

Meeting: International Public Sector Accounting Standards Board

Meeting Location: New York, USA

Meeting Date: June 21–24, 2022

Agenda Item 7

For:

- Approval
 Discussion
 Information

PROPERTY, PLANT, AND EQUIPMENT

Project summary	The project objective is to develop enhanced guidance clarifying the recognition and measurement of infrastructure and heritage assets that are Property, Plant, and Equipment.	
Task Force members [Or 'Board sponsor' if applicable]	<ul style="list-style-type: none"> • David Watkins, IPSASB Technical Advisor (Task Force Chair) • Takeo Fukiya, IPSASB Technical Advisor • Francesco Capalbo, Second University of Naples • Jonathan Fothergill, RICS • Elles Mukunyadze, Public Accountants and Auditors Board (Zimbabwe) 	
Meeting objectives Project management	Topic	Agenda Item
	Property, Plant, and Equipment: Project Roadmap	7.1.1
	Instructions up to Previous Meeting	7.1.2
	Decisions up to Previous Meeting	7.1.3
Decisions required at this meeting	Issues Paper 1 – SMC1: Restructuring	7.2.1
	Issue Paper 2 – SMC 2: Choice of Measurement Basis	7.2.2
	Issue Paper 3 – SMC 2: Accounting Policy Choice	7.2.3
	Issue Paper 4 – SMC 3: Heritage Assets Characteristics	7.2.4
	Issue Paper 5 – SMC 4: Infrastructure Assets Characteristics	7.2.5
	Issue Paper 6 – SMC 5: Disclosure for Unrecognized Heritage Assets	7.2.6
	Issue Paper 7 – SMC 6: Non-Authoritative Guidance for Heritage Assets	7.2.7
	Issue Paper 8 – SMC 7: Non-Authoritative Guidance for Infrastructure Assets	7.2.8
	Issue Paper 9 – Editorial Changes	7.2.9
	Supporting Document 1 – Summary of Responses	7.3.1

**PROPERTY, PLANT, AND EQUIPMENT:
 PROJECT ROADMAP**

Meeting	Completed Actions or Discussions / Planned Actions or Discussions:
Earlier meetings (2015 - 2019)	1. The IPSASB developed its views on Heritage, Infrastructure, and Measurement, and issued two Consultation Papers (CP, Financial Reporting for Heritage in the Public Sector, and CP, Measurement).
March 2020	1. Decisions and instructions on Heritage, Infrastructure, and Measurement issues. 2. Instructions on revisions to IPSAS 17, Property, Plant and Equipment, to include in a [draft] ED for review in June 2020.
June 2020	1. Review and approve text for inclusion in the [draft] ED 78 (IPSAS 17 Update), Property, Plant, and Equipment. 2. Decisions and instructions on Heritage, Infrastructure and Measurement issues. 1. Provide instructions on further revisions to [draft] ED 78 (IPSAS 17 Update), Property, Plant, and Equipment.
September 2020	1. Decisions and instructions on remaining Heritage, Infrastructure, and Measurement issues impacting [draft] ED 78 (IPSAS 17 Update), Property, Plant, and Equipment. 1. Review and approve text for inclusion in the [draft] ED 78 (IPSAS 17 Update), Property, Plant, and Equipment.
December 2020	1. Approve ED 78 (IPSAS 17 Update), Property, Plant, and Equipment.
April 2021 – October 2021	1. Document Out for Comment.
December 2021	1. Preliminarily Review of Responses.
June 2022	1. Review Responses. 2. Discuss Issues.
September 2022	1. Develop Pronouncement. 2. Approve Pronouncement.

INSTRUCTIONS UP TO PREVIOUS MEETING

Meeting	Instruction	Actioned
December 2021	1. Develop a detailed response analysis for the IPSASB's review in March 2022.	1. To be actioned for June 2022.
March 2022	1. Detailed review to take place in June 2022.	1. See Agenda Items 7.2.1 to 7.2.9

DECISIONS UP TO PREVIOUS MEETING

Meeting	Decision	BC Reference
February 2021	1. All instructions provided up until February 2021 were reflected in the ED 78, Property, Plant, and Equipment	1. All instructions provided up until February 2021 were reflected in the ED 78, Property, Plant, and Equipment

