of land under or over infrastructure assets (see paragraphs IG4-IG5 and IE1-IE5);
(b) Capitalization thresholds (see paragraphs IG10-IG14);
(c) Valuing land under or over infrastructure assets (see paragraphs IG19-IG21);
(d) Depreciation (see paragraphs IE/IGXX-IE/IGXX);
(e) Under-maintenance of assets (see paragraphs IG31-IG34);
(f) Use of condition-based information to estimate depreciation of infrastructure assets (see paragraphs IE/IGXX-IE/IGXX), and
(g) Identifying parts of infrastructure assets (see paragraphs IG26-IG30).

BC10. On the basis that sufficient guidance exists, the IPSASB concluded that no additional guidance is needed in [draft] IPSAS [X] (ED 78) to address:

(a) A separate definition for infrastructure assets because they are property, plant, and equipment;
(b) Spare parts for infrastructure assets;
(c) Costs to dismantle infrastructure assets;
(d) Separately accounting for land under or over infrastructure assets;
(e) Renewals accounting;
(f) Impairment; and
(g) Derecognition.

The IPSASB included its rationale for not adding guidance to address these issues in the Basis for Conclusions to inform constituents that the IPSASB considered these issues.

Scope

Remove the Heritage Scope Exclusion Paragraphs

BC11. As explained in BC5, the IPSASB concluded that IPSAS 17 should fully apply to heritage items that are property, plant, and equipment. Therefore, IPSAS 17’s scope exclusion for
**NOTES**

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<thead>
<tr>
<th><strong>DRAFT IPSAS [X] (ED 78), Property, Plant, and Equipment</strong></th>
<th><strong>IAS 16?</strong></th>
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<tr>
<td>heritage assets and related paragraphs have been deleted in the replacement Standard, [draft] IPSAS [X] (ED 78).</td>
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**Move List of Property, Plant, and Equipment to Application Guidance**

BC12. In reaching its decision on heritage assets, the IPSASB noted that the list of different types of property, plant, and equipment included in the IPSAS 17 section on scope is more in the nature of application guidance than that of principles to include in core text. On this basis the IPSASB decided that the list and related descriptions should be moved to application guidance in [draft] IPSAS [X] (ED 78).

**Definition of Property, Plant, and Equipment**

**Definition, Description and Characteristics of Heritage and Infrastructure Assets**

BC13. The IPSASB decided neither heritage nor infrastructure assets need to be defined, because they are subsets of property, plant, and equipment and IPSAS 17 principles on property, plant, and equipment also apply to heritage and infrastructure. Based on responses to the Heritage CP and constituents’ comments related to infrastructure, the IPSAS concluded that the [draft] IPSAS [X] (ED 78), should include application guidance, including the characteristics of heritage and infrastructure, to help entities identify their heritage assets (see paragraphs AG2-AG3) and infrastructure assets (see paragraphs AG4-AG6).

BC14. The IPSASB decided that the characteristics should be those that distinguish heritage and infrastructure assets from other property, plant, and equipment, while also presenting complexities in the application and implementation of [draft] IPSAS [X] (ED 78) principles. On this basis, the IPSASB decided:

(a) Heritage assets are characterized as irreplaceable and having restrictions and long and sometimes indefinite useful lives; and

(b) Infrastructure assets are characterized as networks or systems that have long useful lives.

BC15. For infrastructure assets the IPSASB also decided to update the examples of infrastructure assets and include the various assets that make up these “networks or systems” and link these examples to the revised characteristics of infrastructure assets of “networks or systems” and “long useful lives.”

**Replace the term ‘tangible items' with ‘tangible assets’**

BC16. The definition of property, plant, and equipment in IPSAS 17 referred to ‘tangible items’ with no reference to ‘asset’. A strict application of this definition could lead to the recognition of an item that did not meet the definition of
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<th>NOTES</th>
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<td>an asset in the Conceptual Framework or IPSAS 1, <em>Presentation of Financial Statements</em>[^3].</td>
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<tr>
<td>BC17.</td>
<td>IPSAS 17 only provided guidance on when to recognize an asset but did not provide guidance on what constitutes control of an asset and what constitutes a resource.</td>
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<tr>
<td>BC18.</td>
<td>There are two types of uncertainty that need to be considered when determining whether an asset should be recognized. The first is existence uncertainty—whether the definition of an asset has been satisfied. The second is measurement uncertainty—whether the asset can be measured in a manner that achieves the qualitative characteristics.</td>
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<td>BC19.</td>
<td>The uncertainty about the existence of an asset relates to certain characteristics of an asset—in particular whether an item such as a heritage item is a resource and whether an entity controls the asset.</td>
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| BC20. | The lack of reference to ‘asset’ caused confusion in practice because there are instances when it is uncertain that an item is a resource or that it is controlled by an entity. To address the uncertainty, the IPSASB:  
(a) Replaced the term “tangible items” with “tangible assets,” in the [draft] IPSAS [X] (ED 78) definition of property, plant, and equipment (see paragraph 6);  
(b) Added authoritative guidance on control and resource in [draft] IPSAS [X] (ED 78) (see paragraphs AG8-AG15); and  
(c) Added non-authoritative implementation guidance and illustrative examples on control [draft] IPSAS [X] (ED 78) (see paragraphs IG1-IG8 and IE1-IE5). |  |

### Recognition

#### Heritage assets: The operational/non-operational distinction

**BC21.** The IPSASB considered whether only those heritage assets that are used for non-heritage purposes, called “operational” heritage assets, should be recognized. Some national jurisdictions use the term “non-operational” to describe heritage assets that are used purely for non-heritage purposes. For example, museum collections held for public appreciation are non-operational heritage assets. Some constituents argued that non-operational heritage assets should not be recognized.

**BC22.** However, the IPSASB concluded that both operational and non-operational heritage items can be assets, since both can meet the Conceptual Framework’s definition of an asset (resource, control, past event). On this basis the IPSASB decided that the distinction is not relevant to a decision on whether or not to recognize an asset.

### Spare Parts for Infrastructure Assets

**BC23.** The IPSASB considered whether [draft] IPSAS [X] (ED 78) provided sufficient guidance on the accounting treatment of spare parts for infrastructure assets. The IPSASB

[^3]: An asset is defined in the Conceptual Framework and IPSAS 1 and contains three common components: resource(s), control and past event.
concluded that accounting for spare parts is a generic issue and that sufficient authoritative guidance exists in [draft] IPSAS [X] (ED 78) for infrastructure asset spare parts that meet the definition of property, plant, and equipment, and in IPSAS 12, Inventories for spare parts that meet the definition of inventory.

**Capitalization thresholds**

BC24. The IPSASB considered the issues identified by constituents with respect to establishing capitalization thresholds for costs related to infrastructure assets. The IPSASB concluded that this issue applies broadly to property, plant, and equipment, and that any guidance should also apply broadly, and not be restricted to applying only rather than to infrastructure assets only.

BC25. The IPSASB noted that this issue is generally considered to be a practical issue that is best addressed by management through entities’ management considering their specific assets holdings and applying the need to meet users’ information needs, materiality, and cost-benefit. However, the IPSASB concluded that there is scope for guidance on the factors for consideration when entities set their capitalization thresholds. On this basis the IPSASB decided to add Implementation Guidance (see paragraphs IG10-IG14) on the factors to consider when establishing capitalization thresholds for property, plant, and equipment.

**Treatment of subsequent expenditure on unrecognized heritage assets**

BC26. The IPSASB considered constituents’ views on additional guidance on decisions to capitalize or expense subsequent expenditure on unrecognized heritage assets. The IPSASB concluded that there is sufficient authoritative guidance to address heritage-related concerns. As a result of its decision not to have a heritage scope exclusion in [draft] IPSAS [X] (ED 78), which results in the [draft] Standard’s authoritative guidance fully applying to heritage assets. Therefore heritage assets that satisfy the recognition criteria will be recognized. Given measurement difficulties associated with heritage assets some may not be able to be recognized. However, the IPSASB decided that additional implementation guidance (see paragraph IG9) is needed on when to capitalize/expense subsequent expenditure on unrecognized property, plant, and equipment to clarify the [draft’s] Standard’s principles on this topic.

**Measurement**

**Current value measurement of heritage assets**

BC27. The IPSASB considered constituents’ views on the need for guidance on application of the current value model to heritage assets. The IPSASB decided that, on the basis that entities need support to ensure consistent implementation of the [draft’s] Standard’s principles, additional implementation guidance (see paragraphs IG15-IG18) is needed on [current service value] when heritage assets are (a) viewed as irreplaceable, and (b) have restrictions on their use.
### Initial Measurement

**Elements of Cost**

**Costs to dismantle Infrastructure Assets**

BC28. The IPSASB considered whether sufficient guidance existed for accounting for costs to dismantle infrastructure assets because there is a need to highlight the impact of the future environmental or decommissioning costs on the value of acquired property, plant, and equipment, including infrastructure assets.

BC29. The IPSASB decided that this issue is not specific to infrastructure assets, and no additional guidance is necessary, because sufficient authoritative guidance exists in:

(a) This [draft] IPSAS [X] (ED 78) which states that the cost of an item of property, plant, and equipment includes the initial estimate of the costs of dismantling and removing the item and restoring the site on which it is located; and

(b) IPSAS 19, *Provisions, Contingent Liabilities and Contingent Assets* which requires a public sector entity to recognize a provision for decommissioning costs to the extent that the public sector entity is obliged to rectify damage already caused.

### Subsequent Measurement

**Accounting Policy Choice**

BC30. The IPSASB considered whether additional guidance was necessary to assist in making the accounting policy choice of subsequently measuring classes of property, plant, and equipment either on a current value or historical cost basis.

BC31. The IPSASB concluded no additional guidance was needed. Management should continue to apply its judgement in choosing an accounting policy that results in information that:

(a) Is relevant to the accountability and decision-making needs of users,

(b) Faithfully represents the financial position, financial performance, and cash flows of the entity,

(c) Meets the qualitative characteristics of understandability, timeliness, comparability, and verifiability; and

(d) Considers the constraints on information included in general purpose financial reports and the balance between the qualitative characteristics.

### Current Value Model

**Current Service Value**

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NOTES

**DRAFT IPSAS [X] (ED 78), Property, Plant, and Equipment**

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**Current Value Model**

**Current Service Value**

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Paragraph BC32 is added to address in-period comment.
 Dedication

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<td><strong>BC32.</strong> During the development of [draft] IPSAS (S), Measurement, the IPSASB considered concerns raised by respondents with regards to the application of fair value in the public sector. While respondents agreed fair value was applicable in some circumstances in the public sector, they raised concerns about its applicability to the significant number of public sector assets held for their operational capacity. Respondents noted it was inappropriate to apply fair value to those assets because the following concepts are not applicable: (a) Highest and best use; and (b) Maximizing the use of market participant data.</td>
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<td><strong>BC33.</strong> The IPSASB addressed respondents’ concerns by developing a public sector specific measurement basis—Current Service Value. This measurement basis considers the unique measurement challenges of assets held for their operational capacity and therefore is appropriate for measuring an item of property, plant, and equipment, as these items are held for the provision of service in the public sector.</td>
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<td><strong>BC34.</strong> The IPSASB concluded that, in rare cases, an item of property, plant, and equipment falling within the scope of this [draft] Standard may be held for their financial capacity and so, using the measurement hierarchy, would be accounted for using the fair value measurement basis. This may be the case where a jurisdiction determines that the difference between fair value and current service value might be material in the context of consolidation and measuring the difference between the two bases may be onerous. However, the principle of measuring assets held for their financial capacity at fair value and assets held for their operational capacity at current service value remains appropriate and a jurisdiction may determine that no consolidation adjustments are required where assets are held for different objectives.</td>
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Valuing land under or over infrastructure assets

**BC32-BC35.** The IPSASB considered whether existing guidance addressed the approach to valuing land under or over infrastructure assets such as land under roads and railways. **BC33-BC36.** The IPSASB decided to add non-authoritative Implementation Guidance to [draft] IPSAS [X] (ED 78) to clarify the existing principles related to the valuation of land under or over infrastructure assets (see paragraphs IG19-IG21).

**Depreciation**

**Finite and indefinite useful lives**

**New Paragraph BC36-** added to reflect the IPSASB September 2020 decision (Agenda paper 9.2.8)

**BC34.** When considering accounting for land under or over infrastructure the IPSASB noted that generally land has an indefinite useful life and is not, therefore, depreciated. Exceptions, where land should be depreciated, include where:
(a) Land is being consumed due to depletion (such as mines and quarries or landfill sites), or
(b) Land is being lost or displaced as a result of natural phenomena such as climate change (for example, rock or soil erosion, or desertification).

**BC35-BC38.** The IPSASB decided that the IPSAS 17 discussion of useful lives should be revised to better address situations where land has a finite useful life and should be depreciated (see paragraphs 49-52). During its consideration of this issue and those raised by heritage assets’ useful lives the IPSASB decided that the terminology of definite and indefinite useful lives, as used in IPSAS 31, Intangible Assets, should be used in ED 78. This provides consistent terminology across IPSAS when considering useful lives for asset depreciation.

**BC36-BC39.** The IPSASB further decided that the revised core text and related application guidance should also provide guidance to address situations where property, plant, and equipment assets (e.g. heritage assets, discussed further below) could have indefinite useful lives and should not, therefore be depreciated.

**New**

**BC37-BC40.** The IPSASB considered that most non-land PP&E have finite useful lives. On this basis the IPSASB decided to include a rebuttable presumption that non-land PP&E has a finite useful life, so that an entity must have evidence to rebut that presumption before it can treat non-land PP&E as having an indefinite useful life (see paragraph 49).

**New**

**Depreciation of heritage assets**

**BC38-BC41.** Responses to the Heritage CP showed support for applying the same depreciation requirements to heritage assets as those applied to other types of property, plant, and equipment. Where respondents disagreed with that approach, some argued against depreciation, while others stated that guidance is needed on how to estimate heritage assets’ useful lives and identify heritage assets for which there is no depreciation expense. On the basis that many heritage assets are used up over time, as they deliver services and/or economic benefits, the IPSASB concluded that heritage assets can be depreciable assets.

**BC39-BC42.** However, the IPSASB further concluded that heritage assets may have very long and even indefinite useful lives, due to factors such as their nature and/or the circumstances in which they are held. On this basis the IPSASB decided that heritage assets may have very long and even indefinite useful lives, due to factors such as their nature and/or the circumstances in which they are held. On this basis the IPSASB decided that coverage of useful lives should be clarified to apply to situations where property, plant, and equipment generally could have indefinite useful lives.

**New Paragraph BC52-added to reflect the IPSASB September 2020 decision (Agenda paper 9.2.8)**

**BC40-BC43.** To support entities’ assessments of whether a heritage asset has a finite or indefinite useful life the IPSASB decided to add non-authoritative Implementation Guidance (see paragraphs IG22-IG25).
Paragraph AG23 was revised and paragraphs BC44-BC48 and IG26-IG30 are added to reflect the IPSASB decision at the September 2020 meeting to add guidance on componentization – identifying significant parts of infrastructure assets (Agenda Item 9.2.9).

**BC41-BC44.** The IPSASB considered whether it was a challenge to determine the appropriate unit of account when identifying significant parts of infrastructure assets that should be separately depreciated.

**BC42-BC45.** The IPSASB noted the existing principles are clear that an asset could have different units of account for depreciation because parts of an item of property, plant, and equipment with a significant cost in relation to the total cost of the item shall be depreciated separately. This principle holds true for infrastructure assets, but judgement needs to be exercised in determining or identifying the units of account, which may be separate assets in their own right.

**BC43-BC46.** The IPSASB decided to revise the example in paragraph AG23 in the application guidance which listed a number of assets (such as curbs and channels, pavements and bridges) that make up the road system as the units of account or parts that should be identified for separate recognition and depreciation to illustrate the principle of depreciating separately the parts of items of property, plant, and equipment at the appropriate level.

**BC44-BC47.** The IPSASB acknowledged that the separate units of account described in the replaced example may be relevant in some jurisdictions, but considered that jurisdictions will apply judgment in determining the appropriate units of accounts for their circumstances.

**BC45-BC48.** The IPSASB also added implementation guidance (see paragraphs IG26-IG30).

New, Paragraph BC53-added to reflect the IPSASB September 2020 decision (Agenda paper 9.2.8)

Annual impairment tests for property, plant, and equipment with indefinite useful lives

**BC46-BC49.** The IPSASB decided that where an entity has assessed property, plant, and equipment as having indefinite useful lives it is important that the assets be reviewed regularly for indicators of impairment. On this basis the IPSASB decided to insert a requirement for annual reviews for indicators of impairment applied to such assets into ED 78 (the IPSAS 17 replacement IPSAS XX), (see paragraph 53).

Separately accounting for land and infrastructure assets

**BC47-BC50.** The IPSASB considered the issue of whether land and infrastructure assets are separate assets that should be separately accounted for.

**BC48-BC51.** The IPSASB decided that no additional authoritative guidance should be included in [draft] IPSAS [X] (ED 78) because the guidance is clear that:

(a) Land and buildings are separable assets and are separately accounted and valued even when they are acquired together (see paragraph 52); and

(b) Land, buildings, roads and electricity transmission networks are examples of separate classes of property, plant, and equipment that should be separately disclosed (see paragraphs 36 and 71).

Renewals Accounting
### Impairment

**Paragraphs BC52-BC55.** The IPSASB considered whether an entity’s intention to preserve and/or maintain heritage and infrastructure assets could give rise to liabilities. For a liability to exist the entity must have an unavoidable obligation (i.e. little or no realistic alternative to avoid). An obligation must be to an external party. An entity cannot be obligated to itself.

**Paragraphs BC53-BC56.** While acknowledging that entities who hold heritage and infrastructure assets often intend to preserve and/or maintain them and there may be expectations on the entity to do so, the IPSASB concluded that neither intentions nor expectations are sufficient to establish a present obligation because an entity does not have an unavoidable present obligation to incur future expenditure. Therefore, unless arrangements are in place that create an obligation to an external party for the entity to preserve and/or maintain heritage and infrastructure assets, no liability exists arising from the entity’s plan and/or intention to do so.

### Impairment of Heritage and Infrastructure Assets

**Paragraphs BC54-BC57.** The IPSASB considered if sufficient guidance existed on whether an infrastructure asset network or system is impaired when one part becomes damaged or inoperable. The IPSASB also considered whether additional guidance is needed to address the impairment of heritage assets.

**Paragraphs BC55-BC58.** The IPSASB decided no additional guidance is necessary because sufficient authoritative impairment guidance exists in IPSAS 21, *Impairment of Non-Cash-Generating Assets*, and IPSAS 26, *Impairment of Cash-Generating Assets*, to adequately address the impairment of both heritage and infrastructure assets, including guidance for entities to determine when a network is impaired.

### Under-maintenance of assets
Paragraphs BC59-BC61 and IG31-IG34; and are added to reflect the IPSASB decision at the September 2020 meeting to add guidance on "under-maintenance of assets" (Agenda Item 9.2.11).

**Derecognition**

**Derecognition of infrastructure assets**

The IPSASB considered whether sufficient derecognition guidance existed. The IPSASB noted the derecognition issue arises because parts of infrastructure assets are constantly replaced and there could be a lack of detailed accounting records to support the derecognition of the carrying amounts of the parts that are replaced.

The IPSASB decided not to add additional derecognition guidance in [draft] IPSAS [X] (ED 78) because sufficient authoritative derecognition guidance exists and the challenges identified by constituents when accounting for derecognition of parts of infrastructure assets appear administrative and related to record keeping.

**Presentation—Display and Disclosure**

**Heritage: Focus on information in the financial statements**

The IPSASB noted that some jurisdictions disclose supplementary information about heritage assets as a substitute for recognising heritage assets in the financial statements. Supplementary disclosures may include qualitative information that is not commonly included in the financial statements. This type of information could be useful for broader accountability purposes such as reporting on an entity’s heritage-related service performance.

The IPSASB concluded that it would focus on guidance related to the financial statements on the basis that the *Recommended Practice Guidelines* (RPGs) provide sufficient guidance for reporting supplementary information about heritage assets outside of the financial statements. The RPGs allow entities to align heritage-related supplementary information to the specific information needs arising from their heritage holdings, heritage-related objectives, and national or local context.

**Disclosures related to unrecognized property, plant, and equipment**

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<td>This guidance accompanies, but is not part of, [draft] IPSAS [X] (ED 78), Property, Plant, and Equipment</td>
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**Definition of Property, Plant, and Equipment**

**Assessment of Control**

These IG paragraphs originally related to control over heritage items. They have been moved here given their generally applicability.

These paragraphs were reviewed by the IPSASB at its September 2020 meeting to add guidance on control over items in a heritage collection (Agenda Item 9.2.3).

IG1. **Apply IPSAS XX**: When assessing control an entity applies IPSAS XX’s application guidance on control assessment contained in paragraphs AG13–AG15. AG13 states that an entity controls the resource if it has the ability to use the resource or direct other parties on its use or prevent other parties from using the resource so as to derive service potential or economic benefits embodied in the resource in the achievement of its service delivery or other objectives. AG14 identifies the indicators of control as follows:

(a) Legal ownership;
(b) Access to the resource, or the ability to deny or restrict others to access the resource;
(c) The means to ensure that the resource is used to achieve its objectives; or
(d) The existence of an enforceable right to service potential or the ability to generate economic benefits arising from the resource.

IG2. **Control over tangible items**: This implementation guidance focuses on control over items of property, plant, and equipment, where the resource is represented by a tangible item. Intangible assets arising from a loan, lease or other type of “right to use” are not addressed in this implementation guidance since because they are outside of IPSAS XX’s scope.

IG3. **Apply professional judgement**: The entity applies professional judgement to the facts of each situation when:

(a) Assessing the existence of indicators of control; and
(b) Reaching a view on whether or not control exists.

**Control of land under or over property, plant, and equipment**

Property, plant, and equipment can be built on land that is fundamental to the operation of the item, but is owned by another entity. For example, State or Municipal Governments may construct road networks on land that is owned by another level of government. Should the entity that controls the property, plant, and equipment also recognize the land?

Paragraphs IG4-IG5; and IE1-IE5 are added to reflect the IPSASB decision at the July 2020 meeting to add guidance on control of land under or over infrastructure assets (Agenda Item 2.2.3).

IG4. Where an item of property, plant, and equipment is built on land owned by another level of government, legal ownership of that land will not be held by the entity constructing the property, plant, and equipment. However, legal ownership is only one indicator of demonstrating control of a resource. An entity may demonstrate that it controls the resource even when there is no legal ownership because it has the ability to direct the use of the resource and obtain the economic benefits or service potential that may flow from it.
When assessing whether land, owned by another level of government, under an item of property, plant, and equipment is controlled by the entity, the entity considers the rights it has to continue to operate the item of property, plant, and equipment. If the ongoing operation of the item is dependent on the other level of government continuing to grant the entity access to the land, it is unlikely the entity controls the land.

Does an entity have control over items in its heritage collection, when it only has the right to hold the items temporarily, for a defined period under an agreement (or agreements) with another entity (or entities) or individual(s) of individuals?

No. The entity does not have control over these items in its heritage collection. Applying the application guidance in IPSAS XX and professional judgement to the facts of the situation the entity does not have control over the resource represented by the items. This is indicated by the entity only holding the item temporarily, for a defined period. The entity does not have the ability to use the items or direct other parties on their use or prevent other parties from using the items so as to derive service potential or economic benefits embodied in the items in the achievement of its service delivery or other objectives. However, another Standard could apply, for example one that addresses leases or similar arrangements, which includes intangible rights to use a tangible resource within its scope.

Does an entity have control over items in its heritage collection, when it does not have legal ownership but has the right to hold the items for an indefinite period through an arrangement that both parties to the agreement understand to be open-ended?

Yes. The entity has control over these items in its heritage collection. In applying the application guidance in IPSAS XX and professional judgement to the facts of the situation the entity has control over the resource represented by the items. This is because it has the ability to use the resource or direct other parties about their use or prevent other parties from using the resource so as to derive service potential or economic benefits embodied in the items in the achievement of its service delivery or other objectives.

Does an entity retain control over items in its heritage collection if it holds them in storage, instead of displaying them to the public?

Yes. The entity still controls items in its heritage collection when it holds them in storage (for example, in a warehouse or research laboratory) instead of displaying them to the public. The entity’s decision to hold the items in storage does not affect the entity’s control over the resource represented by the items. In applying the application guidance in IPSAS XX and professional judgement to the facts of the situation the entity has control over the resource represented by the items. This is because it has the ability to use the resource or direct other parties about their use or prevent other parties from using the resource so as to derive service potential or economic benefits embodied in the items in the achievement of its service delivery or other objectives.
service potential or economic benefits embodied in the items in the achievement of its service delivery or other objectives.

### Recognition

**Treatment of subsequent expenditure on unrecognized heritage assets**

Should an entity capitalize subsequent expenditure on an unrecognized heritage asset when the expenditure meets IPSAS XX’s recognition principle?

| G9 | Yes. A reporting entity should capitalize subsequent expenditure that it incurs on an unrecognized heritage asset where that expenditure meets IPSAS XX’s recognition principle. |

### Capitalization threshold for costs

**What factors should be considered when choosing a capitalization threshold?**

| G10 | IPSAS XX paragraph 14 establishes the recognition principle for determining whether costs should be recognized as an asset, i.e. “capitalized.” Paragraph 14 states that the cost of an item of property, plant, and equipment shall be recognized as an asset if, and only if:

  - It is probable that future economic benefits or service potential associated with the item will flow to the entity; and
  - The cost or fair value (current service value) of the item can be measured reliably. |

| G11 | In practice, entities expense some costs that meet this recognition principle, because they fall below a “capitalization threshold,” established by management. Capitalization thresholds apply the materiality principle. As such, not all property, plant, and equipment with useful lives extending beyond a single reporting period must be capitalized. Many can be expensed without having a material impact on the information reported in the financial statements. Capitalization thresholds guide entities on whether costs should be capitalized and included in the Statement of Financial Position or expensed and included in the Statement of Financial Performance. Amounts above a capitalization threshold are capitalized, while amounts below a capitalization threshold are expensed. |

| G12 | Factors to consider when setting capitalization thresholds include:

  - Meeting the information needs of users: Capitalization thresholds should result in reported information that meets the needs of external users of the financial statements. Capitalization thresholds should result in reported amounts for recognized
assets that achieve the qualitative characteristics, including relevance and representational faithfulness.

(b) **Materiality**: Capitalization thresholds should be such as to ensure that material asset values are captured. Appropriate capitalization thresholds guide entities to capitalize items that would materially impact on the information about assets and expenses in the financial statements and expense items that would not materially impact on that information.

(c) **Cost-benefit**: When capitalization thresholds are set at the right levels, they reduce the cost of tracking large numbers of small-value items, while still conferring the benefits of meeting users’ needs and capturing material values. If a capitalization threshold is set too low, this could create significant additional costs – in the form of work for staff - without any benefit.

**IG13.** An entity should consider whether different classes of property, plant, and equipment need different capitalization thresholds.

**IG14.** Capitalization thresholds are usually applied to individual items rather than to groups of similar items. However, the cumulative effect on a group of similar assets should be considered when relevant. These may be the case where assets are acquired at the same time as part of a single project, for example assets acquired for an extensive building program.

**Measurement after Recognition**

**Current Value Model**

(1) **Do restrictions on the use of heritage assets affect an entity’s ability to derive its [current value] either (a) on initial recognition (if the asset is donated), or (b) subsequently (when the entity subsequently revalues its heritage assets)?**

**IG15.** No. Restrictions on the use of heritage assets do not affect an entity’s ability to derive [current values] for them. However, restrictions will need to be taken into account when deriving a [current value].

(2) **Where a heritage asset is viewed as irreplaceable does this affect an entity’s ability to derive its [current service value]?**

**IG16.** No. A view that a heritage asset is irreplaceable does not affect an entity’s ability to derive a [current service value].

**IG17.** Most heritage assets are viewed as irreplaceable from a heritage perspective. From a financial reporting perspective, the ability to derive a [current service value]...
involves the ability to ascertain values for equivalent assets. “Equivalent assets” do not have to be identical assets when deriving a [current service value]. Where an entity needs to estimate a [current service value] for a heritage asset, it will need to consider information available on [current service values], even when, from the perspective of its heritage nature, the asset is irreplaceable. Obtaining [current service values] for heritage assets may be complex and difficult. It could involve professional judgement to reach an estimate that is derived from a range of possible values. These measurement challenges are a normal part of financial reporting, and not unique to the valuation of heritage assets. The need for professional judgement, expert valuation advice, and/or the use of estimates to derive a [current service value] is not a sufficient basis for concluding that a [current value] cannot be derived.

IG18. A consideration of the following factors will support an entity’s assessment of whether it can derive a [current value] for a heritage asset:

(a) Replacement of service potential: A [current value] is likely to be derivable, if the service potential of the heritage asset could be replaced, if necessary, through either:
   (i) Purchasing a similar asset; or,
   (ii) Reproducing or reconstructing the asset, with reproduction applying to either the whole asset or parts of the asset on either an “as needed” basis or through application of a replacement cycle for the asset.

By contrast, the heritage asset’s [current service value] may not be derivable if its service potential cannot be replaced through purchasing another similar asset or through reproduction.

(b) Significance of the heritage asset: A [current service value] is likely to be derivable, if the heritage asset’s service potential mainly relates to its ability to represent an era or type, such that another heritage asset of the same era or same type could be similarly representative.

By contrast, a heritage asset’s [current service value] may not be derivable if its service potential is independent of the heritage asset’s ability to represent an era or type and depends, instead, on something unique and specific to that heritage asset.

Valuing land under or over infrastructure assets

Paragraphs BC35-BC36 and IG19-IG21 are added to reflect the IPSASB

How should the land under or over infrastructure assets, such as land under roads or railways, be valued because
these infrastructure assets on top of the land are specialized and held for operational capacity?

IG19. IPSASB ED 78 is clear that:

(a) Land should be separately accounted for. This requirement applies to all land, including land under or over infrastructure assets; and

(b) Land under or over infrastructure assets accounted for under the current value model should be valued at ‘current service value’. Because the infrastructure asset itself is a specialized asset, it will often be the case that the market approach will not be appropriate, challenging to apply, and that the asset will be valued more easily without using the cost approach.

IG20. ED, Measurement defines the cost approach as a measurement technique that reflects the amount that will be required currently to replace the service capacity of an asset (often referred to as the current replacement cost).

IG21. The replacement cost of the land is based on the ‘current service value’ of the land based on the existing site. For example, if the road runs through agricultural land, then the ‘current service value’ placed on the land under that section of the road will be agricultural and if the road runs through an industrial area, then the ‘current service value’ placed on the land under that section of the road will be industrial.

Depreciation

Heritage assets’ useful lives

What are the main factors to consider when assessing whether a heritage asset has an indefinite useful life?

IG22. Paragraph 49 states that there is a rebuttable presumption that non-land property, plant, and equipment have finite useful lives. For a heritage asset to have an indefinite useful life an analysis of the relevant factors should show that it is reasonable for the entity to consider that there is no foreseeable limit to the period over which it is expected to provide service potential or be used operationally to generate net cash inflows for the entity. Paragraph 51 states that estimates of useful life should reflect evidence at the time the estimate is made and realistic, rather than optimistic, projections going forward of the relevant factors.

IG23. Paragraph AG33 states that a heritage painting or sculpture held in a protective environment that is carefully controlled to preserve the asset is an example of an asset that could have an indefinite useful life.

IG24. The main factors to consider when assessing whether a heritage asset has an indefinite useful life are:

(a) Period providing service potential: The entity should expect that, to the best of its knowledge, the period over which the heritage asset will continue to provide service potential and/or future economic benefits will continue indefinitely. The assets’ heritage value for future generations should be demonstrable, such that it is reasonable to expect that its heritage value will continue indefinitely.
<table>
<thead>
<tr>
<th>Paragraph</th>
<th>Text</th>
</tr>
</thead>
<tbody>
<tr>
<td>AG23</td>
<td>Paragraph AG23 was revised and paragraphs BC44-BC48 and IG26-IG30 are added to reflect the IPSASB decision at the September 2020 meeting to add guidance on componentization – identifying significant parts of infrastructure assets (Agenda Item 9.2.9).</td>
</tr>
<tr>
<td>IG25</td>
<td>Entities apply professional judgment to estimate the useful life of an asset with reference to experience with similar assets. If circumstances change the entity will need to consider whether the heritage asset still has an indefinite useful life. If the heritage asset is found to have a finite useful life the entity will then treat it as a depreciable asset and account for it accordingly.</td>
</tr>
<tr>
<td>IG26</td>
<td>What should be considered when identifying significant parts of infrastructure asset networks or systems for financial reporting purposes?</td>
</tr>
<tr>
<td>IG27</td>
<td>An entity allocates the amount initially recognized in respect of an item of property, plant, and equipment to its significant parts and depreciates separately each part that will have a material impact or effect on determining the annual depreciation expense.</td>
</tr>
<tr>
<td>IG28</td>
<td>Property, plant, and equipment including infrastructure assets do not require separate recognition beyond the level required for financial reporting purposes. ED 78 requires:</td>
</tr>
<tr>
<td></td>
<td>(a) Items with a cost that is significant in relation to the total cost of the item to be depreciated separately and permits;</td>
</tr>
<tr>
<td></td>
<td>(b) Significant parts of property, plant, and equipment to be grouped with other significant parts that have a similar useful life and / or depreciation method when determining the depreciation charge;</td>
</tr>
<tr>
<td>IG29</td>
<td>Infrastructure assets are networks or systems that comprise a number of assets. Each of those assets or groups of similar assets may be a separate unit of account and may have parts.</td>
</tr>
<tr>
<td>IG28</td>
<td>Judgement is required in determining whether those parts of the assets or similar group of assets that make up the infrastructure asset networks or systems are significant in relation to the whole infrastructure asset network or system when determining whether or not to treat them separately. For financial reporting purposes, the following indicators can be helpful in identifying significant parts of an item of property, plant, and equipment:</td>
</tr>
<tr>
<td></td>
<td>(a) Parts should be separately identifiable and measurable;</td>
</tr>
<tr>
<td></td>
<td>(b) Parts should have significant value in relation to the asset; and</td>
</tr>
<tr>
<td></td>
<td>(c) Parts should have different estimated useful lives.</td>
</tr>
<tr>
<td>IG25</td>
<td>Usage: The usage of the heritage asset should not result in physical wear and tear to the heritage asset.</td>
</tr>
<tr>
<td>IG25</td>
<td>Preservation: The entity should be able to describe the actions it has taken in the past and plans to continue to take going forward to preserve the heritage asset, including adequate protection of heritage assets from the natural elements, where relevant. Preservation plans should include information on the likely availability of staff and financial resources to carry out the entity’s preservation activities.</td>
</tr>
</tbody>
</table>
The entity must consider the facts and circumstances of its transaction as a whole, and materiality to determine the significant parts for the purposes of calculating depreciation.

### Impairment

**What is under-maintenance of assets?**

IG31. Under-maintenance of assets occurs when the level of maintenance of an asset is insufficient to maintain the service potential or the useful life of the asset.

**Could under-maintenance impact the measurement of items of property, plant, and equipment that require constant maintenance such as infrastructure assets?**

IG32. Yes, under-maintenance may affect the measurement of property, plant, and equipment. It may be an indicator for impairment and may also impact the residual value and useful life of the property, plant, and equipment.

IG33. The relevant guidance for impairment is available in paragraph 61 of ED 78, and IPSAS 21, *Impairment of Non-Cash-Generating Assets* or IPSAS 26, *Impairment of Cash-Generating Assets*, and the relevant guidance for assessing the residual value and useful life of property, plant, and equipment is available in paragraphs 50 and 51 of ED 78.

IG34. No liability should be recognized when property, plant, and equipment are not adequately maintained because IPSAS 19, *Provisions, Contingent Liabilities and Contingent Assets* is clear there is no present obligation to recognize maintenance expenses that will in the future.

**See 9.2.14,** Staff recommendation is for no IG on this issue, as per IPSASB’s September 2020 decision to include the ideas originally proposed as IG as authoritative guidance in core text and application guidance, then provide a recommendation on IGs.
IE1. Provincial (State) Government enters into a long-term binding arrangement with the National Government to construct a road that passes through a National Park. The land is legally owned by the National Government and it has the title deeds of the land. The Provincial Government constructs a 200 miles road which connects two of its largest cities, City X and City Y. The road carries buses, cars and goods vehicles between these cities and has significantly shortened travel time between the cities.

IE2. The Provincial Government concludes that the National Government controls the land, because the National Government:
(a) Legally owns the land;
(b) Retains all the rights to the land as it can cancel the binding arrangement at any point in time; and
(c) Retains the ability to generate economic benefits arising from selling the land. The National Government has the right to sell the land at any time and can decide to whom the land can be sold, and at what price.

IE3. While the province has the ability to ensure that the land immediately below the road is used to achieve its objectives, i.e., the national government is not receiving any service potential or economic benefit from the land while the road is in use, the entity concludes this in insufficient to support it controls the land as other indicators support control being retained by the national government.

Example 1-Case B (see paragraphs IE4-IE5) illustrates the principle to identify the reporting entity that controls the land under a road network where an entity

IE4. The facts and circumstances remain the same except the land is transferred to the Provincial Government and the latter has unlimited and unrestricted use of the land and does not legally own the land.

IE5. Even though, the Provincial Government does not legally own the land, the provincial government concludes it controls the land because it:
(a) Has the right to direct access to the land and to restrict or deny access of others to land because it has unlimited and unrestricted use of the land. The Provincial Government can decide how the land will be used;
(b) Has the ability to generate benefits in the form of economic benefits or service potential from the use of the land; and
(c) Ensures the land is used to achieve the Provincial Governments’ service potential objective whereby the land will allow the Provincial Government to build a road.
that will transport vehicles and goods between the two cities.
Amendments to Other IPSAS

Purpose
1. To communicate the process to develop the Amendments to Other IPSASs, which will be Appendix B in ED 78.

Overview of changes
2. Staff followed a detailed process in identifying amendments to other IPSAS. This was performed in three steps:
   (a) **Step one.** Identify paragraphs in IPSAS 1 – IPSAS 42, and ED 70 – ED 79, where guidance is dependent on existing property, plant and equipment guidance (IPSAS 17). This step was performed by searching each standard for the following terms:
      i. IPSAS 17;
      ii. Property, plant, and equipment;
      iii. Heritage;
      iv. Infrastructure;
      v. Fair value;
      vi. Lives (and “life”);
      vii. Cost model; and
      viii. Revaluation model.
   (b) **Step two.** Review paragraphs identified in step one to determine whether the development of ED 78 requires an amendment to the existing paragraph; and
   (c) **Step three.** Copy and paste IPSAS paragraphs identified in step two into ED 78. Make appropriate changes based on step two.
3. Staff coordinated with the IPSASB technical staff member responsible for consistency throughout the Handbook when addressing consequential revisions. The aim was to ensure that these consequential revisions would:
   (a) Impact appropriately on existing IPSASs;
   (b) Take a consistent with consequential revisions in other EDs; and
   (c) Align with work-in-progress in other projects that are at ED stage.

Amendments to Other IPSAS

Amendments to IPSAS 1, Presentation of Financial Statements
Paragraphs 7, 92, 94, 101, 125C and 148 are amended. Paragraph 153R is added. New text is underlined, and deleted text is struck through.

Definitions

7. The following terms are used in this Standard with the meanings specified:

... 

Net assets/equity is the residual interest in the assets of the entity after deducting all its liabilities. The components of net assets/equity are contributed capital, accumulated surpluses or deficits, reserves, and non-controlling interests. Types of reserves include:

(a) Changes in revaluation surplus (see IPSAS 4, Property, Plant, and Equipment and IPSAS 31, Intangible Assets);
(b) Remeasurements of defined benefit plans (see IPSAS 39, Employee Benefits);
(c) Gains and losses arising from translating the financial statements of a foreign operation (see IPSAS 4, The Effects of Changes in Foreign Exchange Rates);
(d) Gains and losses from investments in equity instruments designated at fair value through net assets/equity in accordance with paragraph 106 of IPSAS 41, Financial Instruments;
(e) Gains and losses on financial assets measured at fair value through net assets/equity in accordance with paragraph 41 of IPSAS 41;
(f) The effective portion of gains and losses on hedging instruments in a cash flow hedge and the gains and losses on hedging instruments that hedge investments in equity instruments measured at fair value through net assets/equity in accordance with paragraph 106 of IPSAS 41 (see paragraphs 113–155 of IPSAS 41);
(g) For particular liabilities designated as at fair value through surplus or deficit, the amount of the change in fair value that is attributable to changes in the liability’s credit risk (see paragraph 108 of IPSAS 41);
(h) Changes in the value of the time value of options when separating the intrinsic value and time value of an option contract and designating as the hedging instrument only the changes in the intrinsic value (see paragraphs 113–155 of IPSAS 41); and
(i) Changes in the value of the forward elements of forward contracts when separating the forward element and spot element of a forward contract and designating as the hedging instrument only the changes in the spot element, and changes in the value of the foreign currency basis spread of a financial instrument when excluding it from the designation of that financial instrument as the hedging instrument (see paragraphs 113–155 of IPSAS 41).
Information to be Presented on the Face of the Statement of Financial Position

92. The use of different measurement bases for different classes of assets suggests that their nature or function differs and, therefore, that they should be presented as separate line items. For example, different classes of property, plant, and equipment can be carried at cost or revalued amounts in accordance with IPSAS 17[draft] IPSAS [X] (ED 78).

Information to be Presented either on the Face of the Statement of Financial Position or in the Notes

94. The detail provided in subclassifications depends on the requirements of IPSASs and on the size, nature and function of the amounts involved. The factors set out in paragraph 91 also are used to decide the basis of subclassification. The disclosures vary for each item, for example:

(a) Items of property, plant and equipment are disaggregated into classes in accordance with IPSAS 17[draft] IPSAS [X] (ED 78);
(b) Receivables are disaggregated into amounts receivable from user charges, taxes and other non-exchange revenues, receivables from related parties, prepayments, and other amounts;
(c) Inventories are subclassified in accordance with IPSAS 12, Inventories, into classifications such as merchandise, production supplies, materials, work in progress, and finished goods;
(d) Taxes and transfers payable are disaggregated into tax refunds payable, transfers payable, and amounts payable to other members of the economic entity;
(da) Social benefits liabilities are disaggregated into separate social benefit schemes where these are material;
(e) Provisions are disaggregated into provisions for employee benefits and other items; and
(f) Components of net assets/equity are disaggregated into contributed capital, accumulated surpluses and deficits, and any reserves.

Surplus or Deficit for the Period

101. Other IPSASs deal with items that may meet definitions of revenue or expense set out in this Standard but are usually excluded from surplus or deficit. Examples include revaluation surpluses (see IPSAS 17[draft] IPSAS [X] (ED 78)), particular (a) gains and losses arising on translating the financial statements of a foreign operation (see IPSAS 4), and (b) gains or losses on remeasuring financial assets measured at fair value through net assets/equity (guidance on measurement of financial assets can be found in IPSAS 41).
Statement of Changes in Net Assets/Equity

125C. Reclassification adjustments do not arise on changes in revaluation surplus recognized in accordance with IPSAS 17[draft] IPSAS [X] (ED 78) or IPSAS 31 or on remeasurements of defined benefit plans recognized in accordance with IPSAS 39. These components are recognized in net assets/equity and are not reclassified to surplus or deficit in subsequent periods. Changes in revaluation surplus may be transferred to accumulated surpluses or deficits in subsequent periods as the asset is used or when it is derecognized (see IPSAS 17[draft] IPSAS [X] (ED 78) or IPSAS 31). In accordance with IPSAS 41, reclassification adjustments do not arise if a cash flow hedge or the accounting for the time value of an option (or the forward element of a forward contract or the foreign currency basis spread of a financial instrument) result in amounts that are removed from the cash flow hedge reserve or a separate component of net assets/equity, respectively, and included directly in the initial cost or other carrying amount of an asset or a liability. These amounts are directly transferred to assets or liabilities.

Disclosure of Accounting Policies

148. The disclosure of some of the key assumptions that would otherwise be required in accordance with paragraph 140 is required by other IPSASs. For example, IPSAS 19 requires disclosure, in specified circumstances, of major assumptions concerning future events affecting classes of provisions. IPSAS 30 requires disclosure of significant assumptions applied in estimating fair values of financial assets and financial liabilities that are carried at fair value. IPSAS 17[draft] IPSAS [X] (ED 78) requires disclosure of significant assumptions applied in estimating fair values current service values of revalued items of property, plant, and equipment.

Effective date

153R. Paragraphs 7, 92, 94, 101, 125C, and 148 were amended by [draft] IPSAS [X] (ED 78) issued in Month YYYY. An entity shall apply these amendments for annual financial statements covering periods beginning on or after MM DD, YYYY. Earlier application is encouraged. If an entity applies the amendment for a period beginning before MM DD, YYYY, it shall disclose that fact and apply [draft] IPSAS [X] (ED 78) at the same time.

Amendments to IPSAS 2, Cash Flow Statements

Paragraph 22 is amended. Paragraph 63K is added. New text is underlined, and deleted text is struck through.

Operating Activities

22. Cash flows from operating activities are primarily derived from the principal cash-generating activities of the entity. Examples of cash flows from operating activities are:

(a) Cash receipts from taxes, levies, and fines;
(b) Cash receipts from charges for goods and services provided by the entity;
(c) Cash receipts from grants or transfers and other appropriations or other budget authority made by central government or other public sector entities;
(d) Cash receipts from royalties, fees, commissions, and other revenue;
(da) Cash payments to beneficiaries of social benefit schemes;
(e) Cash payments to other public sector entities to finance their operations (not including loans);
(f) Cash payments to suppliers for goods and services;
(g) Cash payments to and on behalf of employees;
(h) Cash receipts and cash payments of an insurance entity for premiums and claims, annuities, and other policy benefits;
(i) Cash payments of local property taxes or income taxes (where appropriate) in relation to operating activities;
(j) Cash receipts and payments from contracts held for dealing or trading purposes;
(k) Cash receipts or payments from discontinuing operations; and
(l) Cash receipts or payments in relation to litigation settlements.

Some transactions, such as the sale of an item of plant, may give rise to a gain or loss that is included in surplus or deficit. The cash flows relating to such transactions are cash flows from investing activities. However, cash payments to construct or acquire assets held for rental to others and subsequently held for sale as described in paragraph 62 of IPSAS 17[draft] IPSAS [X] (ED 78), Property, Plant, and Equipment are cash flows from operating activities. The cash receipts from rents and subsequent sales of such assets are also cash flows from operating activities.

Effective date

Paragraph 22 was amended by [draft] IPSAS [X] (ED 78) issued in Month YYYY. An entity shall apply this amendment for annual financial statements covering periods beginning on or after MM DD, YYYY. Earlier application is encouraged. If an entity applies the amendment for a period beginning before MM DD, YYYY, it shall disclose that fact and apply [draft] IPSAS [X] (ED 78) at the same time.

Amendments to IPSAS 3, Accounting Policies, Changes in Accounting Estimates and Errors

Paragraph 22 is amended. Paragraph 59E is added. New text is underlined, and deleted text is struck through.

Changes in Accounting Policies

...  

22. The initial application of a policy to revalue assets in accordance with IPSAS 17[draft] IPSAS [X] (ED 78), Property, Plant, and Equipment, or IPSAS 31, Intangible Assets, is a change in accounting policy to be dealt with as a revaluation in accordance with IPSAS 17[draft] IPSAS [X] (ED 78) or IPSAS 31, rather than in accordance with this Standard.

Effective date

Paragraph 22 was amended by [draft] IPSAS [X] (ED 78) issued in Month YYYY. An entity shall apply this amendment for annual financial statements covering periods beginning on or after MM DD, YYYY. Earlier application is encouraged. If an entity applies this
amendment for a period beginning before MM DD, YYYY, it shall disclose that fact and apply [draft] IPSAS [X] (ED 78) at the same time.

Implementation Guidance

Prospective Application of a Change in Accounting Policy When Retrospective Application is not Practicable

IG14. During 20X2, the entity changed its accounting policy for depreciating property, plant, and equipment, so as to apply much more fully a components approach, while at the same time adopting the revaluation current value model.

IG15. In years before 20X2, the entity’s asset records were not sufficiently detailed to apply a components approach fully. At the end of year 20X1, management commissioned an engineering survey, which provided information on the components held and their fair current service values, useful lives, estimated residual values, and depreciable amounts at the beginning of 20X2. However, the survey did not provide a sufficient basis for reliably estimating the cost of those components that had not previously been accounted for separately, and the existing records before the survey did not permit this information to be reconstructed.

IG16. Management considered how to account for each of the two aspects of the accounting change. They determined that it was not practicable to account for the change to a fuller components approach retrospectively, or to account for that change prospectively from any earlier date than the start of 20X2. Also, the change from a historical cost model to a revaluation current value model is required to be accounted for prospectively. Therefore, management concluded that it should apply the entity’s new policy prospectively from the start of 20X2.

Extracts from Notes to the Financial Statements

1. From the start of 20X2, the entity changed its accounting policy for depreciating property, plant, and equipment, so as to apply much more fully a components approach, while at the same time adopting the revaluation current value model. Management takes the view that this policy provides faithfully representative and more relevant information, because it deals more accurately with the components of property, plant, and equipment and is based on up-to-date values. The policy has been applied prospectively from the start of 20X2, because it was not practicable to estimate the effects of applying the policy either retrospectively or prospectively from any earlier date. Accordingly the adopting of the new policy has no effect on prior periods. The effect on the current year is to (a) increase the carrying amount of property, plant, and equipment at the start of the year by CU6,000, (b) create a revaluation reserve at the start of the year of CU6,000, and (c) increase depreciation expense by CU500.
Amendments to IPSAS 4, *The Effects of Changes in Foreign Exchange Rates*

Paragraphs 28 and 36 are amended. Paragraph 71G is added. New text is underlined, and deleted text is struck through.

**Reporting at Subsequent Reporting Dates**

28. The carrying amount of an item is determined in conjunction with other relevant IPSAs. For example, property, plant, and equipment may be measured in terms of fair value, current service value or historical cost in accordance with *IPSAS 17 (draft) IPSAS [X] (ED 78), Property, Plant, and Equipment*. Whether the carrying amount is determined on the basis of historical cost or on the basis of fair value, current service value, if the amount is determined in a foreign currency, it is then translated into the functional currency in accordance with this Standard.

**Recognition of Exchange Differences**

36. Other IPSAs require some gains and losses to be recognized directly in net assets/equity. For example, *IPSAS 17 (draft) IPSAS [X] (ED 78)* requires some gains and losses arising on a revaluation of property, plant, and equipment to be recognized directly in net assets/equity. When such an asset is measured in a foreign currency, paragraph 27(c) of this Standard requires the revalued amount to be translated using the rate at the date the value is determined, resulting in an exchange difference that is also recognized in net assets/equity.

**Effective date**

Paragraphs 28 and 36 were amended by [draft] IPSAS [X] (ED 78) issued in Month YYYY. An entity shall apply these amendments for annual financial statements covering periods beginning on or after MM DD, YYYY. Earlier application is encouraged. If an entity applies the amendment for a period beginning before MM DD, YYYY, it shall disclose that fact and apply [draft] IPSAS [X] (ED 78) at the same time.

**Illustrative Examples**

**Foreign Currency Transactions and Advance Consideration**

IE4. On April 15, 20X1, Entity A takes delivery of the machine. Entity A derecognizes the non-monetary asset and recognizes the machine as property, plant and equipment applying *IPSAS 17 (draft) IPSAS [X] (ED 78)*. On initial recognition of the machine, Entity A recognizes the cost of the machine using the exchange rate at the date of the transaction, which is April 1, 20X1 (the date of initial recognition of the non-monetary asset).

**Amendments to IPSAS 12, Inventories**

Paragraph 14A is amended. Paragraph 51J is added. New text is underlined, and deleted text is struck through.
Inventories

... 14A. Military inventories consist of single-use items, such as ammunition, missiles, rockets and bombs delivered by weapons or weapons systems. However, some types of missiles may be accounted for in accordance with IPSAS 17[draft] IPSAS [X] (ED 78), Property, Plant, and Equipment, if they satisfy the criteria to be classified in that standard.

Effective Date

51J. Paragraph 14A was amended by [draft] IPSAS [X] (ED 78) issued in Month YYYY. An entity shall apply these amendments for annual financial statements covering periods beginning on or after MM DD, YYYY. Earlier application is encouraged. If an entity applies the amendment for a period beginning before MM DD, YYYY, it shall disclose that fact and apply [draft] IPSAS [X] (ED 78) at the same time.

Amendments to IPSAS 16, Investment Property

Paragraphs 6, 10, 13, 19, 33, 39-41, 62, 62A, 63, 65, 70-73, 79, 85, 86, 89, and 90 are amended. Paragraph 101L is added. New text is underlined, and deleted text is struck through.

Scope

... 6. This Standard does not apply to:

(a) Biological assets related to agricultural activity (see IPSAS 27, Agriculture and IPSAS 17[draft] IPSAS [X] (ED 78), Property, Plant, and Equipment); and

(b) Mineral rights and mineral reserves such as oil, natural gas, and similar non-regenerative resources.

Classification of Property as Investment Property or Owner-Occupied Property

... 10. Investment property is held to earn rentals or for capital appreciation, or both. Therefore, investment property generates cash flows largely independently of the other assets held by an entity. This distinguishes investment property from other land or buildings controlled by public sector entities, including owner-occupied property. The production or supply of goods or services (or the use of property for administrative purposes) can also generate cash flows. For example, public sector entities may use a building to provide goods and services to recipients in return for full or partial cost recovery. However, the building is held to facilitate the production of goods and services, and the cash flows are attributable not only to the building, but also to other assets used in the production or supply process. IPSAS 17[draft] IPSAS [X] (ED 78) applies to owner-occupied property.

... 13. The following are examples of items that are not investment property and are therefore outside the scope of this Standard:
(a) Property held for sale in the ordinary course of operations or in the process of construction or development for such sale (see IPSAS 12, Inventories). For example, a municipal government may routinely supplement rate income by buying and selling property, in which case property held exclusively with a view to subsequent disposal in the near future or for development for resale is classified as inventory. A housing department may routinely sell part of its housing stock in the ordinary course of its operations as a result of changing demographics, in which case any housing stock held for sale is classified as inventory.

(b) Property being constructed or developed on behalf of third parties. For example, a property and service department may enter into construction contracts with entities external to its government (see IPSAS 11, Construction Contracts).

(c) Owner-occupied property (see IPSAS 17[draft] IPSAS [X] (ED 78), including (among other things) property held for future use as owner-occupied property, property held for future development and subsequent use as owner-occupied property, property occupied by employees such as housing for military personnel (whether or not the employees pay rent at market rates) and owner-occupied property awaiting disposal.

(d) [Deleted]

(e) Property that is leased to another entity under a finance lease.

(f) Property held to provide a social service and which also generates cash inflows. For example, a housing department may hold a large housing stock used to provide housing to low income families at below market rental. In this situation, the property is held to provide housing services rather than for rentals or capital appreciation and rental revenue generated is incidental to the purposes for which the property is held. Such property is not considered an “investment property” and would be accounted for in accordance with IPSAS 17[draft] IPSAS [X] (ED 78).

(g) Property held for strategic purposes which would be accounted for in accordance with IPSAS 17[draft] IPSAS [X] (ED 78).

19. In some cases, an entity owns property that is leased to, and occupied by, its controlling entity or another controlled entity. The property does not qualify as investment property in consolidated financial statements, because the property is owner-occupied from the perspective of the economic entity. However, from the perspective of the entity that owns it, the property is investment property if it meets the definition in paragraph 7. Therefore, the lessor treats the property as investment property in its individual financial statements. This situation may arise where a government establishes a property management entity to manage government office buildings. The buildings are then leased out to other government entities on a commercial basis. In the financial statements of the property management entity, the property would be accounted for as investment property. However, in the consolidated financial statements of the government, the property would be accounted for as property, plant, and equipment in accordance with IPSAS 17[draft] IPSAS [X] (ED 78).

Measurement at Recognition

... 33. Where an entity initially recognizes its investment property at fair value in accordance with paragraph 27, the fair value is the cost of the property. The entity shall decide, subsequent to
initial recognition, to adopt either the fair value model (paragraphs 42–64) or the historical cost model (paragraph 65).

Measurement after Recognition

Accounting Policy

39. With the exception noted in paragraph 43, an entity shall choose as its accounting policy either the fair value model in paragraphs 42–64 or the historical cost model in paragraph 65, and shall apply that policy to all of its investment property.

40. IPSAS 3, Accounting Policies, Changes in Accounting Estimates and Errors states that a voluntary change in accounting policy shall be made only if the change results in the financial statements providing faithfully representative and more relevant information about the effects of transactions, other events or conditions on the entity’s financial position, financial performance or cash flows. It is highly unlikely that a change from the fair value model to the historical cost model will result in a more relevant presentation.

41. This Standard requires all entities to determine the fair value of investment property, for the purpose of either measurement (if the entity uses the fair value model) or disclosure (if it uses the historical cost model). An entity is encouraged, but not required, to determine the fair value of investment property on the basis of a valuation by an independent valuer who holds a recognized and relevant professional qualification and has recent experience in the location and category of the investment property being valued.

Inability to Determine Fair Value Reliably

62. There is a rebuttable presumption that an entity can reliably determine the fair value of an investment property on a continuing basis. However, in exceptional cases, there is clear evidence when an entity first acquires an investment property (or when an existing property first becomes investment property after a change in use) that the fair value of the investment property is not reliably determinable on a continuing basis. This arises when, and only when, comparable market transactions are infrequent and alternative reliable estimates of fair value (for example, based on discounted cash flow projections) are not available. If an entity determines that the fair value of an investment property under construction is not reliably determinable but expects the fair value of the property to be reliably determinable when construction is complete, it shall measure that investment property under construction at cost until either its fair value becomes reliably determinable or construction is completed (whichever is earlier). If an entity determines that the fair value of an investment property (other than an investment property under construction) is not reliably determinable on a continuing basis, the entity shall measure that investment property using the historical cost model in IPSAS 17 [draft] IPSAS [X] (ED 78). The residual value of the investment property shall be assumed to be zero. The entity shall apply IPSAS 17 [draft] IPSAS [X] (ED 78) until disposal of the investment property.

62A. Once an entity becomes able to measure reliably the fair value of an investment property under construction that has previously been measured at cost, it shall measure that property at its fair value. Once construction of that property is complete, it is presumed that fair value can be measured reliably.
If this is not the case, in accordance with paragraph 62, the property shall be accounted for using the historical cost model in accordance with IPSAS 17[draft] IPSAS [X] (ED 78).

...  

63. In the exceptional cases when an entity is compelled, for the reason given in paragraph 62, to measure an investment property using the historical cost model in accordance with IPSAS 17[draft] IPSAS [X] (ED 78), it measures at fair value all its other investment property, including investment property under construction. In these cases, although an entity may use the historical cost model for one investment property, the entity shall continue to account for each of the remaining properties using the fair value model.

**Historical Cost Model**

65. After initial recognition, an entity that chooses the historical cost model shall measure all of its investment property in accordance with IPSAS 17[draft] IPSAS [X] (ED 78)'s requirements for that model, i.e., at cost less any accumulated depreciation and any accumulated impairment losses.

**Transfers**

...  

70. Paragraphs 71–76 apply to recognition and measurement issues that arise when an entity uses the fair value model for investment property. When an entity uses the historical cost model, transfers between investment property, owner-occupied property, and inventories do not change the carrying amount of the property transferred, and they do not change the cost of that property for measurement or disclosure purposes.

71. For a transfer from investment property carried at fair value to owner-occupied property or inventories, the property's cost for subsequent accounting in accordance with IPSAS 17[draft] IPSAS [X] (ED 78) or IPSAS 12, shall be its fair value at the date of change in use.

72. If an owner-occupied property becomes an investment property that will be carried at fair value, an entity shall apply IPSAS 17[draft] IPSAS [X] (ED 78) up to the date of change in use. The entity shall treat any difference at that date between the carrying amount of the property in accordance with IPSAS 17[draft] IPSAS [X] (ED 78), and its fair value in the same way as a revaluation in accordance with IPSAS 17[draft] IPSAS [X] (ED 78).

73. Up to the date when an owner-occupied property becomes an investment property carried at fair value, an entity depreciates the property and recognizes any impairment losses that have occurred. The entity treats any difference at that date between the carrying amount of the property in accordance with IPSAS 17[draft] IPSAS [X] (ED 78), and its fair value in the same way as a revaluation in accordance with IPSAS 17[draft] IPSAS [X] (ED 78). In other words:

**Disposals**

...  

79. If, in accordance with the recognition principle in paragraph 20, an entity recognizes in the carrying amount of an asset the cost of a replacement for part of an investment property, it derecognizes the carrying amount of the replaced part. For investment property accounted for using the historical cost model, a replaced part may not be a part that was depreciated separately. If it is not
practicable for an entity to determine the carrying amount of the replaced part, it may use the cost of the replacement as an indication of what the cost of the replaced part was at the time it was acquired or constructed. Under the fair value model, the fair value of the investment property may already reflect that the part to be replaced has lost its value. In other cases, it may be difficult to discern how much fair value should be reduced for the part being replaced. An alternative to reducing fair value for the replaced part, when it is not practical to do so, is to include the cost of the replacement in the carrying amount of the asset and then to reassess the fair value, as would be required for additions not involving replacement.

Disclosure

Fair Value Model and Historical Cost Model

85. The disclosures below apply in addition to those in IPSAS 13. In accordance with IPSAS 13, the owner of an investment property provides lessors’ disclosures about leases into which it has entered. An entity that holds an investment property under a finance lease or operating lease provides lessees’ disclosures for finance leases and lessors’ disclosures for any operating leases into which it has entered.

86. An entity shall disclose:

(a) Whether it applies the fair value or the historical cost model;

(b) If it applies the fair value model, whether, and in what circumstances, property interests held under operating leases are classified and accounted for as investment property;

(c) When classification is difficult (see paragraph 18), the criteria it uses to distinguish investment property from owner-occupied property and from property held for sale in the ordinary course of operations;

(d) The methods and significant assumptions applied in determining the fair value of investment property, including a statement whether the determination of fair value was supported by market evidence, or was more heavily based on other factors (which the entity shall disclose) because of the nature of the property and lack of comparable market data;

(e) The extent to which the fair value of investment property (as measured or disclosed in the financial statements) is based on a valuation by an independent valuer who holds a recognized and relevant professional qualification and has recent experience in the location and category of the investment property being valued. If there has been no such valuation, that fact shall be disclosed;

(f) The amounts recognized in surplus or deficit for:

(i) Rental revenue from investment property;

(ii) Direct operating expenses (including repairs and maintenance) arising from investment property that generated rental revenue during the period; and
(iii) Direct operating expenses (including repairs and maintenance) arising from investment property that did not generate rental revenue during the period.

(g) The existence and amounts of restrictions on the realizability of investment property or the remittance of revenue and proceeds of disposal; and

(h) Contractual obligations to purchase, construct, or develop investment property or for repairs, maintenance, or enhancements.

89. In the exceptional cases referred to in paragraph 62, when an entity measures investment property using the historical cost model in IPSAS 17 [draft] IPSAS [X] (ED 78), the reconciliation required by paragraph 87 shall disclose amounts relating to that investment property separately from amounts relating to other investment property. In addition, an entity shall disclose:

Historical Cost Model

90. In addition to the disclosures required by paragraph 86, an entity that applies the historical cost model in paragraph 65 shall disclose:

(a) The depreciation methods used;

(b) The useful lives or the depreciation rates used;

(c) The gross carrying amount and the accumulated depreciation (aggregated with accumulated impairment losses) at the beginning and end of the period;

(d) The reconciliation of the carrying amount of investment property at the beginning and end of the period, showing the following:

(i) Additions, disclosing separately those additions resulting from acquisitions and those resulting from subsequent expenditure recognized as an asset;

(ii) Additions resulting from acquisitions through public sector combinations;

(iii) Disposals;

(iv) Depreciation;

(v) The amount of impairment losses recognized, and the amount of impairment losses reversed, during the period in accordance with IPSAS 21 or IPSAS 26, as appropriate;

(vi) The net exchange differences arising on the translation of the financial statements into a different presentation currency, and on translation of a foreign operation into the presentation currency of the reporting entity;

(vii) Transfers to and from inventories and owner-occupied property; and
(viii) Other changes; and

(e) The fair value of investment property. In the exceptional cases described in paragraph 62, when an entity cannot determine the fair value of the investment property reliably, the entity shall disclose:

(i) A description of the investment property;

(ii) An explanation of why fair value cannot be determined reliably; and

(iii) If possible, the range of estimates within which fair value is highly likely to lie.

Effective Date
Paragraphs 6, 10, 13, 19, 33, 39-41, 62, 62A, 63, 65, 70-73, 79, 85, 86, 89, and 90 were amended by [draft] IPSAS [X] (ED 78) issued in Month YYYY. An entity shall apply these amendments for annual financial statements covering periods beginning on or after MM DD, YYYY. Earlier application is encouraged. If an entity applies the amendment for a period beginning before MM DD, YYYY, it shall disclose that fact and apply [draft] IPSAS [X] (ED 78) at the same time.
Illustrative Decision Tree
This decision tree accompanies, but is not part of, IPSAS 16.
[Replace references as follows:
- IPSAS 17 replaced with IPSAS 17[draft] IPSAS [X] (ED 78)
- “cost of revaluation model” replaced with “historical cost or current value model”
- “cost model” replaced with “historical cost model”]
Comparison with IAS 40

IPSAS 16 is drawn primarily from IAS 40 (2003), Investment Property and includes amendments made to IAS 40 as part of the Improvements to IFRSs issued in May 2008. At the time of issuing this Standard, the IPSASB has not considered the applicability of IFRS 4, Insurance Contracts, and IFRS 5, Non-current Assets Held for Sale and Discontinued Operations, to public sector entities; therefore IPSAS 16 does not reflect amendments made to IAS 40 consequent upon the issue of those IFRSs. The main differences between IPSAS 16 and IAS 40 are as follows:

- IPSAS 16 requires that investment property initially be measured at cost and specifies that where an asset is acquired for no cost or for a nominal cost, its cost is its fair value as at the date of acquisition. IAS 40 requires investment property to be initially measured at cost.

- There is additional commentary to make clear that IPSAS 16 does not apply to property held to deliver a social service that also generates cash inflows. Such property is accounted for in accordance with IPSAS 17[draft] IPSAS [X] (ED 78).

- IPSAS 16 contains transitional provisions for both the first time adoption and changeover from the previous version of IPSAS 16. IAS 40 only contains transitional provisions for entities that have already used IFRSs. IFRS 1 deals with first time adoption of IFRSs. IPSAS 16 includes additional transitional provisions that specify that when an entity adopts the accrual basis of accounting for the first time and recognizes investment property that was previously unrecognized, the adjustment should be reported in the opening balance of accumulated surpluses or deficits.

- IPSAS 16 uses different terminology, in certain instances, from IAS 40. The most significant example is the use of the term “statement of financial performance” in IPSAS 16. The equivalent term in IAS 40 is “income statement.”