Restructuring

Question

1. Does the IPSASB agree with Staff's recommendation?

Recommendation

2. Staff recommend retaining the structure¹ of the standard as proposed in ED 78, *Property, Plant, and Equipment*.

Background

3. The IPSASB decided, in June 2020, to relocate generic measurement guidance to ED 77, *Measurement* and guidance that supports the core principles of ED 78, *Property, Plant, and Equipment* to the application guidance (ED 78 BC4), and to add guidance for accounting for heritage assets (ED 78 BC8 and BC9) and infrastructure assets (ED 78 BC10 and BC11) that are within the scope of ED 78.
4. In December 2021, the IPSASB reviewed a summary analysis of responses to ED 78. The IPSASB instructed staff to develop a detailed response analysis for the IPSASB's review.

Analysis

5. Most respondents support the proposed restructuring² of ED 78; however, some have provided suggestions for consideration by the IPSASB:
 - (a) **Additional guidance** illustrating examples for heritage and infrastructure assets or decision trees to help stakeholders find the relevant accounting principles for each of these assets.
 - (b) Suggests the IPSASB reconsider the **scope**, either develop a specific standard for heritage assets or keep the scope exclusion in IPSAS 17 on heritage assets.
 - (c) Three respondents recommend the IPSASB reexamine the **structure of the standard**; they said alignment with IAS 16 should be retained, spare parts and stand-by-equipment should be moved back to the core text, and certain paragraphs moved to the application guidance, such as accounting treatment of repairs and maintenance, are not explanations or developments of the principles but principles, thus should remain in the core text.
 - (d) Respondents asked for **clarification** on the relationship, similarities, or differences, if any, between ED 78 and ED 77 terminology:
 - (i) 'Transaction price' (ED 77) and 'cost' (ED 78)
 - (ii) 'Lack of commercial substance' (ED 78) and 'not undertaken in an orderly market' (ED 77)

¹ Restructuring: relocating generic measurement guidance to ED 77, *Measurement*; relocating guidance that supports the core principles in ED 78 to the application guidance and adding guidance for accounting for heritage assets and infrastructure assets that are within the scope of ED 78.

² 87% of ED respondents agreed or partially agreed with the proposed structure of ED 78. See [Supporting Document 1 – Summary of Responses](#)

6. Staff noted that the responses received do not present information the IPSASB has not previously considered, nor do they identify a public sector-specific issue or challenges when applying the principles.
- (a) **Additional Guidance**. Respondents did not identify a specific public sector issue or challenges that need to be addressed.
 - (b) **Scope**. The IPSASB concluded that the principles in ED 78 should fully apply to heritage assets, because (ED 78 BC7):
 - (i) Their recognition will increase the transparency of heritage-related financial information.
 - (ii) Their nature does not prevent the recognition for financial reporting purposes.
 - (iii) Their nature, by itself, is not a reason for special financial reporting requirements.
 - (c) **Structure of the Standard**. The IPSASB noted in ED 78's Basis for Conclusions (BC4) that core text was moved into the application guidance where the original text expanded on the generic principles already in the core text, rather than adding to them. Respondents did not identify a specific public sector issue or challenges that need to be addressed.
 - (d) **Clarification**.
 - (i) The objective of ED 77 is to define measurement bases that assist in reflecting fairly the cost of assets, such as property, plant, and equipment. A reporting entity is to measure the asset at transaction price, at initial measurement, unless otherwise required or permitted by another IPSAS (ED 77.7). In this case, ED 78 paragraph 12 requires the item of property, plant, and equipment to be measured either at cost or deemed cost.
 - (ii) 'Lacks commercial substance'³ and 'not undertaken in an orderly market' are not interchangeable concepts. Rather the former is specific to IPSAS 17⁴, consistent with IAS 16. In September 2020, the IPSASB agreed to keep paragraphs 22 and 23 in ED 78, as opposed to ED 77, as these are not generic measurement guidance.
7. Based on the analysis above, Staff does not recommend a departure from the proposed restructuring of ED 78.

Decision Required

8. Does the IPSASB agree with the Staff recommendation?

³ As per IAS 16 BC21 'lacks commercial substance' means the transaction did not have a discernible effect on an entity's economics.

⁴ ED 78 paragraph 22 - When an item of property, plant, and equipment is acquired in exchange for non-monetary asset(s) and the transaction 'lacks commercial substance' then the cost of the asset acquired should be measured at the carrying amount of the asset given up.

Appendix A – Summary of SMC 1 Relevant Responses

Themes	SMC 1 Relevant Responses
Additional Guidance.	<ul style="list-style-type: none"> • Some respondents requested illustrative examples for both heritage and infrastructure assets. – R13 and R38 • R42 recommended the IPSASB develop decision trees for heritage and infrastructure assets, to help stakeholders find the relevant accounting principles for each type of asset.
Scope.	<ul style="list-style-type: none"> • R09 believes there is no value to scope in heritage assets on the financial statements and a disclosure would be sufficient. • R37 does not support scoping in heritage assets. • R35 believes a specific IPSAS standard of heritage assets is necessary, as such assets can be tangible, intangible, or a combination, which requires an integrated analysis of the characteristics to conclude on the adequate recognition and measurement criteria, as is the case of Biological Assets and Non-Current Assets Held for Sale. • R19 suggested a separate standard is needed for heritage assets and the scope should be limited to tangible heritage assets.
Structure of the Standard.	<ul style="list-style-type: none"> • R16 recommends that the re-ordering of content in IPSAS 17 be reconsidered. The alignment of paragraphs with IAS 16 should be retained in IPSAS 17 as far as possible. • R03 suggests that AG16 (spare parts and stand-by-equipment) should be relocated to the core text. The distinction between property, plant, and equipment, and inventory is difficult, especially when dealing with military assets. • R19 thinks there are important issues that are being left in the application guide and should be considered in the Standard. They are not explanations or developments of the principles but principles; for example, costs that are not part of PPE, accounting treatment of repairs and maintenance, cost of PPE when the entity manufactures similar products, replacement of components, and general inspections, start and cessation of depreciation.
Clarification.	<ul style="list-style-type: none"> • R39 seeks clarification between ‘transaction price’ and ‘cost’ mentioned in ED 77 and ED 78, respectively, on initial measurement. • R02 seeks clarification between an acquisition with a ‘lack of commercial substance’ (ED 78) and a transaction ‘not undertaken in an orderly market’ (ED 77).

Choice of Measurement Basis – Current Value Model

Question

1. Does the IPSASB agree with Staff's recommendation?

Recommendation

2. Staff recommend retaining the accounting policy choice to select the current operational value or fair value basis when measuring property, plant, and equipment.

Background

3. In December 2021, the IPSASB reviewed a summary analysis of responses to ED 78, *Property, Plant, and Equipment*. The IPSASB instructed staff to develop a detailed response analysis for the IPSASB's review.

Analysis

4. ED 78 proposed current operational value as one of two measurement bases permitted when measuring property, plant, and equipment using the current value model (the other basis being fair value). Since current operational value was developed to measure assets held for their operational capacity, the IPSASB decided it was appropriate to include it in ED 78.
5. Overall respondents supported⁵ having a choice of measurement bases – current operational value or fair value – when measuring property, plant, and equipment at their current value. However, some respondents:
 - (a) **Preferred one measurement basis over the other.** Some respondents indicated a preference for fair value over current operational value or vice versa;
 - (b) **Believed the IPSASB should be more prescriptive.** Some respondents suggested the measurement basis should be based on facts and circumstances, as opposed to a choice;
 - (c) **Indicated the absence of market transactions complicates the current value determination;** and/or
 - (d) **Thought it may be difficult to determine whether an asset is held for operational or financial capacity,** and therefore difficult to select the appropriate measurement basis.
6. Staff noted that the responses received do not present information the IPSASB has not previously considered, nor do they identify a public sector-specific issue or challenges when applying the principles.
 - (a) **Preferred one measurement basis over the other.** In the Basis for Conclusions of ED 78 (BC42), the IPSASB considered allowing only current operational value as the measurement basis, but noted that an entity may also hold property, plant, and equipment for its financial capacity, in which case it is likely held for its 'highest and best use'.⁶ This resulted in IPSASB

⁵ 74% of ED respondents agreed or partially agreed with the option of measuring that class of assets either at current operational value or fair value. See [Supporting Document 1 – Summary of Responses](#)

⁶ ED BC.42

including fair value as another measurement basis in ED 78 when the entity elects the current value model as its accounting policy choice.