- IPSAS 16 does not use the term “income,” which in IAS 40 has a broader meaning than the term “revenue.”
Amendments to IPSAS 18, Segment Reporting

Paragraph 37 is amended. Paragraph 76H is added. New text is underlined, and deleted text is struck through.

Segment Assets, Liabilities, Revenue, and Expense

37. IPSAS 40 may require adjustments to be made to the carrying amounts of the identifiable assets and liabilities of an operation acquired in an acquisition. Measurements of segment assets and liabilities include any adjustments to the prior carrying amounts of the identifiable segment assets and segment liabilities of an operation acquired in an acquisition, even if those adjustments are made only for the purpose of preparing consolidated financial statements and are not recorded in either the controlling entity’s separate or the controlled entity’s individual financial statements. Similarly, if property, plant, and equipment has been revalued subsequent to acquisition in accordance with the revaluation current value model in IPSAS 17[draft] IPSAS [X] (ED 78), Property, Plant, and Equipment, measurements of segment assets reflect those revaluations.

Effective Date

Paragraph 37 was amended by [draft] IPSAS [X] (ED 78) issued in Month YYYY. An entity shall apply these amendments for annual financial statements covering periods beginning on or after MM DD, YYYY. Earlier application is encouraged. If an entity applies the amendment for a period beginning before MM DD, YYYY, it shall disclose that fact and apply [draft] IPSAS [X] (ED 78) at the same time.

Amendments to IPSAS 19, Provisions, Contingent Liabilities and Contingent Assets

Paragraph 27 is amended. Paragraph 111O is added. New text is underlined, and deleted text is struck through.

Past Event

27. It is only those obligations arising from past events existing independently of an entity’s future actions (that is, the future conduct of its activities) that are recognized as provisions. Examples of such obligations are penalties or clean-up costs for unlawful environmental damage imposed by legislation on a public sector entity. Both of these obligations would lead to an outflow of resources embodying economic benefits or service potential in settlement regardless of the future actions of that public sector entity. Similarly, a public sector entity would recognize a provision for the decommissioning costs of a defense installation or a government-owned nuclear power station, to the extent that the public sector entity is obliged to rectify damage already caused. IPSAS 17[draft] IPSAS [X] (ED 78), Property, Plant, and Equipment, deals with items, including dismantling and site restoring costs, that are included in the cost of an asset. In contrast, because of legal requirements, pressure from constituents, or a desire to demonstrate community leadership, an entity may intend or need to carry out expenditure to operate in a particular way in the future. An example would be where a public sector entity decides to fit emission controls on certain of its vehicles, or a government laboratory decides to install extraction units to protect employees from the fumes of certain chemicals. Because the entities can avoid the future expenditure by their future actions – for example, by changing their method of operation – they have no present obligation for that future expenditure, and no provision is recognized.
Effective Date

...  

1110. **Paraphrased 27 was amended by IPSAS-17[draft] IPSAS [X] (ED 78) issued in Month YYYY. An entity shall apply this amendment for annual financial statements covering periods beginning on or at after MM DD, YYYY. Earlier application is encouraged. If an entity applies the amendments for a period beginning before MM DD, YYYY it shall disclose that fact and apply IPSAS-17[draft] IPSAS [X] (ED 78) at the same time.**

Implementation Guidance

*This guidance accompanies, but is not part of, IPSAS 19.*

...  

Repairs and Maintenance

IG16. Some assets require, in addition to routine maintenance, substantial expenditure every few years for major refits or refurbishments and the replacement of major components. IPSAS-17[draft] IPSAS [X] (ED 78) gives guidance on allocating expenditure on an asset to its component parts where these components have different useful lives or provide benefits in a different pattern.

Amendments to IPSAS 21, *Impairment of Non-Cash-Generating Assets*

Paragraphs 12, 54, 69A, 69A and 75 are amended. Paragraph 82M is added. New text is underlined, and deleted text is struck through.

Scope

...  

12. Consistent with the requirements of paragraph 5 above, items of property, plant, and equipment that are classified as cash-generating assets, including those that are carried at revalued amounts under the allowed alternative treatment in IPSAS-17[draft] IPSAS [X] (ED 78), are dealt with under IPSAS 26.

Recognizing and Measuring an Impairment Loss

...  

54. **An impairment loss shall be recognized immediately in surplus or deficit, unless the asset is carried at revalued amount in accordance with another Standard (for example, in accordance with the revaluationcurrent value model in IPSAS-17[draft] IPSAS [X] (ED 78) and IPSAS 31). Any impairment loss of a revalued asset shall be treated as a revaluation decrease in accordance with that other Standard.**

54A. An impairment loss on a non-revalued asset is recognized in surplus or deficit. However, an impairment loss on a revalued asset is recognized in revaluation surplus to the extent that the impairment loss does not exceed the amount in the revaluation surplus for that individual asset in accordance with IPSAS 31 or class of assets in accordance with IPSAS-17[draft] IPSAS [X] (ED 78). Such an impairment loss on a revalued asset reduces the revaluation surplus for that individual
asset in accordance with IPSAS 31 or class of assets in accordance with IPSAS 17 [draft] IPSAS [X] (ED 78).

Reversing an Impairment Loss

... 69. A reversal of an impairment loss for an asset shall be recognized immediately in surplus or deficit, unless the asset is carried at revalued amount in accordance with another Standard (for example, the revaluation current value model in IPSAS 17 [draft] IPSAS [X] (ED 78) and IPSAS 31). Any reversal of an impairment loss of a revalued asset shall be treated as a revaluation increase in accordance with that other Standard.

69A. A reversal of an impairment loss on a revalued asset is recognized directly in the revaluation reserve and increases the revaluation surplus for that individual asset in accordance with IPSAS 31 or class of assets in accordance with IPSAS 17 [draft] IPSAS [X] (ED 78). However, to the extent that an impairment loss on the same individual revalued asset or class of revalued assets was previously recognized in surplus or deficit, a reversal of that impairment loss is also recognized in surplus or deficit in accordance with IPSAS 31 or IPSAS 17 [draft] IPSAS [X] (ED 78).

Disclosure

... 75. The information required in paragraph 73 may be presented with other information disclosed for the class of assets. For example, this information may be included in a reconciliation of the carrying amount of property, plant, and equipment, at the beginning and end of the period, as required by IPSAS 17 [draft] IPSAS [X] (ED 78).

Effective Date

... 82M. Paragraphs 12, 54, 54A, 69, 69A, and 75 were amended by [draft] IPSAS [X] (ED 78) Property, Plant, and Equipment, issued in Month YYYY. An entity shall apply these amendments for annual financial statements covering periods beginning on or after MM DD, YYYY. Earlier application is encouraged. If an entity applies the amendment for a period beginning before MM DD, YYYY, it shall disclose that fact and apply [draft] IPSAS [X] (ED 78) at the same time.

Basis for Conclusions

... Property, Plant, and Equipment and Intangible Assets

BC17. When this Standard was issued At the time this Standard was approved in December 2004, it did not require the application of an impairment test to non-cash-generating assets that are carried at revalued amounts under the revaluation model in IPSAS 17 and IPSAS 31. The IPSASB was then of the view that under the-revaluation model in IPSAS 17 and IPSAS 31, assets would be revalued
with sufficient regularity to ensure that they are carried at an amount that is not materially different from their fair value as at the reporting date, and any impairment would be taken into account in the valuation. Therefore, any difference between the asset’s carrying amount and its fair value less costs to sell would be the disposal costs. The IPSASB was then of the view that, in most cases, these would not be material and, from a practical viewpoint, it was not necessary to measure an asset’s recoverable service amount and to recognize an impairment loss for the disposal costs of a non-cash-generating asset. In developing [draft] IPSAS [X] (ED 78), Property, Plant, and Equipment, the IPSASB noted that these principles are still applicable. In reaching this conclusion, the IPSASB noted that the revaluation model in IPSAS 17 is labeled the current value model in [draft] IPSAS [X] (ED 78).

BC19. Firstly, there are different methods of determining recoverable service amount under this Standard, and of determining recoverable amount under IAS 36. Recoverable service amount is defined in this Standard as the higher of a non-cash-generating asset’s fair value less costs to sell and its value in use. Under this Standard, an entity determines an asset’s value in use by determining the current cost to replace the asset’s remaining service potential. The current cost to replace the asset’s remaining service potential is determined using the depreciated replacement cost approach, and approaches described as the restoration cost approach and the service units approach. These approaches may also be adopted to measure fair value under IPSAS 17 and IPSAS 31 and therefore the value in use is a measure of fair value. Recoverable amount is defined in IAS 36 as the higher of an asset’s fair value less costs to sell and its value in use. Value in use under IAS 36 is determined using the present value of the cash flows expected to be derived from continued use of the asset and its eventual disposal. IAS 36 states that the value in use may be different from the fair value of the asset. [To be reassessed after decision by Measurement Project at the December 2020 IPSASB meeting.]

Impairment of Revalued Assets (Amendments to IPSAS 21 and IPSAS 26)

BC20B. When this Standard was issued, the IPSASB had considered that the rationale in paragraphs BC19 and BC20 for the different requirements in IPSAS 21 and IAS 36 remained sound. The IPSASB had acknowledged the view that impairments would be taken into account when carrying out revaluations of assets to ensure that their carrying amounts do not differ materially from fair value, as required by paragraph 44 of IPSAS 17 and fair value as required by paragraph 74 of IPSAS 31. In developing [draft] IPSAS [X] (ED 78), the IPSASB concluded that the same impairment principles should apply when revaluating assets to current service value, as required by paragraph 27 of [draft] IPSAS [X] (ED 78). [To be reassessed after decision by Measurement Project at the December 2020 IPSASB meeting.]

BC20C. The IPSASB had also acknowledged that it was ambiguous whether impairment losses and reversals of impairment losses are revaluations, given that they are accounted for in a similar manner. Paragraph 51 of IPSAS 17 had required an entire class of assets to be revalued if an item of property, plant and equipment belonging to that class is revalued. Therefore, if impairment losses and reversals of impairment losses are interpreted as revaluations the
consequences are onerous. The IPSASB had considered that it should resolve this ambiguity. In developing [draft] IPSAS [X] (ED 78), the IPSASB concluded that the same guidance should be retained.

Responses to ED 57

BC20H. The majority of the respondents to ED 57 had supported the proposals and the IPSASB’s rationale. When this Standard was issued, the IPSASB had considered a proposal that a clarification that impairment losses and reversals of impairment losses of a revalued asset do not require an entity to revalue the entire class of assets to which that item belongs could be achieved more economically through a simple statement in IPSAS 17. In developing [draft] IPSAS [X] (ED 78), the IPSASB concluded that the same statement should be retained.

BC20J. Following comments by respondents to the ED the IPSASB had reassessed the assertion in the Basis for Conclusions of ED 57 that impairments are conceptually different from revaluation decreases. Because both impairments and revaluation decreases involve a diminution of service potential or the ability to generate economic benefits, the IPSASB had concluded that they are conceptually the same. However, there was a practical difference. Impairments were events that affect individual assets, or groups of assets, rather than the result of periodic revaluations. This practical difference is reflected in the statement in paragraph 51A of IPSAS 17 that “impairment losses and reversals of impairment losses of an asset under IPSAS 21 and IPSAS 26, Impairment of Cash-Generating Assets, do not necessarily give rise to the need to revalue the class of assets to which that asset, or group of assets, belongs.” In developing [draft] IPSAS [X] (ED 78), the IPSASB concluded that the same guidance should be retained.

Reversal of Impairment

BC25. Paragraph 27(c) includes “Evidence is available of physical damage of an asset” as a minimum indication of impairment. Paragraph 60 does not include an indication of reversal of impairment that mirrors this indication of impairment. The IPSASB had not included repair of an asset as an indication of reversal, because IPSAS 17 required entities to add subsequent expenditure to the carrying amount of an item of property, plant, and equipment when it is probable that future economic benefits or service potential over the total life of the asset, in excess of the most recently assessed standard of performance of the existing asset, will flow to the entity. In developing [draft] IPSAS [X] (ED 78), the IPSASB concluded that the same guidance should be retained. This requirement also applies to investment property that was measured using the cost model under IPSAS 16. The IPSASB is of the view that these requirements negate the need for an indication of reversal of impairment that mirrors the physical damage indication of impairment. The IPSASB also noted that restoration or repair of damage does not constitute a change in the estimate of the asset’s recoverable service amount after impairment as specified by paragraph 65 of this IPSAS. In developing [draft] IPSAS [X] (ED 78), Property, Plant, and Equipment, the IPSASB noted that these principles are still applicable. In reaching this conclusion, the IPSASB noted that the cost model in
IPSAS 17 is labeled the historical cost model in [draft] IPSAS [X] (ED 78) and that label consequentially applies in IPSAS 16.

Revision of IPSAS 21 as a result of *Improvements to IPSAS, 2019*

BC27. *When this Standard was issued* [the reference to “class of assets” in paragraphs 54A and 69A had created the impression that the guidance only applied to revalued assets in the scope of IPSAS 17, Property, Plant and Equipment. Stakeholders raised concerns that revalued intangible assets were excluded from its application. Consequently, the IPSASB had agreed to clarify that the paragraphs apply to individual assets in the scope of IPSAS 31 and class of assets in the scope of IPSAS 17. In developing [draft] IPSAS [X] (ED 78), *Property, Plant, and Equipment*, the IPSASB noted that these principles are still applicable.*
IPSAS 21 is drawn primarily from IAS 36 (2004). The main differences between IPSAS 21 and IAS 36 (2004) are as follows:

- IPSAS 21 deals with the impairment of non-cash-generating assets of public sector entities, while IAS 36 deals with the impairment of cash-generating assets of profit-oriented entities. IPSAS 26 deals with the impairment of cash-generating assets of public sector entities.

- IPSAS 21 does not apply to non-cash-generating assets carried at revalued amounts at the reporting date under the allowed alternative treatment in IPSAS 17[draft] IPSAS [X] (ED 78). IAS 36 does not exclude from its scope cash-generating property, plant, and equipment carried at revalued amounts at the reporting date.

- The method of measurement of value in use of a non-cash-generating asset under IPSAS 21 is different from that applied to a cash-generating asset under IAS 36. IPSAS 21 measures the value in use of a non-cash-generating asset as the present value of the asset’s remaining service potential using a number of approaches. IAS 36 measures the value in use of a cash-generating asset as the present value of future cash flows from the asset.

- IPSAS 21 does not include a change in the market value of the asset as a black letter indication of impairment. A significant, unexpected decline in market value appears in black letter in IAS 36 as part of the minimum set of indications of impairment while IPSAS 21 refers to it in commentary.

- IPSAS 21 includes a decision to halt the construction of an asset before completion as a black letter indication of impairment and the resumption of the construction of the asset as an indication of reversal of the impairment loss. There are no equivalents in IAS 36.

- The scope of IAS 36 excludes certain classes of assets that are not excluded from the scope of IPSAS 21. These exclusions relate to classes of assets that are the subject of specific impairment requirements under other IFRSs. These have not been excluded from IPSAS 21 because there are no equivalent IPSASs. These exclusions include (a) biological assets related to agricultural activity, (b) deferred tax assets, (c) deferred acquisition costs, (d) intangible assets arising from an insurer’s contractual rights under insurance contracts within the scope of IFRS 4, Insurance Contracts, and (e) non-current assets (or disposal groups) classified as held for sale in accordance with IFRS 5, Non-current Assets Held for Sale and Discontinued Operations.

- IPSAS 21 deals with the impairment of individual assets. There is no equivalent in IPSAS 21 for a cash-generating unit as defined in IAS 36.

- IPSAS 21 deals with corporate assets in the same manner as other non-
cash-generating assets, while IAS 36 deals with them as part of related cash-generating units.

- IPSAS 21 uses different terminology, in certain instances, from IAS 36. The most significant examples are the use of the terms “revenue,” “recoverable service amount,” and “statement of financial performance,” in IPSAS 21. The equivalent terms in IAS 36 are “income,” “recoverable amount,” and “income statement.”
Amendments to IPSAS 26, Impairment of Cash-Generating Assets

Paragraphs 73, 73A, 108, 108A, and 118 are amended. Paragraph 126O is added. New text is underlined, and deleted text is struck through.

Recognizing and Measuring an Impairment Loss

73. An impairment loss shall be recognized immediately in surplus or deficit, unless the asset is carried at revalued amount in accordance with another Standard (for example, in accordance with the revaluation current value model in IPSAS 17[draft] IPSAS [X] (ED 78), Property, Plant, and Equipment and IPSAS 31). Any impairment loss of a revalued asset shall be treated as a revaluation decrease in accordance with that other Standard.

73A. An impairment loss on a non-revalued asset is recognized in surplus or deficit. However, an impairment loss on a revalued asset is recognized in revaluation surplus to the extent that the impairment loss does not exceed the amount in the revaluation surplus for that individual asset in accordance with IPSAS 31 or class of assets in accordance with IPSAS 17[draft] IPSAS [X] (ED 78). Such an impairment loss on a revalued asset reduces the revaluation surplus for that individual asset in accordance with IPSAS 31 or class of assets in accordance with IPSAS 17[draft] IPSAS [X] (ED 78).

Reversing an Impairment Loss for an Individual Asset or Class of Asset

108. A reversal of an impairment loss for an asset other than goodwill shall be recognized immediately in surplus or deficit, unless the asset is carried at revalued amount in accordance with another Standard (for example, the revaluation current value model in IPSAS 17[draft] IPSAS [X] (ED 78) and IPSAS 31). Any reversal of an impairment loss of a revalued asset shall be treated as a revaluation increase in accordance with that other Standard.

108A. A reversal of an impairment loss on a revalued asset is recognized directly in the revaluation reserve and increases the revaluation surplus for that individual asset in accordance with IPSAS 31 or class of assets in accordance with IPSAS 17[draft] IPSAS [X] (ED 78). However, to the extent that an impairment loss on the same individual revalued asset or class of revalued assets was previously recognized in surplus or deficit, a reversal of that impairment loss is also recognized in surplus or deficit in accordance with IPSAS 31 or IPSAS 17[draft] IPSAS [X] (ED 78).

Disclosure

118. The information required in paragraph 115 may be presented with other information disclosed for the class of assets. For example, this information may be included in a reconciliation of the carrying
amount of property, plant, and equipment at the beginning and end of the period, as required by IPSAS 17[draft] IPSAS [X] (ED 78).

Effective date
Paragraphs 73, 73A, 108, 108A, and 118 were amended by [draft] IPSAS [X] (ED 78) issued in Month YYYY. An entity shall apply these amendments for annual financial statements covering periods beginning on or after MM DD, YYYY. Earlier application is encouraged. If an entity applies the amendment for a period beginning before MM DD, YYYY, it shall disclose that fact and apply [draft] IPSAS [X] (ED 78) at the same time.

Basis for Conclusions

Development of IPSAS 26 based on the IASB’s revised version of IAS 36 issued in 2004

... 

Need for this Standard

BC3. When this Standard was issued, IPSAS 21 had referred readers to IAS 36 (a) in order to establish whether cash-generating assets have been impaired, and (b) for accounting for the recognition and measurement of any impairment. There are benefits in incorporating requirements and guidance on the impairment of cash-generating assets in an IPSAS, so that public sector entities do not have to refer to IAS 36 when an entity has cash-generating assets. In addition, there are a number of public sector issues related to impairment. These included:

(a) Whether cash-generating property, plant, and equipment carried in accordance with the revaluation model in IPSAS 17, Property, Plant, and Equipment should be within the scope;
(b) Distinguishing cash-generating and non-cash-generating assets;
(c) The redesignation of cash-generating assets to non-cash-generating assets and vice-versa; and
(d) The treatment for impairment purposes of non-cash-generating assets in cash-generating units.

In developing [draft] IPSAS [X] (ED 78), Property, Plant, and Equipment, the IPSASB noted that the identified relationship still applies for issue (a) above.

Exclusion of Property, Plant, and Equipment Carried at Revalued Amounts and Intangible Assets that are Regularly Revalued to Fair Value from Scope

BC4. When this Standard was issued, at the time this Standard was approved in February 2008, the scope of IPSAS 21 had excluded non-cash-generating property, plant, and equipment carried at revalued amounts in accordance with the revaluation model in IPSAS 17. The Basis for Conclusions in IPSAS 21 had stated that the IPSASB was of the view that assets carried at revalued amounts in accordance with the revaluation model in IPSAS 17 would be revalued with sufficient regularity to ensure (a) that they are carried at an amount that is not materially different from their fair value at the reporting date, and (b) that any impairment will be taken into account in that valuation. The IPSASB therefore had considered whether a similar scope exclusion should be included in this Standard.
BC5. The IPSASB had acknowledged that property, plant, and equipment held on the revaluation model are within the scope of IAS 36, and had considered the view that guidance on determining impairment losses for such assets would be appropriate for public sector entities with assets on the revaluation model. The IPSASB had noted that in IAS 36, in cases where the fair value of an item of property, plant and equipment is its market value, the maximum amount of an impairment loss is the disposal costs. In the Basis for Conclusions for IPSAS 21, it was stated that “the IPSASB is of the view that, in most cases, these will not be material and, from a practical viewpoint, it is not necessary to measure an asset’s recoverable service amount and to recognize an impairment loss for the disposal costs of a non-cash-generating asset.” The IPSASB had considered that disposal costs are also unlikely to be material for cash-generating assets. In developing [draft] IPSAS [X] (ED 78), Property, Plant, and Equipment, the IPSASB noted that these principles are still applicable.

BC7. When this Standard was issued, the IPSASB had been of the view that it would be onerous to impose a requirement to test for impairment in addition to the then existing requirement in IPSAS 17, i.e., that assets will be revalued with sufficient regularity to ensure that they are carried at an amount that is not materially different from their fair value at the reporting date. Therefore, on balance, the IPSASB concluded that consistency with IPSAS 21 should take precedence over convergence with IAS 36, and that property, plant and equipment carried on the revaluation model in IPSAS 17 should be excluded from the scope of this Standard. Consistent with the approach to property, plant, and equipment, intangible assets that are regularly revalued to fair value would also be excluded from the scope. In developing [draft] IPSAS [X] (ED 78), Property, Plant, and Equipment, the IPSASB noted that fair value has been replaced with current service value and the revaluation model in IPSAS 17 is labeled the current value model in [draft] IPSAS [X] (ED 78). [To be reassessed after decision related to the Measurement Project at the December 2020 IPSASB meeting.]

Impairment of Revalued Assets (Amendments to IPSAS 21 and IPSAS 26)

BC7B. When this Standard was issued, the IPSASB had considered that the rationale in paragraphs BC5 and BC6 for the different requirements in IPSAS 26 and IAS 36 is sound. The IPSASB had acknowledged the view that impairments would be taken into account when carrying out revaluations of assets to ensure that their carrying amounts do not differ materially from fair value, as required by paragraph 44 of IPSAS 17 and paragraph 74 of IPSAS 31.

BC7C. The IPSASB had also acknowledged that it was ambiguous whether impairment losses and reversals of impairment losses are revaluations, given that they are accounted for in a similar manner. Paragraph 51 of IPSAS 17 requires the entire class of assets to be revalued if an item of property, plant and equipment belonging to that class is revalued. Therefore, if impairment losses and reversals of impairment losses are interpreted as revaluations the consequences are onerous. The IPSASB had considered that it should resolve this ambiguity. In developing [draft] IPSAS [X] (ED 78), Property, Plant, and Equipment, the IPSASB noted that this reasoning and consideration are still applicable.
Responses to ED 57

BC7H. The majority of respondents to ED 57 supported the proposals and the IPSASB’s rationale. The IPSASB had considered a proposal that a clarification that impairment losses and reversals of impairment losses of a revalued asset do not require an entity to revalue the entire class of assets to which that item belongs could be achieved more economically through a simple statement in IPSAS 17.

BC7J. Following comments by respondents to the ED the IPSASB had reassessed the assertion in the Basis for Conclusions of ED 57 that impairments are conceptually different from revaluation decreases. Because both impairments and revaluation decreases involve a diminution of service potential or the ability to generate economic benefits, the IPSASB had concluded that they are conceptually the same. However, there is was a practical difference. Impairments are events that affect individual assets, or groups of assets, rather than the result of periodic revaluations. This practical difference is was reflected in paragraph 51A of IPSAS 17 that “impairment losses and reversals of impairment losses of an asset under IPSAS 21 and IPSAS 26, Impairment of Cash-Generating Assets, do not necessarily give rise to the need to revalue the class of assets to which that asset, or group of assets, belongs.” In developing [draft] IPSAS [X] (ED 78), Property, Plant, and Equipment, the IPSASB noted that this guidance is still applicable.

Revision of IPSAS 26 as a result of Improvements to IPSAS, 2019

BC21. When this Standard was issued the IPSASB had noted that the reference to “class of assets” in paragraphs 73A and 108A created the impression that the guidance only applied to revalued assets in the scope of IPSAS 17. Stakeholders raised concerns that revalued intangible assets were excluded from its application. Consequently, the IPSASB had agreed to clarify that the paragraphs apply to individual assets in the scope of IPSAS 31, Intangible Assets and class of assets in the scope of IPSAS 17. In developing [draft] IPSAS [X] (ED 78), Property, Plant, and Equipment, the IPSASB noted that this guidance is still applicable.
IPSAS 26, *Impairment of Cash-Generating Assets* deals with the impairment of cash-generating assets in the public sector, and includes an amendment made to IAS 36 (2004), *Impairment of Assets* as part of the *Improvements to IFRSs* issued in May 2008. The main differences between IPSAS 26 and IAS 36 are as follows:

- IPSAS 26 does not apply to cash-generating assets carried at revalued amounts at the reporting date under the revaluation model in IPSAS 17 (draft) IPSAS [X] (ED 78, *Property, Plant, and Equipment*). IAS 36 does not exclude from its scope cash-generating property, plant, and equipment carried at revalued amounts at the reporting date.
- IPSAS 26 does not apply to intangible assets that are regularly revalued to fair value. IAS 36 does not exclude from its scope intangible assets that are regularly revalued to fair value.
- IPSAS 26 defines cash-generating assets and includes additional commentary to distinguish cash-generating assets and non-cash-generating assets.
- The definition of a cash-generating unit in IPSAS 26 is modified from that in IAS 36.
- IPSAS 26 does not include a definition of corporate assets or requirements relating to such assets. IAS 36 includes a definition of corporate assets and requirements and guidance on their treatment.
- IPSAS 26 does not treat the fact that the carrying amount of the net assets of an entity is more than the entity’s market capitalization as indicating impairment. The fact that the carrying amount of the net assets is more than the entity’s market capitalization is treated by IAS 36 as part of the minimum set of indications of impairment.
- In IPSAS 26, a forced sale is not a reflection of fair value less costs to sell. In IAS 36, a forced sale is a reflection of fair value less costs to sell, if management is compelled to sell immediately.
- IPSAS 26 includes requirements and guidance on the treatment of non-cash-generating assets that contribute to cash-generating units as well as to non-cash-generating activities. IAS 36 does not deal with non-cash-generating assets that contribute to cash-generating units as well as to non-cash-generating activities.
- IPSAS 26 includes requirements and guidance dealing with the re designation of assets from cash-generating to non-cash-generating and non-cash-generating to cash-generating. IPSAS 26 also requires entities to disclose the criteria developed to distinguish cash-generating assets from non-cash-generating assets. There are no equivalent requirements in IAS 36.
- IPSAS 26 uses different terminology, in certain instances, from IAS 36. The most significant examples are the use of the terms “revenue” and “statement of financial performance.” The equivalent terms in IAS 36 are “income” and “income statement.”

Amendments to IPSAS 27, *Agriculture*

Paragraphs 3, 4, 6, and 37 are amended. Paragraph 56J is added. New text is underlined, and deleted text is struck through.

Scope

3. This Standard does not apply to:

   (a) Land related to agricultural activity (see IPSAS 16, *Investment Property* and IPSAS 17 (draft) IPSAS [X] (ED 78, *Property, Plant, and Equipment*).
(b) Bearer plants related to agricultural activity (see IPSAS 17 [draft] IPSAS [X] (ED 78)). However, this Standard applies to the produce on those bearer plants.

(c) Intangible assets related to agricultural activity (see IPSAS 31, Intangible Assets); and

(d) Biological assets held for the provision or supply of services.

4. Biological assets are used in many activities undertaken by public sector entities. When biological assets are used for research, education, transportation, entertainment, recreation, customs control or in any other activities that are not agricultural activities as defined in paragraph 9 of this Standard, those biological assets are not accounted for in accordance with this Standard. Where those biological assets meet the definition of an asset, other IPSASs should be considered in determining the appropriate accounting (e.g., IPSAS 12, Inventories and IPSAS 17 [draft] IPSAS [X] (ED 78)).

6. The table below provides examples of biological assets, agricultural produce, and products that are the result of processing after harvest:

<table>
<thead>
<tr>
<th>Biological assets</th>
<th>Agricultural produce</th>
<th>Products that are the result of processing after harvest</th>
</tr>
</thead>
<tbody>
<tr>
<td>Sheep</td>
<td>Wool</td>
<td>Yarn, carpet</td>
</tr>
<tr>
<td>Trees in a timber plantation forest</td>
<td>Felled trees</td>
<td>Logs, lumber</td>
</tr>
<tr>
<td>Dairy cattle</td>
<td>Milk</td>
<td>Cheese</td>
</tr>
<tr>
<td>Pigs</td>
<td>Carcass</td>
<td>Sausages, cured hams</td>
</tr>
<tr>
<td>Cotton plants</td>
<td>Harvested cotton</td>
<td>Thread, clothing</td>
</tr>
<tr>
<td>Sugarcane</td>
<td>Harvested cane</td>
<td>Sugar</td>
</tr>
<tr>
<td>Tobacco plants</td>
<td>Picked leaves</td>
<td>Cured tobacco</td>
</tr>
<tr>
<td>Tea bushes</td>
<td>Picked leaves</td>
<td>Tea</td>
</tr>
<tr>
<td>Grape vines</td>
<td>Picked grapes</td>
<td>Wine</td>
</tr>
<tr>
<td>Fruit trees</td>
<td>Picked fruit</td>
<td>Processed fruit</td>
</tr>
<tr>
<td>Oil Palms</td>
<td>Picked fruit</td>
<td>Palm Oil</td>
</tr>
<tr>
<td>Rubber trees</td>
<td>Harvested latex</td>
<td>Rubber products</td>
</tr>
</tbody>
</table>

Some plants, for example, tea bushes, grape vines, oil palms and rubber trees, usually meet the definition of a bearer plant and are within the scope of IPSAS 17 [draft] IPSAS [X] (ED 78).
Biological assets | Agricultural produce | Products that are the result of processing after harvest

78). However, the produce growing on bearer plants, for example, tea leaves, grapes, oil palm fruit and latex, is within the scope of IPSAS 27.

Inability to Measure Fair Value Reliably


Effective Date

Paragraphs 3, 4, 6, and 37 were amended by [draft] IPSAS [X] (ED 78) issued in Month YYYY. An entity shall apply these amendments for annual financial statements covering periods beginning on or after MM DD, YYYY. Earlier application is encouraged. If an entity applies the amendment for a period beginning before MM DD, YYYY, it shall disclose that fact and apply [draft] IPSAS [X] (ED 78) at the same time.

Basis for Conclusions

Biological Assets and Agricultural Assets Acquired through a Non-Exchange Transaction

37. When this Standard was issued, in analyzing approach 3, the IPSASB had considered the requirements of IPSAS 23 in relation to the measurement of other types of assets. IPSAS 23.13 states that: "...If a reporting entity is required to pay delivery and installation costs in relation to the transfer of an item of plant to it from another entity, those costs are recognized separately from revenue arising from the transfer of the item of plant. Delivery and installation costs are included in the amount recognized as an asset, in accordance with IPSAS 17." In developing [draft] IPSAS [X] (ED 78), Property, Plant, and Equipment, the IPSASB noted that this guidance is still applicable. This implies that for other assets, an entity considers the measurement requirements of other IPSASs as well as IPSAS 23 in initially measuring assets acquired through a non-exchange transaction.

Amendments to IPSAS 31, Intangible Assets

Paragraphs 7, 67 and AG5 are amended. Paragraph 132O is added. New text is underlined, and deleted text is struck through.
7. Some intangible assets may be contained in or on a physical substance such as a compact disc (in the case of computer software), legal documentation (in the case of a license or patent), or film. In determining whether an asset that incorporates both intangible and tangible elements should be treated under IPSAS 17[draft] IPSAS [X] (ED 78), Property, Plant, and Equipment, or as an intangible asset under this Standard, an entity uses judgement to assess which element is more significant. For example, the navigation software for a fighter aircraft is integral to the aircraft and is treated as property, plant, and equipment. The same applies to the operating system of a computer. When the software is not an integral part of the related hardware, computer software is treated as an intangible asset.

... Recognition of an Expense ...

67. In some cases, expenditure is incurred to provide future economic benefits or service potential to an entity, but no intangible asset or other asset is acquired or created that can be recognized. In the case of the supply of goods, the entity recognizes such expenditure as an expense when it has a right to access those goods. In the case of the supply of services, the entity recognizes the expenditure as an expense when it receives the services. For example, expenditure on research is recognized as an expense when it is incurred (see paragraph 52), except when it is acquired as part of an acquisition. Other examples of expenditure that is recognized as an expense when it is incurred include:

(a) Expenditure on start-up activities (i.e., start-up costs), unless this expenditure is included in the cost of an item of property, plant, and equipment in accordance with IPSAS 17[draft] IPSAS [X] (ED 78). Start-up costs may consist of establishment costs such as legal and secretarial costs incurred in establishing a legal entity, expenditure to open a new facility or operation (i.e., pre-opening costs), or expenditures for starting new operations or launching new products or processes (i.e., pre-operating costs);

(b) Expenditure on training activities;

(c) Expenditure on advertising and promotional activities (including mail order catalogues and information pamphlets); and

(d) Expenditure on relocating or reorganizing part or all of an entity.