- (b) **Believed IPSASB should be more prescriptive.** Please see 6(a) above.
 - (c) **Indicated the absence of market transactions complicates the current value determination.** ED 78.32 acknowledges that determining the current value of many public sector items of property, plant, and equipment may be difficult, because of the absence of market transactions. ED 77 discusses measurement techniques that an entity can use to derive the current value of property, plant, and equipment when there is an absence of market transactions.⁷ Thus, the lack of market transactions does not preclude an entity from valuing an item of property, plant, and equipment.
 - (d) **Thought it may be difficult to determine whether an asset is held for operating or financial capacity.** Both ED 78 and ED 77 provide guidance to help constituents determine whether the primary objective for holding an asset is for its operating or financial capacity (ED 78 AG25 to AG 30 and ED 77 BC32 and BC33). R40 did not provide further details for Staff to ascertain what further guidance could be provided.
7. No reason has been identified from the responses to SMC2 that leads Staff to recommend the IPSASB depart from the proposed principle in ED 78 – choice of measurement basis within the current value model.

Decision Required

Does the IPSASB agree with the Staff recommendation?

⁷ ED 77 Measurement Techniques, paragraph: 42 - Market Approach, 43 – Cost Approach, and 45 – Income Approach

Appendix A – Summary of SMC 2 Relevant Responses

Themes	Relevant Responses
<p>Preferred one measurement basis over the other.</p>	<ul style="list-style-type: none"> • Not convinced that for assets, such as non-specialized buildings, there should be a choice on measurement bases, as the fair value would reflect the opportunity cost of not using the asset for its 'highest and best use' – R06, R13 • R15 considers that fair value is not appropriate for Heritage Assets, as it is an 'exit value' which implies the asset is traded in the market, while current operational value is an appropriate measurement basis for Heritage Assets, as it is an 'entry value'. • Based on their jurisdiction, R03 is of the opinion that current operational value would be more relevant than fair value, as the main objective of the property, plant, and equipment standard is to account for tangible assets as used by the entity.
<p>Believed IPSASB should be more prescriptive on measurement basis.</p>	<ul style="list-style-type: none"> • R 31 believes no choice should be permitted solely based on the primary objective of why the asset is held and questions, based on cost-benefit considerations, the existence of two alternative measured basis. • R31 thinks the IPSASB should be more prescriptive on the measurement basis that should be used if an entity chooses the current value, as to ensure consistency, comparability, and understandability of financial information. Also, mentions that two measurement bases will impose additional costs and efforts to assess which is more appropriate for different assets. • R43 thinks the choice of measurement basis should be driven by the nature of the assets and their classification instead of a choice. • R35 Thinks that the standard should indicate which property, plant, and equipment should be measured at fair value or current operational value.
<p>Indicated the absence of market transactions complicates the current value determination.</p>	<ul style="list-style-type: none"> • R26 agrees, however, it should be noted that for several property, plant, and equipment assets, in the public sector, it may be difficult to determine their current value due to the absence of market transactions.
<p>Thought it may be difficult to determine whether an asset is held for operational or financial capacity.</p>	<ul style="list-style-type: none"> • R40 mentioned that it may be difficult to determine whether an asset is held for operational or financial capacity (for example, a mixed-use office building) as to select an appropriate measurement basis.

Accounting Policy Choice

Question

1. Does the IPSASB agree with Staff's recommendation?

Recommendation

2. Staff recommend adding a paragraph to clarify that the choice between current operational value and fair value basis is an accounting policy choice.

26A. If the entity chooses the current value model, the entity shall choose either the current operational value or fair value, as its measurement basis, and shall apply that accounting policy to an entire class of property, plant, and equipment.

3. Staff is also recommending expanding the Basis for Conclusions on accounting policy choice, see Agenda Item [7.2.9](#).

Background

4. In December 2021, the IPSASB reviewed a summary analysis of responses to ED 78, *Property, Plant, and Equipment*. The IPSASB instructed staff to develop a detailed response analysis for the IPSASB's review.