Effective Date ...

132O. Paragraphs 7, 67 and AG5 were amended by [draft] IPSAS [X] (ED 78) issued in Month YYYY. An entity shall apply these amendments for annual financial statements covering periods beginning on or at after MM DD, YYYY. Earlier application is encouraged. If an entity applies
these amendments for a period beginning before MM DD, YYYY it shall disclose that fact and apply [draft] IPSAS [X] (ED 78) at the same time.

Application Guidance

This Appendix is an integral part of IPSAS 31.

Website Costs

AG5. This Application Guidance does not apply to expenditure on purchasing, developing, and operating hardware (e.g., web servers, staging servers, production servers, and Internet connections) of a website. Such expenditure is accounted for under IPSAS 17[draft] IPSAS [X] (ED 78) Property, Plant, and Equipment. Additionally, when an entity incurs expenditure on an Internet service provider hosting the entity’s website, the expenditure is recognized as an expense when the services are received.

Basis for Conclusions

Revaluation Model

BC9. The revaluation model proposed in IPSAS 31 is similar to that in IAS 38 which requires revaluations to be accounted for on an asset-by-asset basis. When this Standard was issued, IPSAS 17, Property, Plant, and Equipment required revaluations to be accounted for by class of assets rather than by individual asset. The IPSASB had considered this approach for intangible assets, but concluded that it was not necessary because intangible assets differ from property, plant, and equipment in that they are less likely to be homogeneous. One of the major types of intangible assets of public sector entities is internally-developed software, for which detailed information is available on an individual asset basis. Consequently, the IPSASB had concluded that it was appropriate to require revalued intangible assets to be accounted for on an asset-by-asset basis. In developing [draft] IPSAS [X] (ED 78), Property, Plant, and Equipment, the IPSASB noted that this conclusion is still applicable. In reaching this conclusion, the IPSASB noted that the revaluation model in IPSAS 17 is labeled the current value model in [draft] IPSAS [X] (ED 78).

Illustrative Examples

These examples accompany, but are not part of, IPSAS 31.
Examples Illustrating the Application Guidance

IE22. The purpose of the table is to illustrate examples of expenditure that occur during each of the stages described in paragraphs AG2–AG3 and to illustrate application of paragraphs AG4–AG11 to assist in clarifying their meaning. It is not intended to be a comprehensive checklist of expenditure that might be incurred.

<table>
<thead>
<tr>
<th>STAGE/NATURE OF EXPENDITURE</th>
<th>ACCOUNTING TREATMENT</th>
</tr>
</thead>
<tbody>
<tr>
<td>Planning</td>
<td></td>
</tr>
<tr>
<td></td>
<td></td>
</tr>
</tbody>
</table>
| Application and Infrastructure Development | Apply the requirements of IPSAS 17[draft] IPSAS [X] (ED 78), Property, Plant, and Equipment. 

<table>
<thead>
<tr>
<th>Graphical Design Development</th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td></td>
</tr>
</tbody>
</table>

Amendments to IPSAS 32, Service Concession Arrangements: Grantor

Paragraphs 12, 13, 33, AG11, AG16, AG17, AG20, AG23, AG24, AG25, AG30, AG33, AG35 and AG48 are amended. Paragraph 36H is added. New text is underlined, and deleted text is struck through.

Recognition and Measurement of a Service Concession Asset (see paragraphs AG5–AG35)

12. Where an existing asset of the grantor meets the conditions specified in paragraph 9(a) and 9(b) (or paragraph 10 for a whole-of-life asset), the grantor shall reclassify the existing asset as a service concession asset. The reclassified service concession asset shall be accounted for in accordance with IPSAS 17[draft] IPSAS [X] (ED 78), Property, Plant, and Equipment or IPSAS 31, Intangible Assets, as appropriate.

13. After initial recognition or reclassification, service concession assets shall be accounted for in accordance with IPSAS 17[draft] IPSAS [X] (ED 78) or IPSAS 31, as appropriate.
Presentation and Disclosure (see paragraphs AG65–AG67)

33. The disclosures required in accordance with paragraph 32 are provided individually for each material service concession arrangement or in aggregate for service concession arrangements involving services of a similar nature (e.g., toll collections, telecommunications or water treatment services). This disclosure is in addition to the disclosures required in IPSAS 17[draft] IPSAS [X] (ED 78) and/or IPSAS 31 by class of assets. Service concession assets within service concession arrangements of a similar nature that are reported in aggregate may form a subset of a class of assets disclosed in accordance with IPSAS 17[draft] IPSAS [X] (ED 78) and/or IPSAS 31 or may be included in more than one class of assets disclosed in accordance with IPSAS 17[draft] IPSAS [X] (ED 78) and/or IPSAS 31. For example, for the purposes of IPSAS 17[draft] IPSAS [X] (ED 78) a toll bridge may be included in the same class as other bridges. For the purposes of this paragraph, the toll bridge may be included with service concession arrangements reported in aggregate as toll roads.

Effective Date

36H. Paragraphs 12, 13, 33, AG11, AG16, AG17, AG20, AG23, AG24, AG25, AG30, AG33, AG35 and AG48 were amended by [draft] IPSAS [X] (ED 78) issued in Month YYYY. An entity shall apply these amendments for annual financial statements covering periods beginning on or at after MM DD, YYYY. Earlier application is encouraged. If an entity applies these amendments for a period beginning before MM DD, YYYY it shall disclose that fact and apply [draft] IPSAS [X] (ED 78) at the same time.

Application Guidance

This Appendix is an integral part of IPSAS 32.

Recognition and Initial Measurement of a Service Concession Asset (see paragraphs 9–13)

Recognition of a Service Concession Asset

AG11. The conditions in paragraphs 9(a) and 9(b) together identify when the asset, including any replacements required, is controlled by the grantor for the whole of its economic life. For example, if the operator has to replace part of an asset during the period of the arrangement (e.g., the top layer or surface of a road or the roof of a building), the asset is considered as a whole. Thus the condition
in paragraph 9(b) is met for the whole of the asset, including the part that is replaced, if the grantor controls any significant residual interest in the final replacement of that part.

Existing Asset of the Grantor

AG16. In applying the impairment tests in IPSAS 17[draft] IPSAS [X] (ED 78) or IPSAS 31, as appropriate, the grantor does not necessarily consider the granting of the service concession to the operator as a circumstance that causes impairment, unless there has been a change in use of the asset that affects its future economic benefits or service potential. The grantor refers to IPSAS 21, Impairment of Non-Cash-Generating Assets or IPSAS 26, as appropriate, to determine whether any of the indicators of impairment have been triggered under such circumstances.

AG17. If the asset no longer meets the conditions for recognition in paragraph 9 (or paragraph 10 for a whole-of-life asset), the grantor follows the derecognition principles in IPSAS 17[draft] IPSAS [X] (ED 78) or IPSAS 31, as appropriate. For example, if the asset is transferred to the operator on a permanent basis, it is derecognized. If the asset is transferred on a temporary basis, the grantor considers the substance of this term of the service concession arrangement in determining whether the asset should be derecognized. In such cases, the grantor also considers whether the arrangement is a lease transaction or a sale and leaseback transaction that should be accounted for in accordance with IPSAS 13.

Constructed or Developed Asset

AG20. Where a constructed or developed asset meets the conditions in paragraph 9 (or paragraph 10 for a whole-of-life asset) the grantor recognizes and measures the asset in accordance with this Standard. IPSAS 17[draft] IPSAS [X] (ED 78) or IPSAS 31, as appropriate, set out the criteria for when a service concession asset should be recognized. Both IPSAS 17[draft] IPSAS [X] (ED 78) and IPSAS 31 require that an asset shall be recognized if, and only if:

(a) It is probable that future economic benefits or service potential associated with the item will flow to the entity; and

(b) The cost or fair value of the item can be measured reliably.

AG23. The second recognition criterion requires that the initial cost or fair value of the asset can be measured reliably. Accordingly, to meet the recognition criteria in IPSAS 17[draft] IPSAS [X] (ED 78) or IPSAS 31, as appropriate, the grantor must have reliable information about the cost or fair value of the asset during its construction or development. For example, if the service concession arrangement requires the operator to provide the grantor with progress reports during the asset’s construction or development, the costs incurred may be measurable, and would therefore meet the recognition principle in IPSAS 17[draft] IPSAS [X] (ED 78) for constructed assets or in IPSAS 31 for developed assets. Also, where the grantor has little ability to avoid accepting an
asset constructed or developed to meet the specifications of the contract, or a similar binding arrangement, the costs are recognized as progress is made towards completion of the asset. Thus, the grantor recognizes a service concession asset and an associated liability.

Measurement of Service Concession Assets

AG24. Paragraph 11 requires service concession assets recognized in accordance with paragraph 9 (or paragraph 10 for a whole-of-life asset) to be measured initially at fair value. In particular, fair value is used to determine the cost of a constructed or developed service concession asset or the cost of any upgrades to existing assets, on initial recognition. The requirement in paragraph 11 does not apply to existing assets of the grantor that are reclassified as service concession assets in accordance with paragraph 12 of this Standard. The use of fair value on initial recognition does not constitute a revaluation under IPSAS 17[draft] IPSAS [X] (ED 78) or IPSAS 31.

AG25. The type of compensation exchanged between the grantor and the operator affects how the fair value of the service concession asset is determined on initial recognition. The paragraphs that follow outline how to determine the fair value of the asset on initial recognition based on the type of compensation exchanged:

(h) Where payments are made by the grantor to the operator, the fair value on initial recognition of the asset represents the portion of the payments paid to the operator for the asset.

(i) Where the grantor does not make payments to the operator for the asset, the asset is accounted for in the same way as an exchange of non-monetary assets in IPSAS 17[draft] IPSAS [X] (ED 78) and IPSAS 31.

Separable Payments

AG30. IPSAS 17[draft] IPSAS [X] (ED 78) and IPSAS 31 require initial measurement of an asset acquired in an exchange transaction at cost, which is the cash price equivalent of the asset. For exchange transactions, the transaction price is considered to be fair value, unless indicated otherwise. Where the asset and service components of payments are separable, the cash price equivalent of the service concession asset is the present value of the service concession asset component of the payments. However, if the present value of the asset portion of the payments is greater than fair value, the service concession asset is initially measured at its fair value.

Operator Receives Other Forms of Compensation

AG33. The types of transactions referred to in paragraph 17(b) are non-monetary exchange transactions. Paragraph 3820 of IPSAS 17[draft] IPSAS [X] (ED 78) and paragraph 44 of IPSAS 31, as appropriate, provide guidance on these circumstances.
Subsequent Measurement

AG35. After initial recognition, a grantor applies IPSAS-17[draft] IPSAS [X] (ED 78) and IPSAS 31 to the subsequent measurement and derecognition of a service concession asset. IPSAS 21 and IPSAS 26 are also applied in considering whether there is any indication that a service concession asset is impaired. These requirements in these Standards are applied to all assets recognized or classified as service concession assets in accordance with this Standard.

Recognition and Measurement of Liabilities (see paragraphs 14–28)

Grant of a Right to the Operator Model (see paragraphs 24–26)

AG48. When the grantor compensates the operator for the service concession asset and service by the provision of a revenue-generating asset, other than the service concession asset, revenue is recognized and the liability recognized in accordance with paragraph 24 is reduced in a manner similar to that described in paragraph AG47. In such cases, the grantor also considers the derecognition requirements in IPSAS-17[draft] IPSAS [X] (ED 78) or IPSAS 31, as appropriate.

Basis for Conclusions

Revision of IPSAS 32 as a result of Part II of Improvements to IPSASs 2015: issues raised by stakeholders

BC49. When this Standard was issued the IPSASB had been drawn to a possible inconsistency between the requirements in IPSAS 32 and the requirements in IPSAS 17 and IPSAS 31. The requirements in IPSAS 32 could have been seen as requiring service concession assets to be presented as a single class of assets, even if they were of a dissimilar nature and function. As it was not the intention of the IPSASB to require that dissimilar assets be reported as if they were similar, the IPSASB had decided to propose clarifications to IPSAS 32 to make its intentions clear. The IPSASB had considered whether these changes would reduce the information available to users, but was satisfied that the current disclosure requirements, in particular those in paragraph 32, would ensure high quality disclosures about assets subject to service concession arrangements. In developing [draft] IPSAS [X] (ED 78), Property, Plant, and Equipment, the IPSASB noted that these principles are still applicable.

BC50. The IPSASB had noted that the reclassification of service concessions assets could require a change in measurement basis for some entities. For example, some service concession assets measured using the revaluation model, might have been reclassified into a class of assets measured using the cost model. Equally, some service concession assets that were measured using the cost model, might have been reclassified into a class of assets measured using the
revaluation model. Because the balance between the service concession assets and the other assets in a class will vary from entity to entity, the IPSASB had agreed to permit entities to select the measurement basis to be applied at the point of reclassification. The IPSASB had also noted that the information required to retrospectively apply the cost model might not have been readily available. Consequently, the IPSASB had agreed to permit entities to use the carrying amounts determined under the revaluation model as deemed cost at the point of reclassification where an entity elected to measure a class of assets using the cost model. In developing [draft] IPSAS [X] (ED 78), Property, Plant, and Equipment, the IPSASB noted that these principles are still applicable. In reaching this conclusion, the IPSASB noted that the revaluation model in IPSAS 17 is labeled the current value model in [draft] IPSAS [X] (ED 78), while the cost model in IPSAS 17 is labeled the historical cost model.

Implementation Guidance

Accounting Framework for Service Concession Arrangements

References to IPSASs that Apply to Typical Types of Arrangements Involving an Asset Combined with Provision of a Service

IG4. Shaded text shows arrangements within the scope of IPSAS 32.

<table>
<thead>
<tr>
<th>Category</th>
<th>Lessee</th>
<th>Service provider</th>
<th>Owner</th>
</tr>
</thead>
<tbody>
<tr>
<td>Typical arrangement types</td>
<td>Lease (e.g., operator leases asset from grantor)</td>
<td>Service and/or maintenance contract (specific tasks e.g., debt collection, facility management)</td>
<td>Rehabilitate-operate-transfer Build-operate-transfer Build-operate 100% Divestment/Privatization/Corporation</td>
</tr>
<tr>
<td>Asset ownership</td>
<td></td>
<td></td>
<td>Grantor</td>
</tr>
<tr>
<td>Capital investment</td>
<td></td>
<td></td>
<td>Grantor</td>
</tr>
<tr>
<td>Demand risk</td>
<td>Shared</td>
<td>Grantor</td>
<td>Grantor and/or Operator</td>
</tr>
<tr>
<td>Typical duration</td>
<td>8–20 years</td>
<td>1–5 years</td>
<td>25–30 years</td>
</tr>
</tbody>
</table>
### Illustrative Examples

...  

**Arrangement Terms (Common to All Three Examples)**

...  

IE5. The terms of the arrangement also require the operator to resurface the road when the original surface has deteriorated below a specified condition. The operator estimates that it will have to undertake the resurfacing at the end of year 8 at a fair value current service value of CU110. The compensation to the operator for this service is included in the predetermined series of payments and/or the revenue the operator has the right to earn from the service concession asset or another revenue-generating asset granted to the operator by the grantor.  

IE6. It is assumed that the original road surface is a separate component of the service concession asset and meets the criteria for recognition specified in **IPSAS 17 (draft)** **IPSAS [X] (ED 78), Property, Plant, and Equipment** when the service concession asset is initially recognized. It is further assumed that there is sufficient certainty regarding the timing and amount of the resurfacing work for it to be recognized as a separate component when the resurfacing occurs. It is assumed that the expected cost of the resurfacing can be used to estimate the initial cost of the surface layers recognized as a separate component of the service concession asset. The road surface is therefore recognized as a separate component of the initial fair value of the service concession asset and measured at the estimated fair value current service value of the resurfacing and depreciated over years 3–8. This depreciation period is shorter than that for the road base (substructure) and takes into account that resurfacing would ordinarily occur over six years, rather than 25 years. During the construction phase, it is assumed that only the road base is constructed in year 1, and that the road only becomes ready to use at the end of year 2.

...  

IE8. At the beginning of year 3, the total fair value current service value of the road is CU1,050, comprised of CU940 related to the construction of the base layers and CU110 related to construction of the surface layers. The fair value current service value of the surface layers is used to estimate the fair value current service value of the resurfacing (which is treated as a replacement component in accordance with **IPSAS 17 (draft)** **IPSAS [X] (ED 78)**). The estimated life of surface layers (i.e., six years) is also used to estimate the depreciation of the replacement component in
years 9 and 10. The total initial fair value/current service value of the road is lower than the present value of the series of predetermined payments pertaining to the asset, where applicable.

IE15. The grantor’s accounting policy for property, plant, and equipment is to recognize such assets using the historical cost model specified in IPSAS 17[draft] IPSAS [X] (ED 78).

Exhibit 1: Fair Values of the Components of the Arrangement (Currency Units)

<table>
<thead>
<tr>
<th>Arrangement Component</th>
<th>Fair Value</th>
</tr>
</thead>
<tbody>
<tr>
<td>Road – base layers (substructure)</td>
<td>940</td>
</tr>
<tr>
<td>Road – original surface layers</td>
<td>110</td>
</tr>
<tr>
<td>Total Fair service value of road</td>
<td>1,050</td>
</tr>
<tr>
<td>Annual service component</td>
<td>12</td>
</tr>
<tr>
<td>Effective interest rate</td>
<td>6.18%</td>
</tr>
</tbody>
</table>

Example 1: The Grantor makes a Predetermined Series of Payments to the Operator

Financial Statement Impact

IE17. The grantor initially recognizes the service concession asset as property, plant, and equipment at its fair value/current service value (total CU1,050, comprised of CU940 related to construction of the base layers and CU110 related to construction of the original surface layers). The asset is recognized as it is constructed (CU525 in year 1 and CU525 in year 2). Depreciation is taken annually (CU56, comprised of CU38 for the base layers and CU18 for the surface layers), starting from year 3.


IE22. The grantor’s cash flows, statement of financial performance, and statement of financial position over the duration of the arrangement will be as illustrated in Tables 1.1 to 1.3. In addition, Table 1.4 shows the changes in the financial liability.
Table 1.2 Statement of Financial Performance (Currency Units)

<table>
<thead>
<tr>
<th>Year</th>
<th>1</th>
<th>2</th>
<th>3</th>
<th>4</th>
<th>5</th>
<th>6</th>
<th>7</th>
<th>8</th>
<th>9</th>
<th>10</th>
<th>Total</th>
</tr>
</thead>
<tbody>
<tr>
<td>Depreciation – base layers</td>
<td>–</td>
<td>–</td>
<td>(38)</td>
<td>(38)</td>
<td>(38)</td>
<td>(38)</td>
<td>(38)</td>
<td>(38)</td>
<td>(38)</td>
<td>(38)</td>
<td>(304)</td>
</tr>
<tr>
<td>Depreciation – original surface layer</td>
<td>–</td>
<td>–</td>
<td>(18)</td>
<td>(19)</td>
<td>(18)</td>
<td>(19)</td>
<td>(18)</td>
<td>–</td>
<td>–</td>
<td>(110)</td>
<td></td>
</tr>
<tr>
<td>Depreciation – replacement surface layer</td>
<td>–</td>
<td>–</td>
<td>–</td>
<td>–</td>
<td>–</td>
<td>–</td>
<td>–</td>
<td>–</td>
<td>–</td>
<td>(18)</td>
<td>(19)</td>
</tr>
<tr>
<td>Total depreciation</td>
<td>–</td>
<td>–</td>
<td>(56)</td>
<td>(57)</td>
<td>(56)</td>
<td>(56)</td>
<td>(57)</td>
<td>(56)</td>
<td>(56)</td>
<td>(57)</td>
<td>(451)</td>
</tr>
<tr>
<td>Annual surplus/ (deficit)</td>
<td>–</td>
<td>(32)</td>
<td>(135)</td>
<td>(128)</td>
<td>(119)</td>
<td>(111)</td>
<td>(103)</td>
<td>(93)</td>
<td>(90)</td>
<td>(80)</td>
<td>(891)</td>
</tr>
</tbody>
</table>

**NOTES:**

Depreciation in years 3–8 reflects the depreciation on the initially-constructed road surface. It is fully depreciated over that period. Depreciation in years 9–10 reflects the depreciation on the new service concession asset component (surface) recognized in year 8.

Although these Illustrative Examples use a straight-line depreciation method, it is not intended that this method be used in all cases. Paragraph 2655 of IPSAS 17 (draft) IPSAS [X] (ED 78) requires that, “The depreciation method shall reflect the pattern in which the asset’s future economic benefits or service potential is expected to be consumed by the entity.” Likewise, for intangible assets, paragraph 96 of IPSAS 31 requires that, “The depreciable amount of an intangible asset with a finite useful life shall be allocated on a systematic basis over its useful life.”

Table 1.3 Statement of Financial Position (Currency Units)

<table>
<thead>
<tr>
<th>Year</th>
<th>1</th>
<th>2</th>
<th>3</th>
<th>4</th>
<th>5</th>
<th>6</th>
<th>7</th>
<th>8</th>
<th>9</th>
<th>10</th>
</tr>
</thead>
<tbody>
<tr>
<td>Service concession asset – base layers</td>
<td>525</td>
<td>940</td>
<td>902</td>
<td>864</td>
<td>826</td>
<td>788</td>
<td>750</td>
<td>712</td>
<td>674</td>
<td>636</td>
</tr>
<tr>
<td>Service concession</td>
<td>–</td>
<td>110</td>
<td>92</td>
<td>73</td>
<td>55</td>
<td>37</td>
<td>18</td>
<td>–</td>
<td>–</td>
<td>–</td>
</tr>
</tbody>
</table>
Agenda Item 5.3.2

IPSASB Meeting (December 2020)

### NOTES:

In this example, the resurfacing occurs as expected in year 8, when the initially-constructed road surface is fully depreciated. If the resurfacing occurred earlier, the initially-constructed road surface would not be fully depreciated, and would need to be derecognized in accordance with IPSAS 17[draft] IPSAS [X] (ED 78) before the new component of the service concession asset related to the resurfacing is recognized.

The new component of the service concession asset related to the resurfacing is recognized in year 8. Years 9–10 reflect depreciation on this additional component (Table 1.2).

The financial liability is increased in year 8 for the recognition of the new component of the service concession asset.

---

### Example 2: The Grantor Gives the Operator the Right to Charge Users a Toll for Use of the Road


---

**Financial Statement Impact**

IE24. The grantor initially recognizes the service concession asset as property, plant, and equipment at its fair value - current service value (total CU1,050, comprised of CU940 related to construction of the base layers and CU110 related to construction of the original surface layers). The asset is recognized as it is constructed (CU525 in year 1 and CU525 in year 2). Depreciation is taken annually (CU56, comprised of CU38 for the base layers and CU18 for the surface layers, starting in year 3).
Cash Flows

IE30. Because there are no payments made to the operator, there are no cash flow impacts for this example.

Table 2.2 Statement of Financial Position (Currency Units)

<table>
<thead>
<tr>
<th>Year</th>
<th>1</th>
<th>2</th>
<th>3</th>
<th>4</th>
<th>5</th>
<th>6</th>
<th>7</th>
<th>8</th>
<th>9</th>
<th>10</th>
</tr>
</thead>
<tbody>
<tr>
<td>Service concession asset -- base layers</td>
<td>525</td>
<td>940</td>
<td>902</td>
<td>864</td>
<td>826</td>
<td>788</td>
<td>750</td>
<td>712</td>
<td>674</td>
<td>636</td>
</tr>
<tr>
<td>Service concession asset -- original surface layer</td>
<td>–</td>
<td>110</td>
<td>92</td>
<td>73</td>
<td>55</td>
<td>37</td>
<td>18</td>
<td>–</td>
<td>–</td>
<td>–</td>
</tr>
<tr>
<td>Service concession asset -- replacement surface layer</td>
<td>–</td>
<td>–</td>
<td>–</td>
<td>–</td>
<td>–</td>
<td>–</td>
<td>–</td>
<td>110</td>
<td>92</td>
<td>73</td>
</tr>
<tr>
<td>Total Service concession asset</td>
<td>525</td>
<td>1,050</td>
<td>994</td>
<td>937</td>
<td>881</td>
<td>825</td>
<td>768</td>
<td>822</td>
<td>766</td>
<td>709</td>
</tr>
<tr>
<td>Cash</td>
<td>–</td>
<td>–</td>
<td>–</td>
<td>–</td>
<td>–</td>
<td>–</td>
<td>–</td>
<td>–</td>
<td>–</td>
<td>–</td>
</tr>
<tr>
<td>Liability</td>
<td>(525)</td>
<td>(1,050)</td>
<td>(905)</td>
<td>(760)</td>
<td>(615)</td>
<td>(470)</td>
<td>(325)</td>
<td>(290)</td>
<td>(145)</td>
<td>–</td>
</tr>
<tr>
<td>Cumulative surplus/deficit</td>
<td>–</td>
<td>–</td>
<td>(89)</td>
<td>(177)</td>
<td>(266)</td>
<td>(355)</td>
<td>(443)</td>
<td>(532)</td>
<td>(621)</td>
<td>(709)</td>
</tr>
</tbody>
</table>

NOTES:

In this example, the resurfacing occurs as expected in year 8, when the initially-constructed road surface is fully depreciated. If the resurfacing occurred earlier, the initially-constructed road surface would not be fully depreciated, and would need to be derecognized in accordance with IPSAS 17 (draft) IPSAS [X] (ED 78) before the new component of the service concession asset related to the resurfacing is recognized.

The new component of the service concession asset related to the resurfacing is recognized in year 8. Years 9–10 reflect depreciation on this additional component (Table 2.2).

The liability is increased in year 8 for the recognition of the new component of the service concession asset.
Example 3: The Grantor Makes a Predetermined Series of Payments to the Operator and Also Grants the Operator the Right to Charge Users a Toll for Use of the Road

... 

Financial Statement Impact

IE32. The grantor initially recognizes the service concession asset as property, plant, and equipment at its fair value (total CU1,050, comprised of CU940 related to construction of the base layers and CU110 related to construction of the original surface layers). The asset is recognized as it is constructed (CU525 in year 1 and CU525 in year 2). Depreciation is taken annually (CU56, comprised of CU38 for the base layers and CU18 for the surface layers).

... 


... 

Table 3.3 Statement of Financial Position (Currency Units)

<table>
<thead>
<tr>
<th>Year</th>
<th>1</th>
<th>2</th>
<th>3</th>
<th>4</th>
<th>5</th>
<th>6</th>
<th>7</th>
<th>8</th>
<th>9</th>
<th>10</th>
</tr>
</thead>
<tbody>
<tr>
<td>Service concession asset – base layers</td>
<td>525</td>
<td>940</td>
<td>902</td>
<td>864</td>
<td>826</td>
<td>788</td>
<td>750</td>
<td>712</td>
<td>674</td>
<td>636</td>
</tr>
<tr>
<td>Service concession asset – surface layer</td>
<td>–</td>
<td>110</td>
<td>92</td>
<td>73</td>
<td>55</td>
<td>37</td>
<td>18</td>
<td>–</td>
<td>–</td>
<td>–</td>
</tr>
<tr>
<td>Service concession asset – replacement surface layer</td>
<td>–</td>
<td>–</td>
<td>–</td>
<td>–</td>
<td>–</td>
<td>–</td>
<td>–</td>
<td>110</td>
<td>92</td>
<td>73</td>
</tr>
<tr>
<td>Total service concession asset</td>
<td>525</td>
<td>1,050</td>
<td>994</td>
<td>937</td>
<td>881</td>
<td>825</td>
<td>768</td>
<td>822</td>
<td>766</td>
<td>709</td>
</tr>
<tr>
<td>Cash</td>
<td>–</td>
<td>–</td>
<td>(100)</td>
<td>(200)</td>
<td>(300)</td>
<td>(400)</td>
<td>(500)</td>
<td>(600)</td>
<td>(700)</td>
<td>(800)</td>
</tr>
<tr>
<td>Liability</td>
<td>(262)</td>
<td>(525)</td>
<td>(452)</td>
<td>(380)</td>
<td>(307)</td>
<td>(235)</td>
<td>(162)</td>
<td>(145)</td>
<td>(72)</td>
<td>–</td>
</tr>
<tr>
<td>Financial liability</td>
<td>(263)</td>
<td>(541)</td>
<td>(480)</td>
<td>(416)</td>
<td>(348)</td>
<td>(276)</td>
<td>(199)</td>
<td>(172)</td>
<td>(89)</td>
<td>–</td>
</tr>
<tr>
<td>Cumulative surplus/deficit</td>
<td>–</td>
<td>16</td>
<td>38</td>
<td>59</td>
<td>74</td>
<td>86</td>
<td>93</td>
<td>95</td>
<td>95</td>
<td>91</td>
</tr>
</tbody>
</table>
NOTES:

In this example, the resurfacing occurs as expected in year 8, when the initially-constructed road surface is fully depreciated. If the resurfacing occurred earlier, the initially-constructed road surface would not be fully depreciated, and would need to be derecognized in accordance with IPSAS 17[draft] IPSAS [X] (ED 78) before the new component of the service concession asset related to the resurfacing is recognized.

The new component of the service concession asset related to the resurfacing is recognized in year 8. Years 9–10 reflect depreciation on this additional component (Table 3.2).

The liability is increased in year 8 for the recognition of 50% of the new component of the service concession asset.

The financial liability is increased in year 8 for the recognition of 50% of the new component of the service concession asset.

Amendments to IPSAS 33, First-Time Adoption of Accrual Basis IPSASs

Paragraphs 36, 48, 49, 64, 67, 68, 69 and 129 are amended. Paragraph 154N is added. New text is underlined, and deleted text is struck through.

Exemptions that Affect Fair Presentation and Compliance with Accrual Basis IPSASs during the Period of Transition

Three Year Transitional Relief Period for the Recognition and/or Measurement of Assets and/or Liabilities

Recognition and/or Measurement of Assets and/or Liabilities

36. Where a first-time adopter has not recognized assets and/or liabilities under its previous basis of accounting, it is not required to recognize and/or measure the following assets and/or liabilities for reporting periods beginning on a date within three years following the date of adoption of IPSASs:

(a) Inventories (see IPSAS 12, Inventories);

(b) Investment property (see IPSAS 16, Investment Property);

(c) Property, plant and equipment (see IPSAS 17[draft] IPSAS [X] (ED 78), Property, Plant and Equipment);

(d) Defined benefit plans and other long-term employee benefits (see IPSAS 39, Employee Benefits);

(e) Biological assets and agricultural produce (see IPSAS 27, Agriculture);

(f) Intangible assets (see IPSAS 31, Intangible Assets);
(g) Service concession assets and the related liabilities, either under the financial liability model or the grant of a right to the operator model (see IPSAS 32, Service Concession Arrangements: Grantor);

(h) Financial instruments (see IPSAS 41, Financial Instruments); and

(i) Social benefits (see IPSAS 42, Social Benefits).

Other Exemptions

IPSAS 19, Provisions, Contingent Liabilities and Contingent Assets

48. Where a first-time adopter takes advantage of the exemption in paragraph 36 which allows a three year transitional relief period to not recognize and/or measure property, plant and equipment, it is not required to recognize and/or measure the liability relating to the initial estimate of costs of dismantling and removing the item and restoring the site on which it is located until the exemption for IPSAS-17[draft] IPSAS [X] (ED 78) has expired, and/or the relevant asset is recognized and/or measured in accordance with IPSAS-17[draft] IPSAS [X] (ED 78) (whichever is earlier).

49. This IPSAS allows a first-time adopter a period of up to three years from the date of adoption of IPSASs to not recognize and/or measure property, plant and equipment. IPSAS-17[draft] IPSAS [X] (ED 78) requires an entity to include as part of the cost of an item of property, plant and equipment, the initial estimate of the costs of dismantling and removing the item and restoring the site on which it is located. Where a first-time adopter takes advantage of the exemption that allows a three year transitional relief period for the recognition and/or measurement of property, plant and equipment, a first-time adopter is not required to apply the requirements related to the initial estimate of costs of dismantling and removing the item and restoring the site on which it is located until the exemption that provided the relief has expired, and/or when the relevant asset is recognized and/or measured in accordance with IPSAS-17[draft] IPSAS [X] (ED 78) (whichever is earlier). The liability shall be measured as at the date of adoption of IPSASs, or where a first-time adopter has taken advantage of the exemption that allows a three year transitional relief period for the recognition and/or measurement of an asset, the date on which the exemption that provides the relief has expired and/or the asset has been recognized and/or measured in accordance with the applicable IPSASs.

Exemptions that Do Not Affect Fair Presentation and Compliance with Accrual Basis IPSASs During the Period of Adoption
Using Deemed Cost to Measure Assets and/or Liabilities

64. A first-time adopter may elect to measure the following assets and/or liabilities at their fair value when reliable cost information about the assets and liabilities is not available, and use that fair value as the deemed cost for:

(a) Inventory (see IPSAS 12);

(b) Investment property, if the first-time adopter elects to use the cost model in IPSAS 16;

(c) Property, plant and equipment (see IPSAS 17[draft] IPSAS [X] (ED 78));

(d) Intangible assets, other than internally generated intangible assets (see IPSAS 31) that meets:

(i) The recognition criteria in IPSAS 31 (excluding the reliable measurement criterion); and

(ii) The criteria in IPSAS 31 for revaluation (including the existence of an active market);

(e) Financial Instruments (see IPSAS 41); or

(f) Service concession assets (see IPSAS 32).

67. A first-time adopter may elect to use the revaluation amount of property, plant and equipment under its previous basis of accounting as deemed cost if the revaluation was, at the date of the revaluation, broadly comparable to:

(a) Fair-value current service value; or

(b) Cost or depreciated cost, where appropriate, in accordance with IPSASs adjusted to reflect, for example, changes in a general or specific price index.

68. A first-time adopter may have established a deemed cost in accordance with its previous basis of accounting for property, plant and equipment by measuring it at fair value current service value at one particular date because of a specific event:

(a) If the measurement date is at or before the date of adoption of IPSASs, a first-time adopter may use such event-driven fair-value current service value measurements as deemed cost for IPSASs at the date of that measurement.

(b) If the measurement date is after the date of adoption of IPSASs, but during the period of transition where the first-time adopter takes advantage of the exemption that provides a three year transitional relief period to not recognize and/or measure certain assets, the event-driven fair-value current service value measurements may be used as deemed cost when the
event occurs. A first-time adopter shall recognize the resulting adjustments directly in accumulated surplus or deficit when the asset is recognized and/or measured.

69. In determining the fair value current service value in accordance with paragraph 67, the first-time adopter shall apply the definition of fair value current service value and guidance in other applicable IPSASs in determining the fair value current service value of the asset in question. The fair value current service value shall reflect conditions that existed at the date on which it was determined.

IPSAS 34, Separate Financial Statements, IPSAS 35, Consolidated Financial Statements and IPSAS 36, Investments in Associates and Joint Ventures

129. If a controlled entity becomes a first-time adopter later than its controlling entity, except for the controlled entity of an investment entity, the controlled entity shall, in its financial statements, measure its assets and liabilities at either:

(a) The carrying amounts determined in accordance with this IPSAS that would be included in the controlling entity’s consolidated financial statements, based on the controlled entity’s date of adoption of IPSASs, if no adjustments were made for consolidation procedures and for the effects of the public sector combination in which the controlling entity acquired the controlled entity; or

(b) The carrying amounts required by the rest of this IPSAS, based on the controlled entity’s date of adoption of IPSASs. These carrying amounts could differ from those described in (a):

(i) When the exemptions in this IPSAS result in measurements that depend on the date of adoption of IPSASs.

(ii) When the accounting policies used in the controlled entity’s financial statements differ from those in the consolidated financial statements. For example, the controlled entity may use as its accounting policy the historical cost model in IPSAS 17 [draft] IPSAS [X] (ED 78), whereas the economic entity may use the revaluation current value model.

Effective Date

154N. Paragraphs 36, 48, 49, 64, 67, 68, 69 and 129 were amended by [draft] IPSAS [X] (ED 78) issued in Month YYYY. An entity shall apply these amendments for annual financial statements covering periods beginning on or at after MM DD, YYYY. Earlier application is encouraged. If an entity applies these amendments for a period beginning before MM DD, YYYY it shall disclose that fact and apply [draft] IPSAS [X] (ED 78) at the same time.
Basis for Conclusions

Exemptions that Affect Fair Presentation and Compliance with Accrual Basis IPSAS

Transitional Exemptions Relating to the Recognition, Measurement and Classification of Non-Financial Assets

BC43. In considering the relief that should be provided to a first-time adopter for the recognition of its assets, when this Standard was issued, the IPSASB had considered the then existing five year relief period in IPSAS 17. To encourage entities to prepare for the adoption of IPSASs in advance of the preparation of their transitional IPSAS financial statements, or their first IPSAS financial statements, the IPSASB had agreed that a grace period not exceeding three years should be allowed. As entities should have prepared well in advance for their transition to accrual basis IPSASs and not solely rely on the relief period provided in this IPSAS, the IPSASB was of the view that the three year transitional period is was more manageable, and would reduces the period over which entities would not be able to assert compliance with IPSASs. In developing [draft] IPSAS [X] (ED 78), Property, Plant, and Equipment, the IPSASB noted that these principles are still applicable.

Transitional Exemptions Relating to the Recognition of Liabilities

Interaction Between the Asset Standards and Other IPSASs

BC57. When this Standard was issued, IPSAS 17 required an entity to include, as part of the cost of an item of property, plant and equipment, the initial estimate of the costs of dismantling and removing the item and restoring the site on which it is located, the obligation which an entity incurs either when the item is acquired, or as a consequence of having used the item during a particular period for purposes other than to produce inventories during that period. IPSAS 17 required that the obligation for costs accounted for in accordance with IPSAS 17 was recognized and measured in accordance with IPSAS 19.

BC58. The IPSASB had agreed that it would not be possible to recognize and/or measure provisions for the initial estimate of costs to dismantle and remove the item and restore the site on which it is located until such time as the relevant item of property, plant and equipment is recognized and/or measured in accordance with IPSAS 17. A transitional relief period was therefore also provided for the recognition and/or measurement of the provision to address the timing difference. In developing [draft] IPSAS [X] (ED 78), Property, Plant, and Equipment, the IPSASB noted that these principles are still applicable.

...
Deemed Cost

Deemed Cost for Assets and/or Liabilities

... 

BC82. When this Standard was issued, under the revaluation model in IPSAS 17, if an entity revalued an asset, it must had to revalue all assets in that class. This restriction prevented selective revaluation of only those assets whose revaluation would lead to a particular result. The IPSASB had considered whether a similar restriction should be included in determining a deemed cost. IPSAS 21, Impairment of Non-cash-generating Assets and IPSAS 26, Impairment of Cash-generating Assets required an impairment test if there was any indication that an asset was impaired. Thus, if a first-time adopter used fair value as deemed cost for assets whose fair value was likely to be above cost, it could not ignore indications that the recoverable amount or recoverable service amount of other assets may have fallen below their carrying amount. In developing [draft] IPSAS [X] (ED 78), Property, Plant, and Equipment, the IPSASB noted that these principles are still applicable when current service value is used as deemed cost. In reaching this conclusion, the IPSASB noted that the revaluation model in IPSAS 17 is labeled the current value model in [draft] IPSAS [X] (ED 78). [To be reassessed after decision by Measurement Project at the December 2020 IPSASB meeting.]

Alternative Measurement Bases for Fair Value in Determining Deemed Cost

BC92. When this Standard was issued, the IPSASB had considered whether some revaluations in accordance with a first-time adopter's previous basis of accounting might be more relevant to users than original cost. It was concluded that it would not be reasonable to require a time-consuming and expensive estimation of cost, if previous revaluations already complied with IPSASs. This IPSAS therefore allowed a first-time adopter to use a revaluation under its previous basis of accounting for property, plant and equipment determined at or before the date of adoption of IPSASs, as deemed cost. This was allowed to may be used if the revaluation was at the date of the revaluation, broadly comparable to:

(a) Fair value; or

(b) Cost or depreciated cost, where appropriate, in accordance with IPSASs adjusted to reflect, for example, changes in a general or specific price index.

In determining “fair value”, the guidance in each applicable IPSAS is to be considered, where such guidance is provided. In IPSAS 17 it is noted that fair value is normally determined by reference to market-based evidence, often by appraisal. IPSAS 17 also stated that if market-based evidence is not available to measure items of property, plant and equipment, an entity could estimate fair value using replacement cost, reproduction cost or a service units approach.

BC93. In determining “fair value”, the guidance in each applicable IPSAS is considered, where such guidance is provided. In IPSAS 17 it is noted that fair value is normally...
determined by reference to market-based evidence, often by appraisal. IPSAS 17 also stated that if market-based evidence is not available to measure items of property, plant and equipment, an entity could estimate fair value using replacement cost, reproduction cost or a service units approach. In developing [draft] IPSAS [X] (ED 78), Property, Plant, and Equipment, the IPSASB noted that these principles are still applicable. In reaching this conclusion, the IPSASB noted that [draft] IPSAS [X] (ED 78) refers to historical cost rather than cost and uses current service value rather than fair value. [This and preceding paragraph (BC92) to be reassessed after decision by Measurement Project at the December 2020 IPSASB meeting.]

Implementation Guidance

This guidance accompanies, but is not part of, IPSAS 33.

Transitional Exemptions that Provide Three Year Relief for the Recognition and/or Measurement of Assets and/or Liabilities

Recognition of Provisions Included in the Initial Cost of an Item of Property, Plant and Equipment

IG22. IPSAS 17[Draft] IPSAS [X] (ED 78), Property, Plant, and Equipment recognizes that in some cases, the construction or commissioning of an item of property, plant and equipment will result in an obligation for an entity to dismantle or remove the item of property, plant and equipment and restore the site on which the asset is located. An entity is required to apply IPSAS 19, Provisions, Contingent Liabilities and Contingent Assets in recognising and measuring the resulting provision to be included in the initial cost of the item of property, plant, and equipment.

IG23. IPSAS 33 provides an exemption for the recognition of this liability. A first-time adopter is allowed to not recognize and/or measure the liability relating to the initial estimate of costs of dismantling and removing the item and restoring the site on which it is located, until such time as the exemption for IPSAS 17[Draft] IPSAS [X] (ED 78) expires and/or the relevant asset is recognized and/or measured and relevant information has been presented and/or disclosed in the financial statements in accordance with IPSAS 17[Draft] IPSAS [X] (ED 78) (whichever is earlier).

IPSAS 17[Draft] IPSAS [X] (ED 78), Property, Plant and Equipment

IG53. If a first-time adopter’s depreciation methods and rates in accordance with its previous basis of accounting are acceptable in accordance with IPSASs, it accounts for any change in estimated useful life or depreciation pattern prospectively from when it makes that change in estimate (paragraph 22 and 26 of IPSAS 33 and paragraph 7655 of IPSAS 17[Draft] IPSAS [X] (ED 78)). However, in some cases, a first-time adopter’s depreciation methods and rates in accordance with its previous basis of accounting may differ from those that would be acceptable in accordance with IPSASs (for example, if they do not reflect a reasonable estimate of the asset’s useful life). If those differences have a material effect on the financial statements, the entity adjusts accumulated
depreciation in its opening statement of financial position retrospectively so that it complies with IPSASs.

IG54. A first-time adopter may elect to use one of the following amounts as the deemed cost of property, plant and equipment:

(a) **Fair valueCurrent service value** at the date of adoption of IPSASs (paragraph 67 of IPSAS 33), in which case the first-time adopter provides the disclosures -required by paragraph 148 of IPSAS 33; or

(b) A revaluation in accordance with its previous basis of accounting that meets the criteria in paragraph 67 of IPSAS 33.

IG55. Subsequent depreciation is based on that deemed cost and starts from the date for which the first-time adopter determined the deemed cost, or where the first-time adopter takes advantage of the exemption that provides a three year transitional relief period to not recognize certain assets, when the exemptions providing the relief have expired, or the asset has been recognized in accordance with IPSAS 17[draft] IPSAS [X] (ED 78) (whichever is earlier).

IG56. If a first-time adopter chooses as its accounting policy the revaluationcurrent value model in IPSAS 17[draft] IPSAS [X] (ED 78) for some or all classes of property, plant and equipment, it presents the cumulative revaluation surplus as a separate component of net assets/equity. The revaluation surplus at the date of adoption of IPSASs is based on a comparison of the carrying amount of the asset at that date with its cost or deemed cost. If the deemed cost is the fair valuecurrent service value at the date of adoption of IPSASs or where the first-time adopter takes advantage of the exemption that provides a three year transitional relief period to not recognize and/or measure certain assets, when the exemptions providing the relief have expired, or the asset has been recognized and/or measured in accordance with IPSAS 17[draft] IPSAS [X] (ED 78) (whichever is earlier), the first-time adopter provides the disclosures required by paragraph 148 of IPSAS 33.

IG57. If revaluations in accordance with the first-time adopter’s previous basis of accounting did not satisfy the criteria in paragraphs 67 or 69 of IPSAS 33, the first-time adopter measures the revalued assets in its opening statement of financial position on one of the following bases:

(a) Cost (or deemed cost) less any accumulated depreciation and any accumulated impairment losses under the historical cost model in IPSAS 17[draft] IPSAS [X] (ED 78);

(b) Deemed cost, being the fair valuecurrent service value or an alternative when market-based evidence of fair valuecurrent service value is not available, at the date of adoption of IPSASs, or where a first-time adopter takes advantage of the exemption that provides a three year transitional relief period to not recognize and/or measure certain assets, the date at which the asset is recognized and/or measured during the period of transition, or when the transitional exemptions expire (whichever is earlier); or

(c) A revalued amount, if the entity adopts the revaluationcurrent value model in IPSAS 17[draft] IPSAS [X] (ED 78) as its accounting policy in accordance with IPSASs for all items of property, plant and equipment in the same class.
IG58. IPSAS-17 [Draft] IPSAS [X] (ED 78) requires each part of an item of property, plant and equipment with a cost that is significant in relation to the total cost of the item to be depreciated separately. However, IPSAS-17 [draft] IPSAS [X] (ED 78) does not prescribe the unit of measurement for recognition of an asset, i.e. what constitutes an item of property, plant and equipment. Thus, judgment is required in applying the recognition criteria to an entity’s specific circumstances (see paragraphs 488 and 5939).

Summary of Transitional Exemptions and Provisions Included in IPSAS 33 First-time Adoption of Accrual Basis IPSASs

IG92. The diagram below summarizes the transitional exemptions and provisions included in other accrual basis IPSASs.

<table>
<thead>
<tr>
<th>IPSAS</th>
<th>Transitional exemption provided</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>NO</td>
</tr>
<tr>
<td></td>
<td></td>
</tr>
<tr>
<td>IPSAS-17 [draft] IPSAS [X] (ED 78), Property, Plant and Equipment</td>
<td></td>
</tr>
<tr>
<td></td>
<td>✓</td>
</tr>
</tbody>
</table>

Property, plant and equipment not recognized under previous basis of accounting

Property, plant and equipment recognized under previous basis of accounting
Differentiation between transitional exemptions and provisions that a first-time adopter is required to apply and/or can elect to apply on adoption of accrual basis IPSASs

<table>
<thead>
<tr>
<th>Transitional exemption or provision</th>
<th>Transitional exemptions or provisions that have to be applied</th>
<th>Transitional exemptions or provisions that may be applied or elected</th>
</tr>
</thead>
<tbody>
<tr>
<td>IPSAS 17[draft] IPSAS [X] (ED 78), Property, Plant, and Equipment</td>
<td>Three year relief for recognition and/or measurement of assets and changing the accounting policy to measure assets</td>
<td>√</td>
</tr>
</tbody>
</table>
Application of the Equity Method

... 

Equity Method Procedures

... 

33. The gain or loss resulting from the contribution of non-monetary assets that do not constitute an operation, as defined in IPSAS 40, to an associate or a joint venture in exchange for an equity interest in that associate or joint venture shall be accounted for in accordance with paragraph 31, except when the contribution lacks commercial substance, as that term is described in IPSAS 17 [draft] IPSAS [X] (ED 78), Property, Plant and Equipment. If such a contribution lacks commercial substance, the gain or loss is regarded as unrealized and is not recognized unless paragraph 34 also applies. Such unrealized gains and losses shall be eliminated against the investment accounted for using the equity method and shall not be presented as deferred gains or losses in the entity’s consolidated statement of financial position or in the entity’s statement of financial position in which investments are accounted for using the equity method.

... 

Effective Date

51L. Paragraph 33 was amended by [draft] IPSAS [X] (ED 78) issued in Month YYYY. An entity shall apply this amendment for annual financial statements covering periods beginning on or at after MM DD, YYYY. Earlier application is encouraged. If an entity applies this amendment for a period beginning before MM DD, YYYY it shall disclose that fact and apply [draft] IPSAS [X] (ED 78) at the same time.

... 

Amendments to IPSAS 39, Employee Benefits

Paragraphs 11, 53, and 123 are amended. Paragraph 179B is added. New text is underlined, and deleted text is struck through.

... 

Short-Term Employee Benefits

... 

Recognition and Measurement

All Short-Term Employee Benefits

11. When an employee has rendered service to an entity during an accounting period, the entity shall recognize the undiscounted amount of short-term employee benefits expected to be paid in exchange for that service:
(a) As a liability (accrued expense), after deducting any amount already paid. If the amount already paid exceeds the undiscounted amount of the benefits, an entity shall recognize that excess as an asset (prepaid expense) to the extent that the prepayment will lead to, for example, a reduction in future payments or a cash refund.

(b) As an expense, unless another Standard requires or permits the inclusion of the benefits in the cost of an asset (see, for example, IPSAS 12, Inventories, and IPSAS 17[draft] IPSAS [X] (ED 78), Property, Plant, and Equipment).

Post-Employment Benefits—Defined Contribution Plans

Recognition and Measurement

53. When an employee has rendered service to an entity during a period, the entity shall recognize the contribution payable to a defined contribution plan in exchange for that service:

(a) As a liability (accrued expense), after deducting any contribution already paid. If the contribution already paid exceeds the contribution due for service before the end of the reporting period, an entity shall recognize that excess as an asset (prepaid expense) to the extent that the prepayment will lead to, for example, a reduction in future payments or a cash refund; and

(b) As an expense, unless another Standard requires or permits the inclusion of the contribution in the cost of an asset (see, for example, IPSAS 12 and IPSAS 17[draft] IPSAS [X] (ED 78)).

Components of Defined Benefit Cost

Other IPSASs require the inclusion of some employee benefit costs within the cost of assets, such as inventories and property, plant and equipment (see IPSAS 12 and IPSAS 17[draft] IPSAS [X] (ED 78)). Any post-employment benefit costs included in the cost of such assets include the appropriate proportion of the components listed in paragraph 122.

Effective Date

179B. Paragraphs 11, 53 and 123 were amended by [draft] IPSAS [X] (ED 78) issued in Month YYYY. An entity shall apply these amendments for annual financial statements covering periods beginning on or at after MM DD, YYYY. Earlier application is encouraged. If an entity
ED 78–IPSAS 17 UPDATE

IPSASB Meeting (December 2020)

Agenda Item 5.3.2

Agenda Item 5.3.2

Applies these amendments for a period beginning before MM DD, YYYY it shall disclose that fact and apply [draft] IPSAS [X] (ED 78) at the same time.

Amendments to IPSAS 40, Public Sector Combinations

Paragraphs BC 82, IE167, IE168, IE171, IE180, IE185, IE192, IE257, IE258 and IE259 are amended. New text is underlined, and deleted text is struck through.

Basis for Conclusions

Accounting for Amalgamations (paragraphs 15–57)

Measurement Period

...

BC82. When this Standard was issued, the IPSASB had considered whether such a period was required when accounting for an amalgamation. The modified pooling of interests method does not require assets and liabilities to be restated to fair value at the amalgamation date. However, the IPSASB noted that the combining operations may have different accounting policies, which could result in some assets and liabilities being required to be restated to conform to the resulting entity’s accounting policies. For example, the resulting entity may adopt an accounting policy of revaluing certain assets such as property, plant and equipment. If one or more combining operations had previously adopted an accounting policy of measuring such assets at cost, the practical effect of determining the carrying amount of those assets under the revaluation model would be similar to that of determining their fair value. For this reason, the IPSASB agreed that it was appropriate to permit a resulting entity time to obtain the information needed to restate assets and liabilities to conform to its accounting policies. The IPSASB agreed that a period of one year was appropriate. In developing [draft] IPSAS [X] (ED 78), Property, Plant, and Equipment, the IPSASB noted that these principles are still applicable. In reaching this conclusion, the IPSASB noted that the revaluation model in IPSAS 17 is labeled the current value model in [draft] IPSAS [X] (ED 78) and IPSAS 17 referred to cost and fair value, while [draft] IPSAS [X] (ED 78), Property, Plant, and Equipment, refers to historical cost and current service value. [To be reassessed after decision by Measurement Project at the December 2020 IPSASB meeting.]

Illustrative Examples

...

Adjusting the Carrying Amounts of the Identifiable Assets and Liabilities of the Combining Operations to Conform to the Resulting Entity’s Accounting Policies in an Amalgamation

Illustrating the Consequences of Applying Paragraphs 26–27 and 36 of IPSAS 40

...

IE167. On 1 October 20X5 RE is formed by an amalgamation of two government departments, COA and COB. COA has previously adopted an accounting policy of measuring property, plant and
IE168. RE adopts an accounting policy of measuring property, plant and equipment using the revaluation current value model. RE seeks an independent valuation for the items of property, plant and equipment previously controlled by COA.

...

IE171. RE recognizes the items of property, plant and equipment previously controlled by COB at their carrying amounts. In accordance with paragraph 6746 of IPSAS 17 [draft] IPSAS [X] (ED 78), RE will review the residual values and useful lives of the plant and equipment previously controlled by both COA and COB at least at each annual reporting date. If expectations differ from previous estimates, RE will account for these changes as changes in accounting estimates, in accordance with IPSAS 3, Accounting Policies, Changes in Accounting Estimates and Errors.

Recognizing and Measuring Components of Net Assets/Equity Arising as a Result of an Amalgamation

Illustrating the Consequences of Applying Paragraphs 37–39 of IPSAS 40

...

IE180. COA has previously adopted an accounting policy of measuring property, plant and equipment using the historical cost model. COB has previously adopted an accounting policy of measuring property, plant and equipment using the revaluation current value model. RE has adopted an accounting policy of measuring property, plant and equipment using the revaluation current value model. RE obtains an independent valuation for the items of property, plant and equipment previously controlled by COA. As a result, it increases its carrying amount for those items of the property, plant and equipment by CU5,750 and makes the corresponding adjustment to components of net assets/equity.

...

Measurement Period in an Amalgamation

Illustrating the Consequences of Applying Paragraphs 40–44 of IPSAS 40

...

IE185. Suppose that RE is formed by the amalgamation of COA and COB (two municipalities that were not under common control prior to the amalgamation) on 30 November 20X3. Prior to the amalgamation, COA had an accounting policy of using the revaluation current value model for measuring land and buildings, whereas COB’s accounting policy was to measure land and buildings using the historical cost model. RE adopts an accounting policy of measuring land and buildings using the revaluation current value model, and seeks an independent valuation for the land and buildings previously controlled by COB. This valuation was not complete by the time RE authorized for issue its financial statements for the year ended 31 December 20X3. In its 20X3 annual financial statements, RE recognized provisional values for the land and buildings of...
CU150,000 and CU275,000 respectively. At the amalgamation date, the buildings had a remaining useful life of fifteen years. The land had an indefinite life. Four months after the amalgamation date, RE received the independent valuation, which estimated the amalgamation-date value of the land as CU160,000 and the amalgamation-date value of the buildings as CU365,000.

Disclosure Requirements Relating to Amalgamations

Illustrating the Consequences of Applying the Disclosure Requirements in Paragraphs 53–57 of IPSAS 40.

IE192. The following example illustrates some of the disclosure requirements relating to amalgamations of IPSAS 40; it is not based on an actual transaction. The example assumes that RE is a newly created municipality formed by amalgamating the former municipalities COA and COB. The illustration presents the disclosures in a tabular format that refers to the specific disclosure requirements illustrated. An actual footnote might present many of the disclosures illustrated in a simple narrative format.

<table>
<thead>
<tr>
<th>Paragraph reference</th>
<th>Original Amount (CU)</th>
<th>Adjustment (CU)</th>
<th>Revised Amount (CU)</th>
</tr>
</thead>
<tbody>
<tr>
<td>54(e)(i)</td>
<td>822</td>
<td>(25)</td>
<td>797</td>
</tr>
<tr>
<td>54(e)(i)</td>
<td>(1,093)</td>
<td>25</td>
<td>(1,068)</td>
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<tr>
<td>54(e)(ii)</td>
<td>12,116</td>
<td>17,954</td>
<td>30,070</td>
</tr>
</tbody>
</table>
Measurement Period in an Acquisition

*Illustrating the Consequences of Applying Paragraphs 103–108 of IPSAS 40.*

IE257. Suppose that AE acquires TE on 30 September 20X7. AE seeks an independent valuation for an item of property, plant and equipment acquired in the combination, and the valuation was not complete by the time AE authorized for issue its financial statements for the year ended 31 December 20X7. In its 20X7 annual financial statements, AE recognized a provisional fair value/current service value for the asset of CU30,000. At the acquisition date, the item of property, plant and equipment had a remaining useful life of five years. Five months after the acquisition date, AE received the independent valuation, which estimated the asset’s acquisition-date fair value/current service value as CU40,000.

IE258. In its financial statements for the year ended 31 December 20X8, AE retrospectively adjusts the 20X7 prior year information as follows:

(a) The carrying amount of property, plant and equipment as of 31 December 20X7 is increased by CU9,500. That adjustment is measured as the fair value/current service value adjustment at the acquisition date of CU10,000 less the additional depreciation that would have been recognized if the asset’s fair value/current service value at the acquisition date had been recognized from that date (CU500 for three months’ depreciation).

(b) The carrying amount of goodwill as of 31 December 20X7 is decreased by CU10,000.

(c) Depreciation expense for 20X7 is increased by CU500.

IE259. In accordance with paragraph 124 of IPSAS 40, AE discloses:

(a) In its 20X7 financial statements, that the initial accounting for the acquisition has not been completed because the valuation of property, plant and equipment has not yet been received.

(b) In its 20X8 financial statements, the amounts and explanations of the adjustments to the provisional values recognized during the current reporting period. Therefore, AE discloses that the 20X7 comparative information is adjusted retrospectively to increase the fair value/current service value of the item of property, plant and equipment at the acquisition date by CU9,500, offset by a decrease to goodwill of CU10,000 and an increase in depreciation expense of CU500.
Amendments to ED 70, Revenue with Performance Obligations
Paragraphs 3, 94 and 102 are amended. Paragraph 131B is added. New text is underlined, and deleted text is struck through.

Scope

3. An entity that prepares and presents financial statements under the accrual basis of accounting shall apply this [draft] Standard in accounting for revenue arising from binding arrangements with a purchaser that include performance obligations as defined in this [draft] Standard to transfer promised goods or services to the purchaser or third-party beneficiary. This [draft] Standard does not apply to:

(a) Revenue arising from other arrangements (whether binding arrangements or not) that do not include performance obligations to transfer goods or services to the purchaser or third-party beneficiary (the entity shall apply the requirements of [draft] IPSAS [X] (ED 71), Revenue without Performance Obligations in accounting for such binding arrangements);

(b) Lease contracts within the scope of IPSAS 13, Leases;

(c) Insurance contracts within the scope of the relevant international or national accounting standard dealing with insurance contracts;

(d) Financial instruments and other contractual rights or obligations within the scope of, IPSAS 41, Financial Instruments;

(e) Rights or obligations arising from binding arrangements within the scope of, IPSAS 19, Provisions, Contingent Liabilities and Contingent Assets, IPSAS 32, Service Concession Arrangements: Grantor, IPSAS 34, Separate Financial Statements, IPSAS 35, Consolidated Financial Statements, IPSAS 36, Investments in Associates and Joint Ventures, IPSAS 37, Joint Arrangements, IPSAS 39, Employee Benefits and IPSAS 40, Public Sector Combinations;

(f) Non-monetary exchanges between entities in the same line of business to facilitate sales to purchasers or potential purchasers. For example, this [draft] Standard would not apply to a binding arrangement between two public sector entities that agree to an exchange of electricity to fulfill demand from their purchasers in different specified locations on a timely basis;

(g) Gains from the sale of non-financial assets that are not an output of an entity’s activities and within the scope of IPSAS 16, Investment Property, IPSAS 17[draft] IPSAS [X] (ED 78), Property, Plant, and Equipment or IPSAS 31, Intangible Assets;

(h) Changes in the value of other current assets;

(i) Initial recognition or changes in the fair value of biological assets related to agricultural activity (see IPSAS 27, Agriculture); and

(j) The extraction of mineral resources.
Costs to Fulfill a Binding Arrangement

94. If the costs incurred in fulfilling a binding arrangement with a purchaser are not within the scope of another Standard (for example, IPSAS 12, Inventories, IPSAS 17[draft] IPSAS [X] (ED 78) or IPSAS 31, Intangible Assets), an entity shall recognize an asset from the costs incurred to fulfill a binding arrangement only if those costs meet all of the following criteria:

Amortization and Impairment

...  

102. Before an entity recognizes an impairment loss for an asset recognized in accordance with paragraph 90 or 94, the entity shall recognize any impairment loss for assets related to the binding arrangement that are recognized in accordance with another Standard (for example, IPSAS 12, IPSAS 17[draft] IPSAS [X] (ED 78) and IPSAS 31). After applying the impairment test in paragraph 100, an entity shall include the resulting carrying amount of the asset recognized in accordance with paragraph 90 or 94 in the carrying amount of the cash-generating unit to which it belongs for the purpose of applying IPSAS 26, Impairment of Cash-Generating Assets to that cash-generating unit.

Effective date

...  

131B. Paragraphs 3, 94 and 102 were amended by [draft] IPSAS [X] (ED 78) issued in Month YYYY. An entity shall apply these amendments for annual financial statements covering periods beginning on or after MM DD, YYYY. Earlier application is encouraged. If an entity applies the amendment for a period beginning before MM DD, YYYY, it shall disclose that fact and apply [draft] IPSAS [X] (ED 78) at the same time.

Illustrative Examples

Binding Arrangement Costs

...

Example 39—Costs that Give Rise to an Asset

...

Costs to Fulfill a Binding Arrangement

...

IE218 The initial setup costs relate primarily to activities to fulfill the binding arrangement but do not transfer goods or services to the local government. The Agency accounts for the initial setup costs as follows:

(a) Hardware costs—accounted for in accordance with IPSAS 17[draft] IPSAS [X] (ED 78), Property, Plant and Equipment.

(b) Software costs—accounted for in accordance with IPSAS 31, Intangible Assets.

(c) Costs of the design, migration and testing of the data center—assessed in accordance with paragraph 94 of [draft] IPSAS [X] (ED 70) to determine whether an asset can be recognized for the costs to fulfill the binding arrangement. Any resulting asset would be amortized on a systematic basis over the seven-year period (i.e., the five-year term of the
binding arrangement and two anticipated one-year renewal periods) that the Agency expects to provide services related to the data center.

Amendments to ED71, Revenue without Performance Obligations
Paragraphs 3 and 13 are amended. Paragraph 155B is added. New text is underlined, and deleted text is struck through.

Scope

3. A transfer recipient that prepares and presents financial statements under the accrual basis of accounting shall apply this [draft] Standard in accounting for revenue from transactions without performance obligations. This [draft] Standard does not apply to:
   (a) Revenue from transactions with performance obligations (see [draft] IPSAS [X] (ED 70);
   (b) Contributions to social benefit schemes that are accounted for in accordance with paragraphs 26-31 of IPSAS 42, Social Benefits (the insurance approach);
   (c) A public sector combination that is a non-exchange transaction;
   (d) The accounting for contributions from owners;
   (e) Lease contracts within the scope of IPSAS 13, Leases;
   (f) Insurance contracts within the scope of the relevant international or national accounting standard dealing with insurance contracts;
   (g) Financial instruments and other contractual rights or obligations within the scope of, IPSAS 41, Financial Instruments;
   (h) Rights or obligations arising from binding arrangements within the scope of, IPSAS 19, Provisions, Contingent Liabilities and Contingent Assets, IPSAS 32, Service Concession Arrangements: Grantor, IPSAS 34, Separate Financial Statements, IPSAS 35, Consolidated Financial Statements, IPSAS 36, Investments in Associates and Joint Ventures, IPSAS 37, Joint Arrangements, IPSAS 39, Employee Benefits and IPSAS 40, Public Sector Combinations;
   (i) Gains from the sale of non-financial assets that are not an output of a transfer recipient’s activities and within the scope of IPSAS 16, Investment Property, IPSAS 47[draft] IPSAS [X] (ED 78), Property, Plant, and Equipment or IPSAS 31, Intangible Assets;
   (j) Changes in the value of current and non-current assets arising from subsequent measurement;
   (k) Initial recognition or changes in the fair value of biological assets related to agricultural activity (see IPSAS 27, Agriculture); and
   (l) The extraction of mineral resources.

Revenue

13. Where a transfer recipient incurs some cost in relation to revenue arising from a transaction without performance obligations, the revenue is the gross inflow of future economic benefits or service potential, and any outflow of resources is recognized as a cost of the transaction. For example, if a transfer recipient is required to pay delivery and installation costs in relation to the transfer of an item of plant to it from another entity (transfer provider), those costs are recognized separately from revenue arising from the transfer of the item of plant. Delivery and installation
costs are included in the amount recognized as an asset, in accordance with IPSAS 17\[draft\] IPSAS [X] (ED 78).

Effective date

... 155B. Paragraphs 3 and 13 were amended by [draft] IPSAS [X] (ED 78) issued in Month YYYY. An entity shall apply these amendments for annual financial statements covering periods beginning on or after MM DD, YYYY. Earlier application is encouraged. If an entity applies the amendment for a period beginning before MM DD, YYYY, it shall disclose that fact and apply [draft] IPSAS [X] (ED 78) at the same time.

Biological Assets and Agricultural Assets Acquired through a Non-Exchange Transaction

... BC9. When this Standard was issued, in analyzing approach 3, the IPSASB had considered the requirements of IPSAS 23 in relation to the measurement of other types of assets. IPSAS 23.13 stated that: "...If a reporting entity is required to pay delivery and installation costs in relation to the transfer of an item of plant to it from another entity, those costs are recognized separately from revenue arising from the transfer of the item of plant. Delivery and installation costs are included in the amount recognized as an asset, in accordance with IPSAS 17." This implies that for other assets, an entity considered the measurement requirements of other IPSASs as well as IPSAS 23 in initially measuring assets acquired through a non-exchange transaction. In developing [draft] IPSAS [X] (ED 78), Property, Plant, and Equipment, the IPSASB noted that these principles are still applicable.