Analysis

5. IPSAS 17, *Property, Plant, and Equipment* offers entities the option between the cost model and revaluation model, each with one measurement basis – cost and fair value, respectively. In ED 78, the IPSASB proposed an additional measurement basis, current operational value, when measuring property, plant, and equipment using the current value model. Therefore, when an entity chooses the current value model, it shall make a second accounting policy choice on measurement bases.
6. As discussed in Agenda Item [7.2.2](#), most respondents supported⁸ the choice of measurement bases - current operational value or fair value – when measuring property, plant, and equipment at their current value. However, some respondents:
 - (a) Believed **the nature of the choice** between measurement basis should be an accounting policy choice and/or based on facts and circumstances.
 - (b) Thought the IPSASB should prescribe **when a change between measurement basis is appropriate** and are uncertain what criteria to use to conclude one value is more representative than the other.
7. Staff noted that the concerns raised by respondents are addressed in existing IPSAS literature and do not identify a public sector-specific issue or challenges when applying the principles:
 - (a) [The nature of the choice](#).
 - (i) IPSAS 3, *Accounting Policies, Changes in Accounting Estimates and Errors* indicates that a choice of measurement basis is an accounting policy choice and a change

⁸ 74% of ED respondents agreed or partially agreed with the option of measuring that class of assets either at current operational value or fair value. See [Supporting Document 1 – Summary of Responses](#)

between measurement basis is in the scope of IPSAS 3⁹. Thus, when an entity selects either current operational value or fair value, it is making an accounting policy choice.

- (ii) Similarly, the Basis for Conclusion (BC38¹⁰) indicates management should continue to apply its judgment in choosing an accounting policy that results in information that is:
 - a. Relevant to the decisions needs of users.
 - b. Understandable, timely, comparable, and verifiable.
 - c. Faithfully represents the financial position of the entity.
 - (b) **When a change between measurement basis is appropriate.** Whether is appropriate to change measurement bases would depend on professional judgment when choosing the accounting policy, discussed above in (a)(ii). ED 78 includes guidance to help entities in the choice, without being prescriptive:
 - (i) Paragraph 29 states that the primary objective of why the entity holds an asset guides the decisions on measurement bases, as opposed to determines.
 - (ii) Paragraph 30 states that a change in measurement basis is appropriate if the change results in a measurement that is more representative of the current value of the item of property, plant, and equipment.
8. Staff believes the insertion of a new paragraph to explicitly say that the choice of measurement basis is an accounting policy choice addresses the two concerns identified by respondents, will enhance consistency within the standard, increase understandability, and consistency in the application of principles. Staff is also recommending expanding the Basis for Conclusions on accounting policy choice, see Agenda Item [7.2.9](#).

Decision Required

9. Does the IPSASB agree with the Staff recommendation?

⁹ IPSAS 3.40

¹⁰ ED78.BC38. The IPSASB concluded no additional guidance was needed. Management should continue to apply its judgment 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.

Appendix A – Relevant Responses

Themes	Relevant Responses
<p>The nature of the choice.</p>	<ul style="list-style-type: none"> • R13 said no choice should be permitted solely based on the primary objective. In other words, the accounting policy choice should exist between historical cost and current value but then within the current value. • R42 & R39 recommend that the choice should be based on the facts and circumstances, for example, the reason why the asset is held and available market information. Also, they think further guidance should be provided to help stakeholders make the choice. • R28 noted that the fair value may differ from the current operational value in certain asset classes and whether a change between any of the two options should be considered as a change of estimate.
<p>When a change between measurement basis is appropriate.</p>	<ul style="list-style-type: none"> • R06 is uncertain what criteria would be used to decide whether one value is more representative than another, when changing the measurement basis, given that the objectives of the two measurement bases differ. • R04 recommends paragraph 30 be amended to clarify that a change is appropriate only if there is a change to the primary objective for holding the asset, for example from operational capacity to financial capacity.

Heritage Assets Characteristics

Question

1. Does the IPSASB agree with Staff's recommendation?

Recommendation

2. Staff recommend retaining the characteristics of heritage assets proposed in AG3 of ED 78, *Property, Plant, and Equipment*.
 - (a) Heritage assets typically have the following distinguishing characteristics:
 - (i) They have restrictions on their use;
 - (ii) They are irreplaceable; and
 - (iii) They have long and sometimes indefinite useful lives.