... Measurement of Assets

BC27. When this Standard was issued, this [draft] Standard required that assets acquired through transactions without performance obligations be initially measured at their transaction price as at the date of acquisition. The IPSASB was of the view that this was appropriate to reflect the substance of the transaction and its consequences for the recipient. In a transaction with performance obligations, the cost of acquisition was a measure of the fair value of the asset acquired. However, in a transaction without performance obligations, the consideration provided for the acquisition of an asset may not have been equal to the fair value of the asset acquired. Transaction price most faithfully represented the actual value the public sector transfer recipient accrued as a result of the transaction. Initial measurement of non-monetary assets acquired through transactions without performance obligations at their transaction price, which was fair value for non-monetary assets, was consistent with the approach taken in IPSAS 16, Investment Property, and IPSAS 17, Property, Plant, and Equipment, for assets acquired at no cost or for a nominal cost. The IPSASB has made consequential amendments to IPSAS 12, Inventories, and IPSAS 16 and IPSAS 17 to fully align those IPSAS with the requirements of this [draft] Standard. In developing [draft] IPSAS [X] (ED 78), Property, Plant, and Equipment, the IPSASB noted that these principles are still applicable. In reaching this conclusion, the IPSASB noted that the IPSAS 17 refers to fair value, while [draft] IPSAS [X] (ED 78) refers to current service value. [To be reassessed after decision by Measurement Project at the December 2020 IPSASB meeting.]

... Example 12—Transfer to a Public Sector University – unenforceable transaction (paragraph 53)

... IE31 The university recognizes the land as an asset in the statement of financial position of the reporting period in which it obtains control of that land. The land should be recognized at its fair value in accordance with IPSAS 17\[draft\] IPSAS [X] (ED 78). The obligation is not enforceable...
therefore does not meet the definition of a liability or satisfy the criteria for recognition as a liability. Therefore, the university recognizes revenue in respect of the land in the statement of financial performance of the reporting period in which the land is recognized as an asset.

**Amendments to ED 72, Transfer Expenses**

No amendments to ED 72. Amendments to non-authoritative guidance that accompanies the Standard are shown. New text is underlined, and deleted text is struck through.

**Illustrative Examples**

...  
Example 1 Transaction Where the Other Party Provides Goods and Services  
...  
Case A—Vehicle is Provided to the International Organization  
...  
IE5. The binding arrangement does not give rise to a transfer expense, as the international organization receives the vehicle and the maintenance services in return for providing the consideration of CU30,000. Consequently, the binding arrangement is outside the scope of [draft] IPSAS [X] (ED 72). The international organization applies IPSAS 17[draft] IPSAS [X] (ED 78), Property, Plant, and Equipment, in accounting for the purchase of the vehicle.

...  
Example 3 Transaction with Components Within the Scope of Other IPSAS  
...  
IE14. The transfer of the vehicle to the not-for-profit organization is a transfer expense, as the local government transfers part of the consideration to the dealer without directly receiving any goods or services in return. The transfer of the vehicle to the local government is not a transfer expense, as the local government receives the vehicle in return for part of the consideration. The local government applies IPSAS 17[draft] IPSAS [X] (ED 78) in accounting for the purchase of the vehicle it receives.

IE15. Paragraph 7(a) of [draft] IPSAS [X] (ED 72) requires an entity to first apply the separation and/or measurement requirements in other Standards if those other Standards specify how to separate and/or initially measure one or more parts of the binding arrangement. IPSAS 17[draft] IPSAS [X] (ED 78) does not specify how to separate and/or initially measure one or more parts of the binding arrangement. Consequently, the local government applies the requirements in [draft] IPSAS [X] (ED 72) to separate and/or initially measure the two parts of the binding arrangement, in accordance with paragraph 7(b) of [draft] IPSAS [X] (ED 72).

**Amendments to ED 74, IPSAS 5, Borrowing Costs**

No amendments to ED 74. Amendments to non-authoritative guidance that accompanies the Standard are shown. New text is underlined, and deleted text is struck through.

**Illustrative Examples**

...  
Scope  
...  
Example 1 Transaction Where the Other Party Provides Goods and Services  
...  
Case A—Vehicle is Provided to the International Organization  
...  
IE5. The binding arrangement does not give rise to a transfer expense, as the international organization receives the vehicle and the maintenance services in return for providing the consideration of CU30,000. Consequently, the binding arrangement is outside the scope of [draft] IPSAS [X] (ED 72). The international organization applies IPSAS 17[draft] IPSAS [X] (ED 78), Property, Plant, and Equipment, in accounting for the purchase of the vehicle.
Example 3 Transaction with Components Within the Scope of Other IPSAS

IE14. The transfer of the vehicle to the not-for-profit organization is a transfer expense, as the local government transfers part of the consideration to the dealer without directly receiving any goods or services in return. The transfer of the vehicle to the local government is not a transfer expense, as the local government receives the vehicle in return for part of the consideration. The local government applies IPSAS 17[draft] IPSAS [X] (ED 78) in accounting for the purchase of the vehicle it receives.

IE15. Paragraph 7(a) of [draft] IPSAS [X] (ED 72) requires an entity to first apply the separation and/or measurement requirements in other Standards if those other Standards specify how to separate and/or initially measure one or more parts of the binding arrangement. IPSAS 17[draft] IPSAS [X] (ED 78) does not specify how to separate and/or initially measure one or more parts of the binding arrangement. Consequently, the local government applies the requirements in [draft] IPSAS [X] (ED 72) to separate and/or initially measure the two parts of the binding arrangement, in accordance with paragraph 7(b) of [draft] IPSAS [X] (ED 72).

Amendments to ED 75, Leases

Paragraphs 5, 32, 36, 58, 81, 91, and AG45 are amended. Paragraph 100B is added. New text is underlined, and deleted text is struck through.

Definitions

5. The following terms are used in this [draft] Standard with the meanings specified:

Terms defined in other IPSASs are used in this [draft] Standard with the same meaning as in those Standards, and are reproduced in the Glossary of Defined Terms published separately. The defined term useful life is used in this [draft] Standard with the meaning as in IPSAS 47[draft] IPSAS [X] (ED 78), Property, Plant, and Equipment.

Subsequent measurement

Cost model

32. A lessee shall apply the depreciation requirements in IPSAS 17[draft] IPSAS [X] (ED 78) in depreciating the right-of-use asset, subject to the requirements in paragraph 33.

Other measurement models

36. If right-of-use assets relate to a class of property, plant and equipment to which the lessee applies the revaluation current value model in IPSAS 17[draft] IPSAS [X] (ED 78), a lessee may elect to apply that revaluation current value model to all of the right-of-use assets that relate to that class of property, plant and equipment.

Disclosure

58. If a lessee measures right-of-use assets at revalued amounts applying IPSAS 17[draft] IPSAS [X] (ED 78), the lessee shall disclose the information required by paragraph 92 of IPSAS 17[draft] IPSAS [X] (ED 78) for those right-of-use assets.
Operating leases
Recognition and measurement

81. The depreciation policy for depreciable underlying assets subject to operating leases shall be consistent with the lessor’s normal depreciation policy for similar assets. A lessor shall calculate depreciation in accordance with IPSAS-17[draft] IPSAS[X] (ED 78) and IPSAS 31.

Operating leases

91. For items of property, plant and equipment subject to an operating lease, a lessor shall apply the disclosure requirements of IPSAS-17[draft] IPSAS[X] (ED 78). In applying the disclosure requirements in IPSAS-17[draft] IPSAS[X] (ED 78), a lessor shall disaggregate each class of property, plant and equipment into assets subject to operating leases and assets not subject to operating leases. Accordingly, a lessor shall provide the disclosures required by IPSAS-17[draft] IPSAS[X] (ED 78) for assets subject to an operating lease (by class of underlying asset) separately from owned assets held and used by the lessor.

Costs of the lessee relating to the construction or design of the underlying asset

AG45. If a lessee incurs costs relating to the construction or design of an underlying asset, the lessee shall account for those costs applying other applicable Standards, such as IPSAS-17[draft] IPSAS[X] (ED 78). Costs relating to the construction or design of an underlying asset do not include payments made by the lessee for the right to use the underlying asset. Payments for the right to use an underlying asset are payments for a lease, regardless of the timing of those payments.

Effective date

100B. Paragraphs 5, 32, 36, 58, 81, 91, and AG45 were amended by [draft] IPSAS[X] (ED 78) issued in Month YYYY. An entity shall apply these amendments for annual financial statements covering periods beginning on or after MM DD, YYYY. Earlier application is encouraged. If an entity applies the amendment for a period beginning before MM DD, YYYY, it shall disclose that fact and apply [draft] IPSAS[X] (ED 78) at the same time.

Basis for Conclusions

Background

Development of ED 64, Leases

Lessor accounting

BC9. When this Standard was issued, IFRS 16 retained the ‘risks and rewards incidental to ownership’ model applied in IAS 17 (and IPSAS 13). The IPSASB had considered whether there were any public sector issues that warranted a departure from the lessor accounting requirements in IFRS 16. In developing ED 64, the IPSASB had come to the view that the ‘risks and rewards incidental to ownership’ model:

(a) Was not based on control and would not be consistent with the IPSASB’s Conceptual Framework.

(b) Did not distinguish between the right-of-use asset and the underlying asset. The IPSASB considered these to be different economic phenomena which should both be accounted for.

(c) If applied for lessor accounting, while a control-based model was applied for lessee accounting, would have:
(i) Been inconsistent with IPSAS 17, *Property, Plant, and Equipment* and IPSAS 32, *Service Concession Arrangements: Grantor*, which are based on control; and
(ii) Raised consolidation issues and impaired understandability and the decision usefulness of information where the lessor and the lessee are part of the same economic entity. For example, if the lessor classifies the lease as a finance lease, the underlying asset is not recognized by either party, and separate records will need to be maintained to report the underlying asset in the consolidated financial statements. In this context, the IPSASB had formed the view that a lessor would not be expected to derecognize a leased asset because the lessor has only transferred the right to use an underlying asset, not the underlying asset itself.

In developing [draft] IPSAS [X] (ED 78), *Property, Plant, and Equipment*, the IPSASB noted that these principles are still applicable.

#### Identifying a lease

BC47. When this Standard was issued, the IPSASB had identified the following arguments in favor of adding the term “service potential”:

(a) The IASB’s Conceptual Framework referred to assets only in terms of economic benefits, while the IPSASB’s Conceptual Framework referred to assets in terms of both economic benefits and service potential;

(b) The IPSASB’s Conceptual Framework outlined that:

(i) Economic benefits are related to the ability of an asset to generate net cash inflows, while service potential is related to the capacity of an asset to provide services.

(ii) Service potential should be referenced when identifying the capacity of an asset to provide services.

(c) In paragraph BC5.8 of the Conceptual Framework, the IPSASB had concluded that the explanation of a resource should include both the terms “service potential” and “economic benefits” because it acknowledged that the primary objective of most public sector entities is to deliver services, but also that public sector entities may carry out activities with the sole objective of generating net cash inflows.

(d) An analogy could be made with the current practice of adding the term “service potential” after “economic benefits” in the recognition requirements of several IPSAS that are aligned with the respective IFRS; and

(e) Users and preparers may have had a perception that leased assets where the lessee uses them to provide services are not covered in [draft] IPSAS [X] (ED 75).

BC48. On the other hand, the IPSASB had also identified the following arguments in favor of not adding the term “service potential”:

(a) The IPSASB had decided that in [draft] IPSAS [X] (ED 75) should be aligned with IFRS 16 (see [draft] IPSAS [X] (ED 75).BC36), including its scope, leases definition based on contractual cash-flows, criteria to identify a lease, and recognition and measurement requirements, as additional wording might have been seen to indicate a wider scope of lease transactions in the public sector, when that is not the case.

(b) Identifying a transaction based on the transfer of types of rights is economically different from explaining the usage of assets because:

(i) The lease contract sets out the rights and obligations to the parties in the agreement where the lessor has a right to received consideration in exchange of transferring to the lessee the right to obtain rights to obtain substantially all of the economic benefits from use of the identified asset and the right to direct the use of the identified asset. How the identified asset will be used by the lessee once
the transaction is identified as a lease and where the service potential is regarded as the form of the benefits expected from the identified asset will always be decisions after the transaction is identified as a lease based on the criteria in in [draft] IPSAS [X] (ED 75). AG10.

(ii) Other types of rights might be transferred in a lease, but only the two specified rights in [draft] IPSAS [X] (ED 75) are enough to identify a lease;

(iii) The analogy in paragraph BC47(b) above had related to the recognition requirements of IPSAS 16, IPSAS 17 and IPSAS 31 did not hold because they are not related to identification of contractual rights being transferred; and

(c) Identifying a lease based on the types of rights being transferred is related to the inclusion or not within the scope of [draft] IPSAS [X] (ED 75), and classifying a lease based on risks and rewards is related to types of leases that are already within the scope of [draft] IPSAS [X] (ED 75). In other words, once the transaction was included within the scope of [draft] IPSAS [X] (ED 75), the lessee could choose the type of rewards it wants to obtain out of the identified asset.

In developing [draft] IPSAS [X] (ED 78), Property, Plant, and Equipment, the IPSASB noted that these principles are still applicable.

Amendments to ED 79, Non-current Assets Held for Sale and Discontinued Operations

Paragraphs 16 and 32 are amended. Paragraph 54A is added. New text is underlined, and deleted text is struck through.

Classification of Non-current Assets (or disposal groups) as Held for Sale or as Held for Distribution to Owners

16. Sale transactions include exchanges of non-current assets for other non-current assets when the exchange has commercial substance in accordance with IPSAS 17[draft] IPSAS [X] (ED 78), Property, Plant, and Equipment.

Recognition of Impairment Losses and Reversals

32. A gain or loss not previously recognized by the date of the sale of a non-current asset (or disposal group) shall be recognized at the date of derecognition. Requirements relating to derecognition are set out in:

(a) Paragraphs 82–87 of IPSAS 17[draft] IPSAS [X] (ED 78) for property, plant, and equipment; and

(b) Paragraphs 111–116 of IPSAS 31 Intangible Assets for intangible assets.

Effective date

54A. Paragraphs 16 and 32 were amended by [draft] IPSAS [X] (ED 78) issued in Month YYYY. An entity shall apply these amendments for annual financial statements covering periods beginning on or after MM DD, YYYY. Earlier application is encouraged. If an entity applies the amendment for a period beginning before MM DD, YYYY, it shall disclose that fact and apply [draft] IPSAS [X] (ED 78) at the same time.
BC7. When this Standard was issued, the IPSASB had also discussed whether disclosures requiring the carrying amount of surplus non-current assets or non-current assets that are to be transferred to other public sector entities should have been added to IPSAS 17, *Property, Plant, and Equipment* and IPSAS 31, *Intangible Assets*. The IPSASB had decided that because these transactions were beyond the scope of [draft] IPSAS [X] (ED 79) (as noted above in BC 6) and were not consequential amendments arising from this [draft] Standard, it is not appropriate to include a requirement for such disclosures in [draft] IPSAS [X] (ED 79). The IPSASB had also noted that IPSAS 17 encourages disclosures for temporarily idle property, plant, and equipment, and property, plant, and equipment retired from active use that is not within the scope of [draft] IPSAS [X] (ED 79). In developing [draft] IPSAS [X] (ED 78), *Property, Plant, and Equipment*, the IPSASB noted that these principles are still applicable.
Comments Templates Submitted

Attached are the unedited Comment Templates submitted and the Staff response noting how these have been actioned.

<table>
<thead>
<tr>
<th>#</th>
<th>Region</th>
<th>Respondent</th>
</tr>
</thead>
<tbody>
<tr>
<td>01</td>
<td>Australia</td>
<td>Submitted by IPSASB Member, Mike Blake</td>
</tr>
<tr>
<td>02</td>
<td>Brazil</td>
<td>Submitted by IPSASB Member, Patricia Varela</td>
</tr>
<tr>
<td>03</td>
<td>Japan</td>
<td>Submitted by IPSASB Technical Advisor, Takeo Fukiya</td>
</tr>
<tr>
<td>04</td>
<td>New Zealand</td>
<td>Submitted by IPSASB Member, Todd Beardsworth and IPSASB Technical Advisor, Anthony Heffernan</td>
</tr>
<tr>
<td>05</td>
<td>South Africa</td>
<td>Submitted by IPSASB Member, Lindy Bodewig IPSASB Technical Advisor, South Africa Accounting Standards Board</td>
</tr>
<tr>
<td>06</td>
<td>Switzerland</td>
<td>Submitted by IPSASB Member, Marc Wermuth and IPSASB Technical Advisor, Claudie Beier</td>
</tr>
</tbody>
</table>
Comment Template

*IPSASB staff would appreciate that reviewers submit substantive comments using the template below. Substantive comments are fatal flaws that should be addressed, or that may cause the member to withhold their support of the ED(s).*

*IPSASB staff endeavors to consider each substantive comment and communicate back with the reviewer how it will be addressed. Any minor comments or editorials noted can be added to the EDs directly. Staff will consider all comments and edits, however, request the use of the comment tracker to ensure that all substantive comments are prioritized and how they have been addressed is communicated.*

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<tr>
<th>ED / Paragraph</th>
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<tbody>
<tr>
<td><strong>Objective, Scope and Definitions</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>6</td>
<td>Para 6 outlines certain definitions and AG 8 then deals with other definitions – why not have them all in one place?</td>
<td><strong>No Action Taken</strong></td>
</tr>
<tr>
<td>12</td>
<td>I am ok with this para but I note it received considerable discussion at the Oct 2020 check in meeting – have we, do we need to, make clear what is meant by initial measurement – on day of acquisition, first set of financials, subsequent financials, etc – I have not seen the minutes or actions arising so not sure what was actually decided.</td>
<td><strong>Actioned</strong></td>
</tr>
<tr>
<td>Various</td>
<td>Eg, para 20 we introduce use of the term current service value (which I am ok with) but some members of the IPSASB were less certain/qualified – does this need to be redebated/confirmed? In para 27 this term is in ‘white’ (ie., it is a new item) – you have not been consistent</td>
<td><strong>No Action Required</strong></td>
</tr>
</tbody>
</table>

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*No Action Taken*

Paragraph AG8 explains the public sector issue of uncertainty of whether certain items of property, plant, and equipment meet the definition of an asset because:
- It might not be a resource, or
- The entity may be no control.

No action is taken because paragraph AG8 expands on the principles of a definition of an asset in the core text in paragraph 6.

---

*Actioned*

Old Paragraph 12 has been removed. No reference is required to ED 77 because:
- Measurement at cost is addressed directly in ED 78; and
- Measurement at deemed cost is addressed directly in ED 78.

---

*No Action Required*

Staff is of the view Current Service Value has been debated by the IPSASB. No changes required to old Paragraph 20.
<table>
<thead>
<tr>
<th>Actioned</th>
<th>Grey shading in old Paragraph 27 has been added. This was a staff formatting error. All paragraphs based on IPSAS 17 should be greyed out.</th>
</tr>
</thead>
<tbody>
<tr>
<td>34</td>
<td>I am ok with para 34 but just a question – if we bring a donated asset to account at deemed cost/CSV at initial recognition, where does the credit go – to revaluation reserve or to income? I think it is income.</td>
</tr>
<tr>
<td>No Action Required</td>
<td>The gain would be recognized as revenue. It is the difference between the consideration paid, zero in this case, and the asset received. Since it is an increase in economic resources it is recorded as revenue.</td>
</tr>
<tr>
<td>Various</td>
<td>You explained that text in grey remained from IPSAS 17 and in orange we had seen before so in white is new text – why is some text in white underlined and other text not?</td>
</tr>
<tr>
<td>Actioned</td>
<td>Editorial oversight. Shading has been corrected for December.</td>
</tr>
<tr>
<td>BC 27</td>
<td>Are you intending that the term CSV also applies to heritage assets – it would appear so</td>
</tr>
<tr>
<td>No Action Required</td>
<td>Yes, current service value is intended to apply to all property, plant, and equipment, including those that are heritage. No further action taken.</td>
</tr>
</tbody>
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</table>
| **General**    | In the document, the requirements about the measurement are presented at both model level (current value) and basis level (current service value). Normally, the terms “current value” or “current service value” has been used in place of “fair value”. I believe that is a substantive change in the principles related to PP&E. So, in my view, clarification about the IPSASB decision should be present in Basis for Conclusions. But, I am not sure about the IPSASB decision about the current service value as a measurement basis for PP&E) | **No Action Taken**  
The Basis for Conclusions in ED 78 provides a rationale in paragraph BC2, which explains that some measurement-related changes in ED 78 (including these ones) are explained in ED77’s BCs. |
| **ED 78.11**   | Property, plant, and equipment acquired through a non-exchange transaction shall be measured at its **deemed cost**. IPSAS 17.27 requires “where an asset is acquired through a non-exchange transaction, its cost shall be measured at its **fair value** as at the date of acquisition”. According to ED 77.14, “a current value measurement technique is used as a deemed cost on initial recognition to estimate the value of the asset or liability”. Current value measurement techniques can be used to measure an asset based on current service value or fair value. It is not clear if an entity could choose between current service value or fair value. If it, in my view, clarification about the IPSASB decision should be present in Basis for Conclusions. But, I am not sure about the IPSASB decision on this because initial measurement is still in the discussion stage. | **No Action Taken**  
The initial measurement guidance in ED 77 is generic in nature. It is only applied when no guidance exists in an individual IPSAS. Paragraph 11(b) in ED 77 has been clarified.  
In the context of ED 78, there is guidance on initial measurement. This guidance should be applied when using ED 78.
Comment Template

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</tbody>
</table>
| **ED78 AG37**  | This paragraph requires the entity to apply IPSAS 21 and 26 when land is being lost or displaced. In the case of lost (for example, the erosion), I think the entity will needs to consider the partial derecognition of the land before considering the impairment. I image the erosion can disappear a rock on the sea, and it cause the change of the sea territory. It is not just impairment. | Actioned  
Paragraph AG37 has been amended to indicate derecognition must be considered as well as impairment depending on the circumstances. |
Comment Template

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<td>General comments</td>
<td>Throughout the standard the word “asset” is used. In most instances I think it should be changed to “item” of property, plant and equipment” or item. One example of this is paragraph 30. “If an item of property, plant, and equipment is revalued, the entire class of property, plant, and equipment to which that asset (this should be ‘item’) belongs shall be revalued.” Suggest general review of the draft standard</td>
<td>No Action Taken At the June 2020 meeting, the IPSASB noted that in many cases in the public sector, there is uncertainty whether an item of property, plant, and equipment is a resource or whether it is controlled. Previously, the definition of property, plant, and equipment in IPSAS 17 referred to ‘tangible items’ with no reference to an asset. A tangible item is an asset of the entity if it meets the definition of an asset in IPSAS 1 or the Conceptual Framework. A consequence is that, if property, plant, and equipment is not controlled or is not a resource, it is not an asset. However, this was not clear from the definition and caused confusion in practice.</td>
</tr>
</tbody>
</table>

9 IPSAS 17 definition of property, plant, and equipment are tangible items that, (a) Are held for use in the production or supply of goods or services, for rental to others, or for administrative purposes; and (b) Are expected to be used during more than one reporting period.
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<td></td>
<td>We need to make a landing on what we mean by “current value” in the standard.</td>
<td>As a result, the IPSASB decided to replace the item the term “tangible items” with the term “tangible assets” in the definition because property, plant, and equipment will need to meet the definition of an asset before it is recognized. Therefore, staff recommend no further action should be taken.</td>
</tr>
<tr>
<td></td>
<td>We have a “current value model” and a “current service value” measurement base but we do believe we have defined “current value”.</td>
<td></td>
</tr>
<tr>
<td></td>
<td>It could be that a “current value” is a measurement amount determined under the “current value model”.</td>
<td></td>
</tr>
<tr>
<td></td>
<td>Also need to check on the consistent use of “deemed cost” verses “current cost” and whether a definition/explanation of what we mean by deemed cost is required?</td>
<td></td>
</tr>
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<td>We note that paragraph 11 refers to “deemed cost” and paragraph 12 refers to “current value”</td>
<td>Actioned</td>
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<td>The draft standard is no longer clear how “deemed cost” should be measured, where previously this was addressed directly by paragraph 27 of IPSAS 17:</td>
<td>ED 78 has been reviewed for consistency in the application of terminology:</td>
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<td>- Current value model. Distinguishes between current and historical measurements;</td>
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<td>- Current service value. Current value measurement basis; and</td>
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<td>- Deemed cost. Used on initial measurement when cost is not available. It can be measured using different measurement techniques.</td>
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<td><strong>“Where an asset is acquired through a non-exchange transaction, its cost shall be measured at its fair value (replaced by ‘current value’) as at the date of acquisition.”</strong></td>
<td>There may be a view that this guidance is now provided in the Measurement ED, but it is important that IPSAS 17 continues to provide clear measurement requirements – how Measurement Standard provides guidance on how to apply those requirements.</td>
<td>Paragraph 21 indicates “The cost of such an item of property, plant, and equipment is measured at current service value unless...”. Further clarification is not considered necessary.</td>
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<td><strong>We feel it is important that in all instances where the standard allows for a current value model to be applied that both a “current service value” measurement base and a “fair value” measurement base be permitted. As illustrated in the recent Agenda Item 2 on Current Service Value there is a clear difference between current service value and fair value.</strong></td>
<td>Allowing for both measurement bases when applying a current value model is important because the standard rightly recognises that items of property, plant and equipment are held for either (or both) their future economic benefits (financial capacity where a fair value measurement base maybe appropriate), and service potential (operational capacity where a current service value measurement base is appropriate).</td>
<td>Actioned Agenda Item 5.2.2 has been developed for IPSASB consideration. This issue has been included. Staff has recommended fair value be retained for PP&amp;E held for its financial capacity.</td>
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<td><strong>In response to the need for guidance on how a fair value measurement base should be applied in a public sector context, a new current service value measurement base has been introduced that is similar (but distinctly different) from fair value, but both includes the same measurement techniques.</strong></td>
<td>By allowing an entity (who chooses to apply a current value model for subsequent measurement) to choose either a “current service value” or a “fair value” measurement base – based on the nature of the asset and the</td>
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<td><strong>Agenda Item 5.3.3</strong></td>
<td><strong>Page 3</strong></td>
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<td>purpose for holding the asset – this then takes us back to the question considered in previous meetings on whether guidance is needed on choosing between different measurement bases under the current value model. The key point is that where an entity uses a current value model for subsequent measurement, it should have the choice of applying a “current service value” approach or a “fair value” approach. You could argue that both measurement bases allow for the same measurement techniques, but the idea that IPSAS 17 only allows a “current service value approach” for revaluations will be confusing, send the wrong message, and provides the risk of unintended consequences. Also, it is important that IPSAS 17 continues to clear that it allows fair value under a current value model for IFRS alignment purposes.</td>
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**Definitions**

| Paragraph 6 | We note that the definition of “entity specific value” is consistent with IPSAS 17 and IAS 16.  
But, the focus of this definition on the present value of expected cash flows does not really work with the measurement bases and techniques permitted in the Standard when applying a current value model.  
The IPSASB has specifically set up current service value as an entity-specific value and under this measurement bases an entity may apply a market approach, cost approach or income technique. |

| Staff response | **No Action Taken**  
“Entity-specific value” is only used 3 times in ED 78:  
- Once when it is defined;  
- Twice to determine whether a transaction has commercial substance.  
Since the evaluation of commercial substance is consistent with IAS 16.25, the aligned definition of entity-specific value continues to be appropriate. |
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<td>The “entity specific value” does not only represent the present value of future cash flows but may instead represent the estimated amount to replace the service potential – which could be different. We feel a new definition of “entity specific value” is required to capture the idea that an entity specific value may include the estimated amount to replace the service potential of the asset, not just consideration of future cash flows (which is a for-profit centric view).</td>
<td>No Action Taken</td>
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<td>The IPSASB amended the recognition paragraph to include tangible asset in the definition of property, plant, and equipment. In determining whether an element (asset) should be recognized, the definition of an element (asset) should be satisfied first. Since the definition of PP&amp;E was clarified, the IPSASB instructed staff to remove “as an asset” throughout ED 78.</td>
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<td>Paragraph 7</td>
<td>We cannot see why this paragraph has been changed from what is currently used in IPSAS 17 and IAS 16. The draft reads: “An item of property, plant, and equipment shall be recognized if, and only if…” Whereas currently the Standard provides “An item of property, plant, and equipment shall be recognized as an asset if, and only if…” These current words are important, if removed it’s not clear what is being recognised? We appreciate in the definitions the draft standard clarifies that items of property, plant and equipment are “tangible assets”, but the retention of the</td>
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<td>current wording is clearer and helpful when paragraph 7 is read alone – there is no harm keeping current wording (but possible harm removing).</td>
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<td><strong>Initial Measurement</strong></td>
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<td>Paragraph 11</td>
<td>The October version of draft ED 77 on Measurement (para 11) says that items should be measured on initial recognition at the <em>transaction price</em> (or in some cases deemed cost). Transaction price is defined as the price paid to acquire an asset (or assume a liability). By contrast, this ED (ED 78, para 11) requires initial recognition at <em>cost</em> (or in some cases deemed cost). The <em>elements of cost</em> are then listed in para 14. It might be worth checking that the term ‘cost’ and its components as per ED 78 standard do not conflict with the term ‘transaction price’ in draft ED 77. That is, can ‘transaction price’ as defined in ED 77 contain the elements of cost as per paragraph 14 in this ED? It might also be worth considering adding some sort of linkage between cost at initial recognition per this ED, and ‘transaction price’ per ED 77. (This linkage may need to be made in this ED and/or ED 77 – Appendix A of ED 77 discusses historical cost in the context of initial recognition, but the core part of ED 77 requires initial measurement at the transaction price).</td>
<td>No Action Taken</td>
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<td>Paragraphs 19-22</td>
<td>Measurement of Cost In the subsection on measurement of cost (paragraphs 19-22), the term ‘fair value’ has been replaced with ‘current service value’. We can see that this could lead to more appropriate measurement of items where fair value is significantly less than current service value. But if an asset has a readily observable fair value and that fair value is not significantly less than current service value (eg a vehicle) the requirement to use current service value could impose additional and unnecessary costs. When reviewing the June agenda papers we noted that we did not necessarily agree with the blanket removal of ‘fair value’ from IPSAS 17 until deliberations on other projects (Update of Conceptual Framework and the Measurement project) are further advanced. We noted that the Board had</td>
<td>Actioned</td>
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<td>Agenda Item 5.2.2 has been developed for IPSASB consideration. This issue has been included. Staff has recommended fair value be retained for PP&amp;E held for its financial capacity.</td>
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<td>previously agreed that ‘fair value’ should continue to be used when it is meant in the same way as in IFRS 13, given IPSAS 17 is aligned with IAS 16 Property, Plant and Equipment and commented that any changes would require careful consideration – because in many cases it may be appropriate that the fair value measurement approach (as defined by IFRS 13) is retained in IPSAS 17. There have been a number of discussions since then, so the IPSASB may have explicitly debated this point, but at this stage we haven’t identified when this occurred. We also note that paragraphs 7 and 13 of the draft ED both use the placeholder [current value] in relation to initial recognition. We understand that this placeholder refers to the current value model (and both fair value and current service value are measurement bases under this model).</td>
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| Paragraph 20   | This is now difficult to follow and does not work When you acquire an item of property, plant and equipment by exchanging another asset (as consideration), it makes sense that this would be valued at the fair value of the asset (what a market participant would pay), not the current service value. | Actioned  
Fair value has been retained in these circumstances this transaction has commercial substance. |
| Paragraph 25   | This does not quite work for me, it implies that ED 77 provides the measurement requirements for property, plant and equipment – whereas ED 77 only provides guidance on applying the measurement requirements in IPSAS 17. | Actioned  
Paragraph clarified. |
| Paragraph 27 onwards | Current Value Model (paras 27 onwards) In this subsection the term ‘fair value’ has been replaced with ‘current service value’. We accept that there will be some assets for which current service value is more readily obtainable and more relevant than fair value. However, there will be other assets (such as vehicles and some land and buildings | Actioned  
Agenda Item 5.2.2 has been developed for IPSASB consideration. This issue has been included. |
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<td>which are non-specialised) where fair value is readily obtainable at little cost and relevant. Furthermore, the October version of ED 77 on Measurement notes the following in para BC21: “In cases where assets held for operational capacity and assets held for financial capacity are within the scope of the same IPSAS, &quot;an entity should exercise professional judgment, consider entity- and transaction-specific factors, and apply accounting principles in existing IPSAS. The primary measurement objective, and in turn the measurement basis, is determined for each individual asset or class of assets”. We think it is possible for an entity to hold some PP&amp;E items for operational capacity and other for financial capacity. Therefore, based on the ED 77 paragraph above, would it not be appropriate to measure some PP&amp;E items at fair value if they are held for financial capacity? The October version of ED 77 on Measurement notes in para BC18 that Board members cautioned against blanket replacement of terms. If both fair value and current service value are applicable measurement bases for measuring revalued PP&amp;E, it may be worth considering whether this fact and guidance on how to select the appropriate base should be determined (this could be based on BC21 of ED 77, quoted above). Para 28 states that “Some items of property, plant, and equipment experience significant and volatile changes in current service value, thus necessitating annual revaluation.” This sentence made sense when it was referring to fair value. Is it still true though for current service value? We agree that there could be a significant and volatile change in current service value but think that this is likely to occur less frequently than such changes in fair value. Can an entity applying the current value model and required to measure items at current service value use fair value as a proxy in any circumstances? We suggest paragraph 27 be reworded as: After recognition, an item of property, plant, and equipment whose current service value can be measured reliably shall be carried at a revalued amount,</td>
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<td>Staff has recommended fair value be retained for PP&amp;E held for its financial capacity.</td>
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<td>being its current service value or fair value at the date of the revaluation, less any subsequent accumulated depreciation, and subsequent accumulated impairment losses. Revaluations shall be made with sufficient regularity to ensure that the carrying amount does not differ materially from that which would be determined using its current service value or fair value at the reporting date. The accounting treatment for revaluations is set out in paragraphs</td>
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<td>If this approach is supported, these changes would then need to be reflected throughout</td>
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<td>Paragraph 27 etc</td>
<td>The draft ED states that IPSAS 17.45 and IPSAS 17.48 are moved to IPSAS, Measurement but we cannot find them in (the October catchup meeting version of) that ED. The draft ED does not mention what has happened to IPSAS 17.46 and IPSAS 17.47. Have they also been moved to the measurement ED or have they been deleted? It would be good to have a complete record of where these paragraphs have gone.</td>
<td>Actioned</td>
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<td>Actioned</td>
<td>Paragraphs 17.45 and 17.46 have been added back to ED 78. Paragraphs 17.47 and 17.48 remain excluded as the principles are now covered in ED 77, Measurement.</td>
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<td>Paragraph 28</td>
<td>Para 28 states that “Some items of property, plant, and equipment experience significant and volatile changes in current service value, thus necessitating annual revaluation.” This sentence made sense when it was referring to fair value. Is it still true though for current service value? We agree that there could be a significant and volatile change in current service value but think that this is likely to occur less frequently than such changes in fair value.</td>
<td>No Action Taken</td>
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<td>No Action Taken</td>
<td>Current service value measures the amount required to replace the service provided by an asset. Fair value measures the amount that could be received to sell an asset. Staff agrees more volatility may exists when applying a fair value measure, as the value of an asset can change based on market perceptions (value of land seems to increase constantly with no change in its service potential). However, volatility in fair value is also driven by how the market values the service provided by</td>
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<td>Paragraph 29</td>
<td>Is it right to refer to &quot;observable market data&quot;? Also, para 71 – is it right to refer to &quot;observable prices in an active market or recent market transactions&quot;?</td>
<td>No Action Taken</td>
</tr>
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| Paragraph 39   | Depreciation (para 39)  
39. Each part of an item of property, plant, and equipment with a cost or value that is significant in relation to the total cost or value of the item shall be depreciated separately.  
The words 'or value' may have been added to acknowledge that deemed cost may be used on initial recognition. We don’t think the words ‘or value’ are required. They run the risk of changing the meaning and imposing an additional requirement. Entities could read this as requiring an annual assessment, rather than a one-off assessment on initial recognition. | No Action Taken |
| Paragraph 47   | This paragraph provides an example of where we recommend the reference to "current service value" be changed to "current value", because under a current value model the revaluation could/should reflect the operational service potential or financial capacity (or both). | Actioned  
Paragraph has been updated. |

**Disclosure**

| Paragraphs 71 and 73 | Some disclosures that used to refer to fair value now refer to current service value. We think that paras 71(d) and 73(d) need a closer look. Para 71(d) we are not sure how relevant this disclosure is for assets measured at current service amount. | No Action Taken  
Current service value can be measured using the market approach. As such the reference in 71(d) is appropriate. |
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<td>Para 73(d)</td>
<td>Could this now be a more onerous requirement than fair value?</td>
<td>Staff does not believe the requirement to disclose current service value is more onerous than fair value. Where assets are non-specialized, the market approach is likely the method applied for fair value or current service value. Where an asset is specialized, the valuation is more challenging whether measuring using fair value or current service value.</td>
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<td>Paragraph 71</td>
<td>We note that paragraph 69 requires disclosures concerning the selection of depreciation methods. When applying a current value model measurement approach, should there be a requirement to disclose the basis for selecting the underlying measurement base and then the measurement technique selected for different classes of PP&amp;E?</td>
<td>No Action Taken</td>
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| Placeholder | An entity shall disclose: 
(a) A description of the heritage assets held by the entity that have not been recognised in the financial statements, including the significance and nature of such assets; and 
(b) Where current information is available, an estimated value of those unrecognised assets, such as a recent insurance value. |
| 74.1 | The disclosures in paragraph 74 related to unrecognised heritage assets that do not meet the criteria for recognition shall aim to ensure that, when read in the context of information about recognised assets, |
| | No Action Taken | Staff compared New Zealand requirements with the proposed disclosures in December’s Agenda Paper 5.2.4. The proposed disclosures address the same areas - except for requiring an estimate of the value where current information is available. Staff view is that the current text is sufficient to ensure that indications of asset value will be provided if available. |
the financial statements provide useful and relevant information about the entity’s overall holding of heritage assets.

### Application Guidance

### Recognition

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<td>AG 8(b), 13-15</td>
<td>No recognition of guardianship of a heritage item as an indicator of control. Note that the ownership may lay with an individual(s) rather than another entity. In New Zealand’s circumstances with heritage items which are owned by the Māori people. This can occur in the sub-group or tribe which may not be an accounting entity. The critical question is what is control of resources by an entity when the concept of control is not easy to apply to Māori Heritage in a traditional sense, but embodies a multi-generational view of guardianship? If the control test is not satisfied, then recognition of a heritage item as an asset is not required. Control is difficult to determine in the context of heritage assets belonging to the Māori people. <em>Kaitiakitanga</em> means guardianship, protection, preservation or sheltering. Traditionally, Māori believe that all life is connected. People are not superior to the natural order; they are part of it. <em>Kaitiakitanga</em> grows out of this connection and expresses it in a modern context. <em>Kaitiakitanga</em> can apply to valued family items and include family heirlooms such as <em>korowai</em> (cloaks), <em>mere pounamu</em> (jade clubs) and books about <em>whakapapa</em> (genealogy). An item that belongs to a person later becomes the property of all their descendants. It is cared for by an individual <em>kaitiaki</em> on behalf of the group.</td>
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<td>No Action Taken</td>
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<td>This issue was considered in developing heritage-specific implementation guidance for ED 78. See IG7, and IG1 – IG3. The IGs apply the control indicators in the Conceptual Framework.</td>
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<td>The <em>kaitiaki</em> is responsible for bringing the object to important occasions such as funerals, and for holding information about it. Many Māori heritage items for which the concept of <em>Kaitiakitanga</em> applies are on loan to entities such as museums. Māori heritage represents a large proportion of many collections in New Zealand museums and as such is a material issue to many New Zealand museums. Māori Heritage items in a museum are often on loan from the Māori people with the right to retrieve at any time for important cultural events. There is no traditional contract, although a loan agreement may exist. Indicators of control may be split between museums and the Māori tribe from which the heritage item originates. The issue exists because the definition of control is based on legal and statutory obligations and does not fully incorporate the cultural and social context of Māori guardianship. We believe this may be common amongst other indigenous peoples. Due to the lack of specific guidance on applying the accounting principle of &quot;control&quot; when accounting for heritage items, inconsistencies in when heritage items are recognised as assets arise in practice. For many museums, there is a lack of clarity over whether heritage items held for preservation purposes are assets or not for financial reporting purposes. When a heritage item has been gifted to a museum on a loan basis, which in substance is for perpetuity (but the legal owner does have the power to request its return on demand) — should the museum recognize the heritage item (which will provide future service potential) as an asset until the event of the return request occurs, or not recognize the asset because the control test has not been satisfied (i.e. because it’s on loan)? One approach is to allow recognition of these heritage items on the balance sheet and encourage greater note disclosure around the control/guardianship relationship. The recognition of these items on the balance sheet promotes</td>
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<td>greater transparency and accountability for the heritage items for which a museum has an obligation to preserve for future generations.</td>
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<td>The question that arises from current practice – is it appropriate that one museum recognises heritage items on its balance sheet as assets, and another museum with heritage items with the same characteristics and conditions doesn’t due to different interpretations around control?</td>
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<td><strong>Subsequent Costs</strong></td>
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<td>Todd, Tracey, and I all struggled with the yellow highlighted wording trying to make sense of what it was trying to say, especially concerning “non-recurring replacement”.</td>
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<td><strong>No Action Taken</strong></td>
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<td>We appreciate that this wording is taken from IPSAS 17 which is taken word-for-word from IAS 16, but if all three of us cannot easily understand and explain what this is getting at – then we have to question its usefulness.</td>
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<td><strong>No Action Taken</strong></td>
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<td>To be considered as part of the editorial process.</td>
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<td><strong>No Action Taken</strong></td>
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<td>One simple solution is to delete the wording at the end of the sentence &quot;,or to make a non-recurring replacement&quot;.</td>
<td>This is not a major, but something to think about.</td>
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<td><strong>Initial Measurement</strong></td>
<td>Para 71 of IPSAS 17 has been moved to the Application Guidance and now appears as paragraph AG26. That paragraph says when depreciation starts and when it ends. This seems an important depreciation-related requirement, so perhaps this paragraph should be moved back to the core part of the standard? If this paragraph is reinstated into the core text of the ED, it would come after para 47.</td>
<td><strong>No Action Taken</strong> To be considered as part of the editorial process.</td>
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<td><strong>Measurement after Recognition</strong></td>
<td>There appears to be a general lack of guidance for subsequent measurement, there appears to no section for this in relation to heritage. Heritage collection assets are not capable of being reliably measured for reasons including the following:</td>
<td><strong>No Action Taken</strong> Staff recommends no additional guidance to that already provided as implementation guidance. The IPSASB and Task Forces considered what additional guidance should be included in the Standard. Several issues addressed as implementation guidance were raised as heritage-specific issues. These include, for example, (a) treatment of subsequent expenditure on unrecognized assets, (b) current value measurement issues, and (c) assessments of whether a heritage asset has an indefinite useful life.</td>
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<td>a. Educational / research value is often not evident until such time as the collections contribute to the generation or transfer of knowledge. This can be immediate or a very long time in the future.</td>
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<td>b. Bequest value – the value derived by donors and their families through the act of giving – is an intangible value which is about the long-term relationship between the Museum and successive</td>
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<td>generations. It is in the nature of trust and goodwill which is not easily quantifiable in financial terms.</td>
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<td>While acknowledging the benefits of detailed heritage-related measurement guidance, staff and the Task Forces noted that detailed guidance to address the measurement of specific types of heritage (e.g. museum collections) is more appropriately developed outside of this Standard. The issue of developing further guidance outside of the Standard and its related implementation guidance has been noted.</td>
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<td>c. Collective or synergistic value is accrued by a group of items whose individual value is not significant but together they may form a valuable comparative group – the value of the whole is greater than the sum of the parts. In a museum’s case, the definition of the whole is an ever-changing concept depending on the groupings and perspectives of those with an interest in studying or appreciating the collections.</td>
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<td>d. Heritage assets are often encumbered with legal or ethical constraints so realising or liquidating them in financial terms runs counter to the implied transfer of trust which occurs at the time of acquisition and indeed the very purpose for holding them. This form of encumbrance potentially restricts their financial value but is hard to quantify.</td>
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<td>e. Items are usually unique and irreplaceable making it difficult to establish fair value at any particular time where there is no active market. Values can sit within a wide and subjective range which reduces the utility and accuracy of specific valuation.</td>
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<td>f. Application of the concept of ‘useful life’ commonly applied to assets can be inappropriate with respect to heritage collections as the presumption of many objects is that they are entrusted to a museum in perpetuity – their life is ‘forever’. Indeed the purpose of adding an object to a museum collection may be to extend its life by giving it status and safe housing and careful access; in some senses, collection items are never ‘used-up’.</td>
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<td>g. Financial treatment of assets is largely based on them being used to produce wealth and their ability to do this declines over time. This generates the need to depreciate and account for impairment of assets. Most museum collections gain in value over time so they run counter to the overall assumptions with regard to other assets. Formulae for appreciation/increase in value of museum collections do not work as readily as depreciation formulae as the increase in value is seldom a linear or arithmetic function. The perceived value of</td>
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<td>collection items can vary in response to social, political and natural events and in unpredictable patterns over time.</td>
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<td>The issue arises from a lack of specific guidance in recognition of the unique characteristics of heritage items – leading to inconsistent practices.</td>
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<td>Clarification of what constitutes reliable measurement for Heritage Assets would be helpful to assist constituents in recognising Heritage Assets on the statement of financial position and facilitating comparisons in performance between museums.</td>
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<td>It does not feel appropriate that two museums holding heritage items of a broadly similar nature can reach two different conclusions concerning the ability to “reliable measure” their heritage collections.</td>
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<td>Additional guidance on measurement of heritage items would be welcomed, and additional guidance on the circumstances in which the IPSASB considers a heritage asset can be reliably measured (and under what circumstances a heritage asset cannot be reliably measured) for financial reporting purposes.</td>
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<tr>
<td><strong>Depreciation – Useful Life of an asset</strong></td>
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<td><strong>Heritage</strong></td>
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<td>There a lack of specific guidance in recognition of the unique characteristics of heritage items – leading to inconsistent practices.</td>
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<td>Although the IPSASB acknowledge that it may be difficult to estimate useful life, there is no guidance to provide direction as to what to do in this event.</td>
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<td>One option is that a default useful life could be used, e.g. 100 years, however this is unlikely be a satisfactory solution for preparers if the useful life is indeterminate. (Similar argument to the constituency responses to the Nominal Value of 1 currency unit proposal on page 17 of the IPSASB Consultation Paper <em>Financial Reporting for Heritage in the Public Sector</em> September 2017.)</td>
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<td>Some practical guidance on heritage assets with perpetual useful life would be helpful to promote consistent practice.</td>
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| AG33-37        | Finite and Indefinite Useful Lives  
The examples in the Application Guidance refer only to land, yet many heritage assets have indefinite useful lives. |  |
| **Illustrative Examples** |  |  |
| IG6            | Control over items in a heritage collection  
This example does not contemplate that the agreement may be with an individual or a group of individuals that are not an accounting entity. | Actioned  
IG6 amended to address this point. For this point no change. ED 78 focuses on tangible assets and intangible rights to use the tangible asset are addressed in another IPSAS. |
| IG6 and IG7    | Opportunity for “gamesmanship” by public sector entities such as museums with IG6 and IG7. They can structure their agreements to be for a defined period and not recognise as no control, or for an undefined period and recognise as have control. Need to consider substance of agreements, with indicators of control, over form. |  |
Comment Template

IPSASB staff would appreciate that reviewers submit substantive comments using the template below. Substantive comments are fatal flaws that should be addressed, or that may cause the member to withhold their support of the ED(s).

IPSASB staff endeavors to consider each substantive comment and communicate back with the reviewer how it will be addressed. Any minor comments or editorials noted can be added to the EDs directly. Staff will consider all comments and edits, however, request the use of the comment tracker to ensure that all substantive comments are prioritized and how they have been addressed is communicated.

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<tr>
<th>ED / Paragraph</th>
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<tr>
<td><strong>Objective, Scope and Definitions</strong></td>
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<td><strong>Significant Issues</strong></td>
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<td>Disclosures about measurement of assets and liabilities</td>
<td>We note that IFRS 13 on <em>Fair Value Measurement</em> includes disclosures that relate to how items have been measured.</td>
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<td><em>Disclosures on measurement in IPSAS 17</em></td>
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<td>Paragraph 71 includes disclosures on the measurement of PPE under the revaluation method. Paragraph (d) requires an entity to disclose whether current service value was determined by reference to observable prices in an arm’s length transaction or estimated using other techniques.</td>
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<td>From an IFRS perspective, if an entity applied the revaluation method it would be required to apply the disclosures outlined in IFRS 13.</td>
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<td>While we appreciate that the proposal is for entities to apply “current service value” and not fair value as required in IAS 16, we question whether the disclosures in paragraph 71 and (d) in particular, are sufficient to meet users’ information needs.</td>
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<td></td>
<td><strong>No Action Taken</strong></td>
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<td></td>
<td>Disclosure requirements related to measurement will be included in each IPSAS. Requirements will be proposed as part of Amendments to Other IPSAS in ED 77.</td>
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<td><strong>Disclosures on fair value and current service value</strong></td>
<td>IFRS 13 includes comprehensive disclosures on how IFRS 13 was applied. We are uncertain where the disclosures on fair value will be located. Will these be included in the proposed IPSAS on Measurement or will they be included in the individual IPSAS? As the same principles and measurement techniques have been used from IFRS 13 to derive “current service value”, we question whether there is a need for comprehensive disclosures on how current service value was determined by entities. <strong>Consequential amendments to other IPSAS</strong> If the intention is for the fair value disclosures (and any potential disclosures on current service value) to be included in each IPSAS, consequential amendments will be required to be issued as part of the proposed IPSAS on Measurement for comment.</td>
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<td><strong>Basis for the “revaluation method”</strong></td>
<td>We note that the ED includes reference to “current value model” or “current service value”. The one is a measurement model and the other is a measurement basis. As a result, it is unclear whether the intention is to allow entities a choice of current value, i.e. fair value or current service value, or if the intention is to prescribe current service value. If the intention is to prescribe current service value, then this will need to be explained in the basis for conclusions to this IPSAS, rather than including it in ED 77.</td>
<td><strong>No Action Taken</strong> BC2 explains that the IPSASB’s views on current service value are explained in ED 77.</td>
</tr>
<tr>
<td><strong>Current value model versus current service value</strong></td>
<td>We note that both the term “current value model” and “current service value” are used in the proposed amendments to IPSAS 17.</td>
<td><strong>Actioned</strong> Staff has reviewed the text for consistency. When discussing whether PP&amp;E can be measured at historical cost or current value, models are referred to.</td>
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<td>As an example, paragraph 24 says “An entity shall choose either the historical cost model in paragraph 26 or the current value model in paragraph 27…”. Paragraph 27 then refers to “current service value”. There are other instances where this occurs. It is unclear if there is a conceptual reason for this, or whether both terms are used intentionally</td>
<td>The specific bases historical cost and current service value are explicit below the headers of each model.</td>
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<tr>
<td><strong>Classification of heritage assets as PPE or another type of asset</strong></td>
<td>BC5 indicates “The IPSASB concluded that the principles in …should fully apply to heritage assets on the basis that…(e) where heritage items are within the scope of another IPSAS, that Standard should apply.” BC11 indicates that “…the IPSASB concluded that IPSAS 17 should apply to heritage items that are property, plant and equipment….” This text seems to suggest that heritage assets could be recognised using another IPSAS. There is no explanation of the circumstances that would indicate that another IPSAS should be applied instead of IPSAS 17. If the accounting for “heritage assets” is better suited to another IPSAS, would these items still be “heritage assets”? The wording in the basis for conclusions has the potential to be confusing to readers, and should either be deleted, or revised so that the circumstances when another IPSAS will be used are clear.</td>
<td><strong>Actioned</strong> Reference to intangible assets has been included in BC 5. No changes made to BC 11.</td>
</tr>
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## ED / Paragraph

| Amendments to IAS 16 not included in review | We note that the IASB recently amended Property, Plant and Equipment—Proceeds before Intended Use (May 2020). As these amendments deal with the measurement of assets (specifically what are “Elements of Cost”), we believe that they should be included in the review in order to be comprehensive. This also avoids having to change similar paragraphs in IPSAS both now and when the Improvements are undertaken. | Actioned
Amendments as a result of PP&E-Proceeds before Intended Use, have been included in the ED 78. See agenda Item 5.2.2. |
| Basis for conclusions | As a general observation, the basis for conclusions explains “what” the IPSASB decided to do rather than the conceptual arguments or deliberations on its conclusions. Some of the items listed in the basis for conclusions are also “administrative” in nature (e.g. explaining the relocation of some text) rather than explaining fundamental conceptual issues. We further observe that a consequence of including all considerations related to guidance on heritage and infrastructure assets in the basis for conclusions is that the basis for conclusions predominantly deals with these two types of assets. This creates an inappropriate balance between the basis for conclusions and the content of IPSAS 17. The basis for conclusions should be reviewed and refined accordingly. | No Action Taken
The IPSASB will review the basis for conclusions as part of their December 2020 meeting. |
| Referencing | Application guidance
As application guidance has been added to IPSAS 17, it would be helpful if the main body of the Standard is cross referenced to the application guidance and vice versa. There is precedence for doing this in IPSAS 41.
References to IPSAS 13 versus ED on leases | No Action Taken
To be addressed as part of the editorial process in January 2021.
Omnibus Amendments to Other IPSAS is planned as part of the ED 76 - ED 79 package. |
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<td>Sometimes reference is made to IPSAS 13 and sometimes to the new ED on leases. The reference should be made consistently to IPSAS 13. Any changes to IPSAS 17 as a result of issuing the new leases ED should be reflected as consequential amendments in the new ED on leases. It would be helpful to see the “omnibus” consequential amendments as the EDs are being reviewed to understand the full effect of the changes.</td>
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<td><strong>Specific Comments on IPSAS 17</strong></td>
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<td><strong>Scope</strong></td>
<td>The last part of paragraph 2 should be removed, the subsequent reference to the AGs creates an impression that the AGs deal with the exceptions which they don’t. “An entity that prepares and presents financial statements under the accrual basis of accounting shall apply this Standard in accounting for property, plant and equipment, except when another Standard requires or permits a different accounting treatment (see paragraphs AG1-AG7 in Appendix A of this Standard)” The exceptions referred to in paragraph 2 are discussed in paragraph 4 of the ED.</td>
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<td><strong>Definitions</strong></td>
<td>The last part of the definitions section states that: “The following terms are defined in ED 77 on Measurement and are used in this draft Standard with the same meanings specified…” (a) Current service value…etc” We do not believe that the text and list is necessary as there is already a paragraph that indicates that: “Terms defined in other IPSAS are used in this Standard with the same meaning as in those Standards, and are reproduced in the Glossary of Defined Terms published separately”. This paragraph makes it clear that the Standards should be read together, as well as in conjunction with the Glossary.</td>
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<tr>
<td><strong>Definitions</strong></td>
<td>The definition for property, plant and equipment should be amended to accommodate heritage assets. Suggest as follows:</td>
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**Actioned**
(see paragraphs AG1-AG7 in Appendix A of this Standard) has been relocated to the mid-section of paragraph 2.

**No Action Taken**
Wording is consistent with IPSAS 41 which highlights key terms that are defined in other IPSAS.

**No Action Taken**
No change on the basis that the supply of services includes heritage preservation.
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<td>Property, plant, and equipment are tangible assets that:</td>
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<td>(a) Are held for use in production or supply of goods or services, for rental to others, or for administrative, or preservation purposes; and</td>
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<td>(b) Are expected to be used during more than one reporting period.</td>
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<td>We have raised this point in the past that the definition of PPE may need to be reconsidered if heritage assets are included in the scope of IPSAS 17. If an entity holds items of PPE and the item is not on display then it may not necessarily meet the definition of PPE.</td>
<td>services and there is implementation guidance that clarifies that heritage items held on in storage or otherwise not on display are still assets and meet the definition of PP&amp;E.</td>
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<tr>
<td>Recognition</td>
<td>Paragraph 7 refers to &quot;cost or current value...&quot; it is unclear if this is correct or not. This is just one of many examples.</td>
<td><strong>Actioned</strong> Text reviewed for consistency as part of mail out for December 2020.</td>
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<td>Recognition</td>
<td>Paragraph 10 could be relocated to the AGs after [existing] AG16 which discusses the recognition of spare parts and servicing equipment. Paragraph 10 is consistent with the explanation on spare parts and servicing equipment</td>
<td><strong>No Action Taken</strong> IPSASB agreed in June 2020 to retain this paragraph in the current location.</td>
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<tr>
<td>Initial measurement</td>
<td>Paragraph 11 states: “An item of property, plant and equipment that qualifies for recognition shall be measured at its cost, unless it is acquired in a non-exchange transaction. Property, plant and equipment acquired through a non-exchange transaction shall be measured at its deemed cost.”</td>
<td><strong>Actioned</strong> Paragraph 13 is clarified to make reference to “deemed cost”.</td>
</tr>
<tr>
<td>Initial measurement</td>
<td>Paragraph 13 is meant to explain these principles. There is no mention in paragraph 13 of “deemed cost” or how this might be determined in a “non-exchange transaction”. The sentence “…acquired at no or nominal cost, at its current value” does not make a clear enough link that this refers to “deemed cost” in a “non-exchange transaction”.</td>
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<td>Initial measurement</td>
<td>Use of “non-exchange transaction” in paragraph 11 and onwards: later in the ED where there are references to IPSAS 9, a placeholder has been included to update</td>
<td><strong>No Action Taken</strong></td>
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<td>the text for ED 70 and ED 71. Consider a similar placeholder throughout the text where references to “exchange” and “non-exchange” are used, where appropriate as consequential amendments were proposed to other IPSAS in ED 70 and ED 71 to remove exchange/non-exchange.</td>
<td>Staff has proposed exchange/non-exchange continue to be relevant principles in the context of ED 78. See Agenda Item 5.2.5.</td>
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<tr>
<td>Initial measurement</td>
<td>Paragraphs 12 and 15 – It might be helpful to explain in these paragraphs what measurement aspects should be considered in the ED on Measurement. As an example, paragraph 57 on impairment explains what aspects should be considered in IPSAS 21 and 26. A similar approach to the style of drafting may help readers to understand the principles and the interaction with the standards</td>
<td>No Action Taken</td>
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<tr>
<td>Initial measurement</td>
<td>Paragraph 15 is similar in nature to AG20 to AG22. We consider that either paragraph 15 should be moved to the application guidance, or AG20 to AG22 should be moved back to the main text.</td>
<td>No Action Taken</td>
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<tr>
<td>Initial measurement</td>
<td>Paragraph 23 makes reference to ED 75 in determining the cost of an item held under a finance lease. The scope paragraph 4 refers to IPSAS 13 with a footnote, whilst paragraph 63 refers to IPSAS 13 in accounting for a disposal by sale and leaseback. Referencing should be consistent. In addition AG23, discusses the depreciation of an asset subject to an operating lease, this will need to be amended if this ED refers to ED75.</td>
<td>Actioned</td>
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<td>Measurement of cost</td>
<td>Paragraph 19 states “The cost of an item of property, plant, and equipment is the cash price equivalent...” Consider the interaction with “transaction price” in ED 77 on Measurement.</td>
<td>No Action Taken</td>
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Guidance in ED 77 on transaction price applies when no guidance exists in the relevant IPSAS. In this case guidance on initial measurement exists in ED 78. No reference to ED 77 required.
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| **Current value model**| Paragraph 32 – Consider deleting (o) “infrastructure items” as there are other infrastructure assets listed earlier in the list (e.g. roads, electricity transmission networks). | **No Action Taken**  
IPSAS instructed the inclusion of the points in July 2020. |
| **Current value model**| The heading “Current Value Model” should revert back to “Revaluation Model” as the standard requires an entity to use a technique (currently current service value) to remeasure assets and then depreciate these assets. This accounting policy choice is not the “current value model” as defined in the conceptual framework. | **No Action Taken**  
Staff moved away from “revaluation model” in consideration of the CAG advice to use similar terms consistently. Since the “revaluation model” was changing in ED 78, staff developed new terminology. |
| **Depreciation**       | Paragraph 47 last two sentences– Poor maintenance or deferred maintenance exacerbating wear and tear of an asset: consider if there is a further link with the indicators of impairment in IPSAS 21 and IPSAS 26, e.g. an internal indicator that the performance of an asset is less than expected. | **Actioned**  
Reference to impairment testing added to paragraph 47. |
| **Depreciation**       | Paragraph 48 – Reconsider the placement of the second and third sentence of the paragraph as they relate to Finite and indefinite useful lives, i.e. the next section. | **No Action Taken**  
Sentences are used as a lead into the Finite and Indefinite Useful Lives Section. |
| **Depreciation**       | Paragraph 48 - IAS 16 uses the term “limited” and “unlimited” – using “finite and indefinite” are therefore a departure from IAS 16 and should be explained in the Basis for conclusions. | **No Action Taken**  
BC34-BC37 discuss the IPSASB’s views on the concepts of finite and indefinite useful lives. |
| **Finite and indefinite useful lives** | Paragraph 49 – We do not agree with the following statement: “There is a rebuttable presumption that non-land property, plant and equipment have finite useful lives”. While we support the concept that heritage assets may have indefinite useful lives, we do not support the idea that this could apply more widely to other items of PPE. Preparers always make arguments for why they shouldn’t depreciate assets because of the ongoing maintenance they undertake, and the statement in this paragraph will serve to exacerbate this problem. | **No Action Taken**  
Paragraph reflects IPSASB decision made at previous meeting. |
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<tr>
<td><strong>Finite and indefinite useful lives</strong></td>
<td>The exception to depreciation should be limited to land and heritage assets.</td>
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<tr>
<td><strong>Finite and indefinite useful lives</strong></td>
<td>In addition, on paragraph 49, the criteria (a) foreseeable limit to the period over which the asset is expected to provide service potential, (b) used operationally to generate net cash inflows for the entity excludes heritage assets that are held for preservation purposes. There is no clear link in the authoritative text that service potential includes holding assets to preserve for them for the benefit of present and future generations. AG12 does not clarify this.</td>
<td><strong>No Action Taken</strong> Paragraph reflects IPSASB decision made at previous meeting. (Note that AG12 has been revised to provide further clarification, as per earlier action point.)</td>
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| **Finite and indefinite useful lives** | Paragraph 51 – We have 3 comments on this paragraph:  
- The 1st sentence states “the term indefinite does not mean infinite”- there is no explanation of the difference between these terms in the paragraph or elsewhere in the document.  
- We do not understand what “realistic, rather than optimistic” projections mean. There are qualitative characteristics described in the Conceptual Framework and these should be used in the context of making estimates rather than introducing new terms.  
- We are still unsure of the criteria that should be used to determine if an asset has an indefinite life or not. The paragraph explains what should not be used, rather than explaining what criteria are appropriate (for example, expenditure to maintain assets should not be used, nor should preservation actions for which there is no funding). | **Actioned**  
- No change on the basis that this wording is consistent with that used in IPSAS 31/IAS 38 which is the source for these terms and entities have familiarity with making this distinction in other contexts, e.g. when accounting for intangibles.  
- Paragraph revised to include CF-6.8 use of relevance and faithful representativeness in the context of estimates for measurement, while retaining the previously agreed text that is consistent with IPSAS 31’s approach.  
- No change on the basis that AG 33, BC39 and IG22 – IG25 discuss criteria to identify whether an asset has an indefinite useful life. |
| **Finite and indefinite useful lives** | Paragraph 52 – This paragraph states that the useful life of property, plant, and equipment (generally) may be indefinite. However, paragraph 49 explains that there is a rebuttable resumption that non-land property, plant and equipment has finite | **No Action Taken** Paragraph 52 is consistent with paragraph 49. It addresses situations
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<td><strong>Finite and indefinite useful lives</strong></td>
<td>Paragraph 53 – We note that this paragraph explains that there should be an annual assessment for indicators of impairment should be performed. This is a requirement for all assets. If the intention is to align this with the principles for indefinite life intangible assets, then there should be a requirement to perform an annual impairment test, rather than assess whether there is an indication of impairment. If the intention is annual impairment test, we suggest the following change: “An entity is required to review property, plant and equipment with an indefinite useful life annually for indications of impairment.”</td>
<td>No Action Taken</td>
</tr>
<tr>
<td><strong>Finite and indefinite useful lives</strong></td>
<td>Paragraph 54 – The placement of the paragraph appears incorrect under the heading <em>Annual impairment reviews for assets with indefinite useful lives</em> as it deals with depreciation. Consider whether this paragraph is better suited to the relevant section on depreciation in the Application Guidance.</td>
<td>Actioned</td>
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<td><strong>Derecognition</strong></td>
<td>Paragraph 66 – Reference is made to “recognised initially at fair value” – it is unclear why reference is made here to fair value and not current (service?) value.</td>
<td>Actioned</td>
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<td><strong>Transitional provisions</strong></td>
<td>We are unsure if the transitional provisions are complete. Apart from paragraph 75, there is no indication whether the IPSAS should be applied retrospectively or not, or whether there are other areas where transitional provisions are needed. In particular, we note that entities may not have recognised heritage assets and guidance would be needed to assist entities with the first-time application. Should paragraph 76 be deleted? The previous version of IPSAS 17 would be withdrawn, so we are unsure if it is still appropriate to refer to amendments made in 2014.</td>
<td>Actioned</td>
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<td>Application Guidance</td>
<td>Paragraph AG5 – we note that this paragraph merely repeats what is in AG4.</td>
<td>No Action Taken</td>
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<td>Application Guidance</td>
<td>Paragraph AG4 - Is the last sentence necessary? We have had some audit challenges on this recently, and it became a distinguishing factor in identifying IT infrastructure assets. If assets can be removed and it still works then is it a network? How many or how few can be removed? The first sentence refers to a “number of assets” and so does the last - may cause confusion if retained. Consider deleting. Also, should this only be limited to service potential objective?</td>
<td>Actioned</td>
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<tr>
<td>Application Guidance</td>
<td>Paragraph AG7 - Suggest moving the first sentence to the end of the paragraph. First describe weapons systems then conclude how they are accounted for. Alternatively, it can be removed to be consistent with the descriptions on heritage and infrastructure assets. &quot;Weapons systems will normally meet the definition of property, plant and equipment, and should be recognised in accordance with this Standard. Weapons systems include vehicles and other equipment, such as warships submarines, military aircraft, tanks, missile carriers and launchers that are used continuously in the provision of defense services, even if their peacetime use is simply to provide deterrence. Some single-use items, such as certain types of ballistic missiles, may provide an ongoing service of deterrence against aggressors and, therefore, can be classified as weapons systems. Weapons systems will normally meet the definition of property, plant and equipment, and should be recognised in accordance with this Standard.</td>
<td>No Action Taken</td>
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No change on the basis that:
(a) The paragraph is the same as that in IPSAS 17, and
(b) Stating first that weapons systems normally are PP&E clearly communicates upfront an important message for entities.
**ED / Paragraph** | **Comment** | **Staff response**
---|---|---
**Application Guidance** | We note that the heading of this section is “Property, plant and equipment”. The text below deals with when PPE meets the definition of an asset. Consider revising the heading as follows: “Property, plant and equipment as assets”.

*Discussion on control of assets*

Paragraphs AG8, and AG13 to AG 15 – We note that there is a discussion on “control” in the application guidance.

Is this discussion consistent with the definition of “control of an asset” in ED 70 which states the following: “Control of an asset is the ability to direct the use of and obtain substantially all of the remaining economic benefits or service potential from, the asset. Control includes the ability to prevent other entities from directing the use of, and obtaining the economic benefits or service potential from, the asset.”

There needs to be a consistent approach to how control is discussed across the Standards. Also see paragraphs IG1 to IG3.

Paragraph AG10 and paragraph AG12 – these two paragraphs seem to explain the same concepts. Consider refining the text to reduce repetition, as well as revisiting the examples.

**Application Guidance** | Paragraph AG8:
---|---

- Remove “characteristics” from the last sentence.
- “An item of property, plant and equipment meets the definition of an asset if it satisfies all of the following characteristics.”
- Suggest “receipt through a transaction at no or nominal consideration such as donation” be amended to “receipt by way of through a transaction at no or nominal consideration such as donation”

**Actioned**

- “Characteristics” removed
- Revision made.
- AG8 – was approved by the IPSASB at its July meeting.
### ED / Paragraph | Comment | Staff response
--- | --- | ---
**Application Guidance** | Paragraph AG9 – The paragraph focuses on the satisfaction of the recognition criteria. Consider relocating this paragraph to before AG16 (or the section that deals with recognition in the application guidance). | No Action Taken
| | AG9 was approved by the IPSASB at its July meeting. |  
**Application Guidance** | Paragraph AG10 – The paragraph explains why it may appear that holding a heritage item to provide services to the public would not contribute to an entity achieving its objectives. It would be helpful if paragraph AG12 explains how these assets could in fact contribute to the economic benefits or service potential of the entity. Otherwise there is no clear conclusion on this issue. | Actioned
| | Clarified in AG12. |  
**Application Guidance** | Paragraph AG14 – The sentence underneath the list indicates "An entity is more likely to demonstrate control if it satisfies most of these indicators." We do not believe that this is appropriate. Entities need to apply judgement to decide whether they control an asset – it is not based on whether a majority of the indicators are met or not. | Actioned
| | Clarified in AG14 to indicate judgment is required in determining whether control exists. |  
**Application Guidance** | Paragraph AG18 – We question the amendment to change "required" to "acquired". | Actioned
| | The term "required" has been retained. |  
**Application Guidance** | Paragraph AG27 – This is repeated again in paragraph AG31 – consider deleting one. | Actioned
| | Paragraph 27 deleted. |  
**Application Guidance** | Paragraph AG28 – This is repeated again in paragraph AG32 – consider deleting one. | Actioned
| | Paragraph 28 deleted. |  
**Application Guidance** | Paragraph AG31 – We are unsure whether (h) is appropriate for the public sector. Public sector entities seldom have "competitors" in the context of providing government services. | No Action Taken
<p>| | No change on the basis that governments do contract out services to private firms while private firms do offer their services in competition with public service providers. |</p>
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| Application Guidance | Paragraph AG34 – We do not support the contents of this paragraph for items of PPE. While this may be appropriate for intangible assets, we do not support the inclusion here. As PPE can include many long-lived assets, we do not agree with this paragraph. We also note that the last sentence about the change in value would affect impairment, rather than the useful life of an asset.                                                                                           | No Action Taken  
No change on the basis that this paragraph applies equally to PP&E, given technological changes.                                                                                                      |
| Application Guidance | Paragraph AG35 – We do not believe that land being encroached results in land being "consumed" such that depreciation should be applied. This loss of the asset should either be an impairment or a derecognition consideration. We note that impairment is captured in paragraph AG37. The first part of the paragraph repeats the core text. Consider deleting the paragraph.                                                                                                                                 | No Action Taken  
Principle in core text, application guidance, and implementation guidance reflects IPSASB decisions and instructions. (Note that an encroachment situation can have the effect of placing a foreseeable estimated end to the useful life of land.) |
| Basis for Conclusions| Paragraph BC1 includes an explanation of mechanisms the IPSASB used to consult on the CPs. This type of information seems inappropriate for the BCs and are rather of an administrative nature. Similar information is not included in the basis for conclusions of other Standards. Consider removing it.                                                                                                               | Actioned  
Consultation process removed from BCs.                                                                                                                           |
| Basis for Conclusions| Paragraph BC2 refers to “current value” we are unsure if this is correct as “current service value” has been used to replace some fair value references.                                                                                                                                                                                                                       | Actioned  
The term current value has been replaced with current service value.                                                                                               |
| Basis for Conclusions| Paragraph BC3 – We question the need for this paragraph. It merely “positions” the following paragraphs and seems unnecessary.                                                                                                                                                                                                                                                                                          | No Action Taken  
The IPSASB will review the basis for conclusions as part of their December 2020 meeting.                                                                          |
| Basis for Conclusions| Paragraph BC4 – The lead into the list refers to the “Heritage CP”. Item (b) refers to infrastructure assets. This reference seems misplaced based on the lead in focusing on the heritage consultation paper.                                                                                                                                                                                                                       | Actioned  
Infrastructure assets has now been included in the lead in to clarify point (b).                                                                                   |
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| Basis for Conclusions | Paragraph BC5(e) – This paragraph explains that where heritage assets are within the scope of another Standard, that Standard should apply. Do we need consequential amendments in those standards to include heritage assets with the scope of those Standards? | Actioned  
Agenda item 5.2.7 for the IPSASB’s upcoming meeting has a recommendation to amend IPSAS 31 to remove its heritage scope exclusion clause. No other IPSAS treats heritage as a separate type of asset. |
| Basis for Conclusions | Paragraphs BC6 to BC10 duplicate later discussions. Consider whether these paragraphs are needed. | No Action Taken  
To be considered as part of Editorial Process in January 2021. |
| Basis for Conclusions | Paragraph BC12 – This issue does not seem substantive and is more “administrative” in nature. Consider deleting. | No Action Taken  
Removing the heritage scope exemption represents a significant departure from IPSAS 17. The IPSASB instructed a BC be included. |
| Basis for Conclusions | Paragraph BC21 – We are unsure whether the drafting of the paragraph is correct. “…Some national standard-jurisdictions use the term “non-operational” to describe heritage assets that are used purely for “non-heritage” purposes…” Should the highlighted text be deleted? | Actioned.  
“Non” deleted. |
| Basis for Conclusions | Paragraph BC22 – The BC should elaborate on why operational and non-operational heritage assets meet the definition of an asset – especially for the non-operational assets so to address the view by some constituents that they should not be recognised | No Action Taken  
The IPSASB will review the basis for conclusions as part of their December 2020 meeting. |
| Basis for Conclusions | Paragraph BC24 – The 2nd sentence refers to “broadly” twice. Consider replacing one with an alternative word. | Actioned  
Revision made to improve the sentence. |
| Basis for Conclusions | Paragraph BC25 – The first sentence is very long, and as a result, difficult to understand. Consider redrafting. | Actioned  
The sentence has been revised to improve understandability. |
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| Basis for Conclusions | Paragraph BC26  
  • It is unclear how subsequent expenditure meets the recognition criteria. We are not sure how an entity will be able to capitalise subsequent costs to unrecognised property, plant and equipment (last sentence) as there will be no asset to recognise the cost against. A clear principle explaining how or when costs should be capitalised should be included in the text or application guidance.  
  • The 2nd sentence is very long, and as a result, difficult to understand. Consider redrafting. | Actioned  
  • The generic principle exists in the core text that costs should be capitalized when an item meets the definition of an asset. This principle also relates to costs for assets that were previously unrecognised.  
  • The sentence has been revised to improve understandability. |
| Basis for Conclusions | Paragraph BC27 refers to both the current value model and current service value. It is unclear which one is correct. | Actioned  
  The terminology has been updated. Current value is used when measurement is considered in current or historical terms. Current service value is used when the current value model is applied. |
| Basis for Conclusions | Paragraph BC30 – Is the reference to current value correct? Should it refer to the revaluation method? | Actioned  
  The terminology has been updated. Current value model is correct. The revaluation model was renamed. However, staff has updated the term historical cost basis to model. |
| Basis for Conclusions | Paragraph BC31 – Items (b) and (c) describe the new qualitative characteristics in the CF. Is this appropriate? In other parts of IPSAS 17, reference is still made to the old “QCs”, e.g. reliable (in the context of measurement). The IPSASB needs to be clear about whether the old or the new characteristics are being used and describe these consistently. | No Action Taken  
  Note point for final editorial review. ED 78 should consistently refer to the QCs and constraints in the Conceptual Framework. |
| Basis for Conclusions | Paragraph BC34 – See our comments on paragraph AG35 above. | No Action Taken  
  Principle in core text, application guidance, and implementation guidance reflects IPSASB decisions and |
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<td><strong>Basis for Conclusions</strong></td>
<td>Paragraph BC37 – See our comments on paragraph 49 above. Also, the abbreviation PP&amp;E is used in this section going forward, but was not used previously – for consistency, consider using “property, plant and equipment” instead of “PP&amp;E”</td>
<td>Actioned See response on paragraph 49 above. PP&amp;E has been replaced with property, plant, and equipment.</td>
</tr>
<tr>
<td><strong>Basis for Conclusions</strong></td>
<td>Paragraph BC38 – We do not understand “heritage assets can be used up”. Consider using a different term.”</td>
<td>Actioned The term “used up” has been replaced with “consumed”.</td>
</tr>
<tr>
<td><strong>Basis for Conclusions</strong></td>
<td>Paragraph BC39 – We did not understand the last sentence of this paragraph. It is unclear what “coverage” refers to. Nor do we understand what “generally could have indefinite useful lives” means.</td>
<td>Actioned The sentence has been revised to improve understandability.</td>
</tr>
<tr>
<td><strong>Basis for Conclusions</strong></td>
<td>Paragraph BC43 to BC45 – these matters do not seem significant or conceptual enough to be included in the basis for conclusions.</td>
<td>No Action Taken The IPSASB will review the basis for conclusions as part of their December 2020 meeting.</td>
</tr>
<tr>
<td><strong>Basis for Conclusions</strong></td>
<td>Paragraph BC46 – See comment on paragraph 53. We also question the placement of the paragraph as impairment is discussed from paragraph BC52.</td>
<td>No Action Taken The IPSASB will review the basis for conclusions as part of their December 2020 meeting.</td>
</tr>
<tr>
<td><strong>Basis for Conclusions</strong></td>
<td>Paragraphs 52 and 53 - We believe that the arguments for why there is no liability could be strengthened. We agree that an entity does not have a liability to preserve and maintain existing assets in the future. The reason is, however, because an entity does not have an</td>
<td>Actioned The concept “an entity does not have an unavoidable present obligation to incur future expenditure” has been added to the paragraph.</td>
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<td><strong>unavoidable present obligation to incur future expenditure. We believe this should be added to the discussion.</strong></td>
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<td><strong>Basis for Conclusions</strong></td>
<td>Paragraph BC58 – The 1st sentence indicates that “Even though IPSAS 17 principles are clear on the accounting for “under-maintenance of assets…”. There is no discussion on “under-maintenance” in IPSAS 17. Consider redrafting this sentence.**</td>
<td><strong>Actioned</strong>&lt;br&gt;The sentence has been revised to improve understandability.**</td>
</tr>
<tr>
<td><strong>Implementation Guidance</strong></td>
<td>Paragraph IG5 – We do not agree with the conclusion in IG5 that the conclusion is based on whether the entity can continue to “operate” the item.&lt;br&gt;Firstly, it is unclear which &quot;item&quot; is being referred to – is it the land or is it the PPE?&lt;br&gt;Secondly, we do not believe this principle is outlined in IPSAS 17. IPSAS 17 says that land, and assets on land, are separable assets and should be recognised separately. Control should be assessed for the land, and the assets on land, separately. Whether the land is controlled should be based on the entity’s ability to direct (or restrict) how the economic benefits or service potential of the land will be used + the period of use versus the economic life of the asset.</td>
<td><strong>No Action Taken</strong>&lt;br&gt;Text has been reviewed by the IPSASB and Task Force in September 2020. Paragraph has updated to clarify the “item” is the PP&amp;E (not the land). The IPSASB is of the view one way to evaluate control of the land is to determine whether the operation of the asset is dependent on the PP&amp;E operator being granted access by the landowner. If an entity operates a road network over land owned by another entity, one way to determine whether the road network operator controls the land is to assess whether the road can be operated as it sees fit, or whether access is required from the landowner.**</td>
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<tr>
<td><strong>Implementation Guidance</strong></td>
<td>Example in IG6 and IG7 – We do not believe the explanatory guidance is clear about why there is no control in scenario 1 and control in scenario 2. The text does not explain the significance of the use of the asset for either a limited period of time or an indefinite period of time.&lt;br&gt;The examples need to be updated to explain the rationale, rather than just make statements about control being demonstrated or not.</td>
<td><strong>No Action Taken</strong>&lt;br&gt;To be considered by the IPSASB in December 2020.**</td>
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<td>It might also be appropriate for the answer to the questions to be “it depends” instead of a clear “yes” or “no” as judgement may be required.</td>
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<td>Example IG9 – The paragraph does not explain whether, or in what circumstances, expenses should be capitalised or not. The example does not explain the application of the principles to the specific issue in question. Also, not sure against what the expenses will be capitalised when the heritage asset is unrecognised i.e. the heritage asset is not recognised as an asset in the financial statements.</td>
<td>No Action Taken</td>
<td>To be considered by the IPSASB in December 2020.</td>
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<tr>
<td>Example IG10 to IG14</td>
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<td>Paragraph IG10(b) – Is the reference to fair value still correct?</td>
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<td>Paragraph IG11 – Consider deleting the last sentence as the preceding sentence explains this principle.</td>
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<td>Paragraph IG12 – (a) The qualitative characteristics are from the new CF, and only focus on two of the QCs. Consider revising.</td>
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<tr>
<td>Paragraph IG14 – We do not agree with the statement in this paragraph. While capitalisation thresholds are considered for individual items, the cumulative effect on a group of similar assets should always be considered. For example, and entity cannot only think about materiality on an item by item basis, if it anticipates that it will acquire multiple of the same items in a year. While materiality is applied for individual items, the cumulative effect of those individual transactions should be considered. In general, in the absence of clear guidance on materiality, we are reluctant to provide guidance on this issue in IPSAS 17 as the principles are not clear, and not well articulated.</td>
<td>Actioned</td>
<td>IG10, IG 11 and IG14 have been updated. IG12 will be considered as part of the editorial process in January.</td>
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| Implementation Guidance | Example IG17 and IG18 – these paragraphs may provide guidance that is more suitable for the IPSAS on Measurement, as it touches on the techniques that would be used to determine a current value basis. An entity would apply the IPSAS on Measurement, with reference to the information it has available/has access to, to establish an appropriate technique to measure a basis. We do not think it is appropriate for IPSAS 17. | No Action Taken
The IGs have been retained. While it may be duplicative of ED, Measurement, it is useful for constituents to have easy access to measurement principles that relate directly to heritage items in the IGs. |
| Implementation Guidance | Example IG19 – Do we want to limit the valuation of infrastructure to the cost approach? If the asset generates cash flows, an income approach may also be appropriate? | Actioned
Wording has been loosened to allow for multiple techniques. |
| Implementation Guidance | Example IG22 and IG23 – See our comments on the main text and application guidance. | No Action Taken
Principle in core text, application guidance, and implementation guidance reflects IPSASB decisions and instructions. |
| Implementation Guidance | Example IG26 to IG30 – These paragraphs seem to repeat the principles of IPSAS 17 in a summarised format. There is no additional guidance or explanation included. Consider deleting or amending them to provide implementation guidance. | No Action Taken
Added based on IPSAS September instruction. |
| **Illustrative Examples** |  |  |
| | There is only one Illustrative Example. This example could be converted into Implementation Guidance. | No Action Taken
The IPSASB decided to include this example at the July 2020 meeting. |
**Comment Template**

IPSASB staff would appreciate that reviewers submit substantive comments using the template below. Substantive comments are fatal flaws that should be addressed, or that may cause the member to withhold their support of the ED(s).

IPSASB staff endeavors to consider each substantive comment and communicate back with the reviewer how it will be addressed. Any minor comments or editorials noted can be added to the EDs directly. Staff will consider all comments and edits, however, request the use of the comment tracker to ensure that all substantive comments are prioritized and how they have been addressed is communicated.

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<tr>
<td><strong>Objective, Scope and Definitions</strong></td>
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<td>2</td>
<td>The phrase &quot;(see paragraphs AG1-AG7 in …)&quot; refers only to in-scope. The sentence before refers to out-of-scope &quot;except when another Standard requires …&quot;. For a better reading flow we suggest to reorder the phrase &quot;(see paragraphs AG1-AG7 in ...)&quot;: <strong>An entity that prepares and presents financial statements under the accrual basis of accounting shall apply this Standard in accounting for property, plant, and equipment (see paragraphs AG1-AG7 in Appendix A of this Standard), except when another Standard requires or permits a different accounting treatment.</strong></td>
<td>ActionedParagraph has been reworded based on suggestion.</td>
</tr>
<tr>
<td>6</td>
<td>The definition of deemed costs is currently stated in IPSAS 33. Wouldn’t it make more sense to add it to the measurement standard?</td>
<td>No Action TakenAgree with the view, however, IPSAS defines terms in the first standard in which they are applied. Subsequent standards refer to the first instance of use.</td>
</tr>
<tr>
<td>23</td>
<td>The sentence belongs to the old lease standard (IPSAS 13). In ED 75 this sentence is obsolete as there is no finance lease PPE assets for lessees any more. We suggest to use the same reference incl. footnote 1 as in paragraph 4.</td>
<td>ActionedParagraph has been removed. ED 75 proposed an amendment to IPSAS 17 which has been actioned in ED 78.</td>
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| 32            | Acknowledging that the ordering is taken from IAS, it would still make more sense to arrange paragraph 32 - which explains the definition of a class of assets independently of which model is used - directly after paragraph 24. Paragraph 24 deals with the class of assets. | **No Action Taken**  
Staff maintained ordering with IAS 17 for those familiar with the private sector standard.                                                                                                                                                                                                                                                |
| New           | Has there been an assessment of whether transitional provisions are also needed of how to deal with the new requirements to account heritage assets?                                                                                                                 | **Actioned**  
Transitional amendment paragraph added to provide relief for heritage assets on adoption of ED 78.                                                                                                                                                                                                                                                     |
## Issues Log

Attached is the complete issues log of heritage and infrastructure issues.

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<thead>
<tr>
<th>Category of Issues</th>
<th>Infrastructure Assets</th>
<th>Heritage Assets</th>
<th>Board agenda reference</th>
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<tbody>
<tr>
<td>Issue 1 - Characteristics</td>
<td>There is no definition for infrastructure assets and the list of characteristics and examples of infrastructure assets in IPSAS may not be relevant and not capture all the essential characteristics of infrastructure assets.</td>
<td>Identified as a cross-cutting issue as part of the Infrastructure Task Force’s analysis.</td>
<td>June 2020 Agenda Item 9.2.2 and 9.2.3</td>
</tr>
<tr>
<td>Issue 2 - Separating land under or over infrastructure assets</td>
<td>There is insufficient IPSAS guidance for accounting for separation of land under or over infrastructure assets.</td>
<td>Identified as a cross-cutting issue as part of the Infrastructure Task Force’s analysis.</td>
<td>September 2020 Agenda Item 9.2.7</td>
</tr>
<tr>
<td>Issue 3 - Accounting for spare parts</td>
<td>There is insufficient IPSAS guidance whether spare parts of infrastructure assets are capital or inventory in nature.</td>
<td>Identified as a cross-cutting issue as part of the Infrastructure Task Force’s analysis.</td>
<td>March 2020 Agenda Item 6.2.4</td>
</tr>
</tbody>
</table>
| Issue 4 - Control - land under or over infrastructure assets | Stakeholders noted the control requirements of land under or over infrastructure assets are complex in the public sector because:  
  i. Land and infrastructure assets that are legally owned by other entities may be managed or operated by another public sector entity; and  
  ii. Access rights, right-of-way, or easements are granted over the land for transportation purposes, electrical transmission lines and oil and gas pipelines which may or may not revert to its original owners. | Identified as a cross-cutting issue as part of the Infrastructure Task Force’s analysis.                                                                                     | July 2020 Agenda Item 2.2.3                                |
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| Issue 5 - Control - Criteria | Stakeholders noted the control requirements of other infrastructure assets are complex in the public sector because:  
   i. Infrastructure assets that are legally owned by other entities may be managed or operated by another public sector entity (for example, a water system may have many different public sector entities and various levels of government operating different parts of the same network. Assessing control and which entity should account for the infrastructure network is a big challenge).  
   ii. Infrastructure assets may be jointly controlled by two (2) or more public sector entities.  
   iii. Infrastructure assets may cross more than one jurisdiction.  
   iv. It may be difficult to identify the grantor or operator in a service concession arrangement. This distinction is important because the grantor owns and recognizes the infrastructure asset in the financial statements. The operator does not recognize the asset because it maintains and operates the infrastructure asset on behalf of the grantor. | Some CP respondents argued that natural heritage assets should not be recognized, because natural heritage cannot be controlled; cannot be measured reliably; and measurement cannot be done within the constraints and/or to achieve the qualitative characteristics. CP respondents raised the issue of determining whether or not there is control when natural heritage crosses over public/private boundaries and when living heritage moves around (e.g. animals that migrate). CP respondents stated that guidance would be needed on how to measure natural heritage assets. One respondent stated that depreciation, impairment, replacement, and revaluation are not applicable. CP respondents raised specific issues about what to value when dealing with natural heritage areas, with some supporting valuation of the land only, others treating the land as non-heritage and considering living natural heritage separately, and others supporting a valuation that captures both the land and its living organisms, although noting that this would be difficult to measure. | June 2020 Agenda Item 10.2.3 |
| Issue 6 – Control – Ownership / stewardship / held in trust | - | CP respondents stated that the IPSASB should consider concepts involving stewardship, custodianship, ownership, and duties of care, as these relate to control. Heritage assets may be held in trust rather than owned. Guidance should clarify that, in assessing the entity’s ability to access or deny or restrict access, the entity should assess whether it can decide how, and by whom the resource can be used. This demonstrates the entity’s ability to direct the future economic benefits or service | September 2020 Agenda Item 9.2.3 |
## Agenda Item 5.3.4

### Category of Issues

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<th>Infrastructure Assets</th>
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<tbody>
<tr>
<td>Cross-cutting with Measurement</td>
<td>Monetary values do not provide relevant information about heritage assets</td>
<td>Addressed through IPSASB’s review of current service value analysis in the Measurement Project (September 2020 and October 2020)</td>
</tr>
<tr>
<td>Issue 7 - Measurement bases may be difficult to apply</td>
<td>Some CP respondents considered that recognition of heritage assets does not provide relevant and useful information to GPFR users. They argued against recognition of heritage assets in the financial statements and/or in favor of using symbolic value (a nominal value of 1 currency unit), on the basis that monetary values such as historical cost, replacement cost, and market value do not provide relevant information about heritage assets.</td>
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</tr>
<tr>
<td>Issue 8 - Measurement of land under or over infrastructure assets</td>
<td>Identified as a cross-cutting issue as part of the Infrastructure Task Force’s analysis.</td>
<td>September 2020 Agenda Item 9.2.7</td>
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</table>

- CP respondents stated that control could be indicated either by purchase or through long term/indefinite loans from another party. Address situations where the entity has custody but not ownership and may not have control. Some CP respondents stated that control over heritage is difficult to satisfy, since entities manage heritage items from a stewardship/custodial perspective. Some stated that the IPSASB should consider whether heritage assets should be recognized where there are restrictions. Instead a separate statement should be presented. Additional guidance should be provided for disclosures on unrecognized stewardship heritage assets.

- Stakeholders note that it may be difficult to initially measure infrastructure assets because:
  - There may be minimal records of the historical cost information.
  - There is no active market for infrastructure assets. Stakeholders note that measurement requirements for infrastructure assets in the Conceptual Framework, Public Sector Measurement and IPSAS 17 need to be considered.

- IPSAS does not provide sufficient guidance on whether land under or over infrastructure should be valued separately from infrastructure assets or valued in total as infrastructure assets.
## Agenda Item 5.3.4

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<tr>
<td><strong>Issue 9 - Threshold of initial costs to capitalize or expense</strong></td>
<td>Determining the threshold of the costs of infrastructure assets to capitalize or expense could be complex. The threshold is important because it determines the point where material items above a certain threshold are capitalized to infrastructure assets whilst the immaterial expenses below a threshold are expensed when incurred.</td>
<td>Identified as a cross-cutting issue as part of the Infrastructure Task Force’s analysis. Agreed with Heritage Project Team.</td>
<td>September 2020 Agenda Item 9.2.5</td>
</tr>
<tr>
<td><strong>Issue 10 - Costs to dismantle infrastructure assets</strong></td>
<td><strong>Cross-cutting with Measurement</strong> Costs to dismantle infrastructure assets such as nuclear plants are an element of the cost of the infrastructure asset. Accounting for such decommissioning costs on infrastructure assets could be complex.</td>
<td><strong>Cross-cutting with Measurement</strong> Identified as a cross-cutting issue as part of the Infrastructure Task Force’s analysis. Agreed with Heritage Project Team.</td>
<td>March 2020 Agenda Item 6.2.5</td>
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<td><strong>Issue 11 - Valuing network assets may be complex</strong></td>
<td><strong>Cross-cutting with Measurement</strong> It may be difficult to value network assets such as road (highway networks), water/sewer systems and railway systems which by their nature are not repeatable, not replaceable or likely to have a long if not infinite life.</td>
<td>“”</td>
<td>September 2020 Agenda Item 9.2.6</td>
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<td><strong>Issue 12 - Appropriate measurement bases to subsequently measure</strong></td>
<td>Stakeholders note that there is insufficient guidance for the appropriate measurement bases for subsequently measuring infrastructure assets.</td>
<td>CP respondents said that guidance is needed on techniques for revaluations to current value and that that exit values are inappropriate. For example, can sector benchmarks be used when measuring heritage assets and what types of inputs (e.g. directly observable market inputs, unobservable inputs, etc.) will be acceptable to determine a market value for a heritage asset in the absence of an active market? One respondent suggested a new heritage asset valuation technique—the “value of use:” This is the value that the asset has because it is seen, visited, enjoyed), measured based on the financial flows generated by its use, and by a non-use value (the value that people attribute to the cultural asset even without using it) which may be measured with complicated ad hoc techniques</td>
<td>September 2020 Agenda Item 9.2.6</td>
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<tr>
<td>Category of Issues</td>
<td>Infrastructure Assets</td>
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<td>(e.g. contingency evaluation). CP respondents said that guidance is needed on techniques to value heritage collections, which often have the unusual characteristic of being worth more than the sum of their individual parts. CP respondents said that guidance is needed on techniques to measure increases/decreases in service potential as increases/decreases in monetary value. CP respondents said that guidance is needed on what sources of information represent expert knowledge for identification of heritage—specifically whether jurisdiction listings of heritage items represent expert knowledge.</td>
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<td>Issue 13 – Reliability / measurability</td>
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<td>Many CP respondents stated that there are particular types of heritage assets or particular situations in which it may not be possible to recognize heritage assets because they cannot be measured. CP respondents said that guidance is needed on how to measure heritage assets reliably and what constitutes reliable measurement for heritage. One respondent stated that valuation should be tailored to the use of the HA, with consideration of reliability, cost and relevance.</td>
<td>Addressed through IPSASB’s review of current service value analysis in the Measurement Project (September 2020 and October 2020)</td>
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<td>Issue 14 - Threshold of subsequent costs to capitalize or expense</td>
<td>Determine the threshold of the subsequent costs of infrastructure assets to capitalize or expense could be complex in practice.</td>
<td>Identified as a cross-cutting issue as part of the Infrastructure Task Force’s analysis. Agreed with Heritage Project Team.</td>
<td>September 2020 Agenda Item 9.2.5</td>
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<td>Issue 15 - Subsequent expenditure as capital or expense</td>
<td>Distinguishing repairs and maintenance expenditure (expenses) with expenses of a capital nature that enhances the infrastructure asset could be complex in practice.</td>
<td>Some CP respondents stated that there is a need for guidance on when subsequent expenditure [on heritage assets] should be capitalized and when expensed. Some CP respondents stated that all subsequent expenditure on heritage assets should be expensed. Some CP respondents stated that there is a need for guidance on subsequent expenditure for off balance sheet</td>
<td>September 2020 Agenda Item 9.2.4</td>
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<td><strong>Issue 16 – Planned / backlog / deferred maintenance costs</strong></td>
<td>Infrastructure assets have long useful lives and require constant maintenance and renewal to maintain its operating capacity to continue delivering services.</td>
<td>Items when assets are fair valued. Some CP respondents stated that there is a need for guidance on heritage assets that must be restored on a regular basis, which could be similar to major maintenance or periodic inspections, as per IPSAS 17.</td>
<td>September 2020 Agenda Item 9.2.11</td>
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<td><strong>Issue 17 - Depreciation</strong></td>
<td>Some stakeholders are of the opinion that the conventional depreciation methods in IPSAS 17 may not be suitable for infrastructure assets that have long useful lives and are constantly maintained and renewed because it may be difficult to reliably estimate their useful lives.</td>
<td>Some CP respondents stated that guidance is needed on determination of heritage assets’ useful lives. Some CP respondents stated that guidance is needed on (i) types of heritage assets that should be depreciated, (ii) whether some or all heritage assets should be treated as having an indefinite useful life; and (iii) depreciation/amortization when the asset’s value is increasing. Some CP respondents stated that the value of assets should not change subsequent to initial measurement, with no depreciation or impairment.</td>
<td>July 2020 Agenda Item 2.2.4, September Agenda Item 9.2.8 and 9.2.10, December Agenda Item 5.2.3</td>
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<td><strong>Issue 18 - Componentization</strong></td>
<td>IPSAS 17 requires separate identification of significant parts of an asset. However, other stakeholders note that infrastructure assets should not be componentized because they are single networks and are not individual assets. For example, road surface assets are recognized as a single asset in some jurisdictions. The componentization approach of infrastructure assets may be complex to apply in practice. More guidance/clarification on how separate elements of infrastructure assets should be componentized may be needed.</td>
<td>Identified as a cross-cutting issue as part of the Infrastructure Task Force’s analysis. Agreed with Heritage Project Team.</td>
<td>September 2020, Agenda Item 9.2.9</td>
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<td><strong>Issue 19 - Impairment</strong></td>
<td>Specific impairment indicators of infrastructure assets could be required which may not be provided in IPSAS. Impairment of components of infrastructure assets could be complex (For example, if a portion of an infrastructure asset is impaired, should the whole infrastructure asset be impaired?).</td>
<td>Some CP respondents stated that guidance is needed on impairment indicators and impairment when the value of heritage assets is increasing, even as their physical condition deteriorates. Some CP respondents stated that impairment losses should not be recognized and instead impairments should be disclosed in the notes.</td>
<td>September 2020, Agenda Item 9.2.12</td>
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<td><strong>Issue 20 - Derecognition</strong></td>
<td>More guidance on derecognition of infrastructure assets should be provided in IPSAS. For example, infrastructure assets that are replaced, should be derecognized to avoid double counting as the infrastructure assets that are acquired are capitalized.</td>
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<td>September 2020, Agenda Item 9.2.13</td>
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<td><strong>Issue 21 - Disclosure</strong></td>
<td>Since there is no specific standard for infrastructure asset disclosure, asset reporting of has been mainly guided by the accounting principles of IPSAS 17. As a result, stakeholders note that there is insufficient guidance on the presentation and disclosure of the physical condition, planned and deferred/backlog maintenance, long-term nature and valuation of infrastructure assets.</td>
<td>Many CP respondents identified heritage-specific presentation needs; line items, note disclosures, and supplementary schedules. The most frequently raised issue was the need to disclose information about heritage assets that are not visible in the financial statements, either because not recognized or already at zero value when the entity begins to recognize its heritage assets. CP respondents stated that information about heritage’s assets preservation, for example disclosure of deferred maintenance, should be presented. The main items</td>
<td>September 2020, Agenda Item 9.2.14, December Agenda Item 5.2.4</td>
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<td>that CP respondents recommended for display on the face of the statement of financial position were (a) a separate line for heritage assets, (b) distinguish between dual use and pure use heritage assets, (c) a link to heritage disclosures, and/or (d) a reserve within net equity reserves with value of inalienable state property and heritage assets. Some CP respondents stated that the statement of financial performance should have a line item for heritage-related expenses, both from a stewardship perspective and because such expenses are generally higher than those for non-heritage assets. Most CP respondents identified a need for heritage-specific note disclosures. Recommendations ranged from a few related to the financial statements (e.g. measurement bases) to extensive amounts of non-financial information. Views depended on positions on recognition, with additional non-financial information either replacing asset recognition or augmenting it to reflect the significance of preserving heritage assets. Views also depended on positions on subsequent measurement. For example, where a CP respondent stated that heritage assets should not be depreciated, the same respondent would generally also state that information on undepreciated heritage assets should be disclosed in the notes.</td>
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**Issue 22 - Heritage use / non-heritage use**

- CP respondents stated that only heritage assets used for non-heritage purposes (i.e. operational heritage assets) or those used for financial capacity should be measured at something other than symbolic value. Non-operational heritage assets should only be disclosed in the notes. Some CP respondents stated that guidance should be developed for heritage assets.

**Board agenda reference**

Addressed in 2019 with IPSASB decision that the heritage use/non-heritage use distinction should not drive
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<tr>
<th>Category of Issues</th>
<th>Infrastructure Assets</th>
<th>Heritage Assets with a dual purpose, clarifying that the asset should only be recognized when an insignificant portion is held for use in the production or supply of goods or services or for administrative purposes. Non-operational heritage assets should not be depreciated.</th>
<th>Board agenda reference recognition of heritage assets</th>
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