Background

3. In June 2020, the IPSASB decided that ED 78 would include:
 - (a) The above characteristics, because they distinguish heritage assets from other property, plant, and equipment, while presenting complexities in the application and implementation of existing principles in the current IPSAS 17.
 - (b) The Basis for Conclusions of ED 78 (BC16) reflects that these heritage characteristics, discussed in 2(a) above, are the ones that present challenges when applying and implementing IPSAS 17, as opposed to reflecting all heritage assets characteristics.
4. In December 2021, the IPSASB reviewed a summary analysis of responses to ED 78. The IPSASB instructed staff to develop a detailed response analysis of SMC 3 for the IPSASB's review.

Analysis

5. SMC 3 asked whether there are other heritage characteristics, besides the ones noted in AG3, that present complexities when applying ED 78 principles. Staff cataloged the 43 responses and noted:

No, Additional Characteristics	Yes, Additional Characteristics	No Comment
15	21	7

6. Staff further categorized the responses by themes:
 - (a) **Include a definition for heritage assets.**
 - (b) **Retaining certain IPSAS 17 heritage assets characteristics**, which were not carried forward to ED 78.
 - (c) **Additional characteristics.**
 - (i) Value-related.
 - (ii) Constraints or limitations.
 - (iii) Others

- (d) **Additional heritage asset guidance and examples**
7. Staff noted that the responses received do not present information the IPSASB has not previously considered, nor do they identify a public sector-specific issue or challenges when applying the principles in ED 78.
- (a) **Include a definition for heritage assets.** In March 2020, the IPSASB decided that a separate definition was not necessary for heritage assets, because they are a subset of property, plant, and equipment, and the principles of property, plant, and equipment should also apply to heritage assets. Rather than provide a definition, the decision was to include application guidance, including heritage asset characteristics to help entities identify their heritage assets¹¹.
- (b) **Retaining certain IPSAS 17 heritage assets characteristics.** In June 2020, the IPSASB decided to only keep characteristics that present complexities when applying and implementing the principles in ED 78, and distinguish heritage assets from other property, plant, and equipment¹².
- (c) **Additional characteristics.** Staff observed that the characteristics proposed were not consistent across responses. Staff also noted that the characteristics suggested by respondents were not distinct to heritage assets or presented complexities when applying and implementing the principles in ED 78, which the IPSASB had not previously considered and concluded¹³.
- (d) **Additional heritage asset guidance and examples.** Staff observed a lack of consistency between respondents' recommendations for examples and additional guidance, as to identifying a public sector-specific issue or challenges requiring further guidance.
8. Based on the analysis above, Staff does not recommend a departure from the existing heritage characteristics included in ED 78 AG3.

Decision Required

9. Does the IPSASB agree with the Staff recommendation?

¹¹ ED BC.15

¹² ED 78 BC.16

¹³ ED 78 BC.16

Appendix A – Summary of Relevant Responses

Themes	Relevant Responses
<p>Include a definition for heritage assets.</p>	<ul style="list-style-type: none"> • R31 said that the characteristics included are broad, as to conclude whether land, such as a park, could be considered a heritage asset. • R35 believes a definition may avoid different interpretations that could occur when a heritage asset may only have other characteristics than those related to a tangible element. • R42 advises that it is worth explaining the “irreplaceable” characteristic. Describing an asset as irreplaceable lacks clarity. Revising paragraph AG3(b) to say, “they are irreplaceable as a result of their historical, cultural, educational or environmental attributes or value,” results in a greater understanding of what is meant by the word “irreplaceable”. Finally, it may be worthwhile combining paragraphs AG2 and AG3 into a single paragraph, so that the paragraph effectively becomes a definition.
<p>Retaining certain IPSAS 17 characteristics.</p>	<ul style="list-style-type: none"> • Its value in historical and cultural terms is unlikely to be adequately reflected in a financial value based purely on a market price. ¹⁴ - R19 • There are prohibitions or severe restrictions on the disposal by sale imposed by legal or regulatory obligations. ¹⁵ - R16, R1, R17, R19 • Its value may increase over time, even if their physical condition deteriorates. ¹⁶ - R1, R08, R23, R26

¹⁴ IPSAS 17.10(a) Their value in cultural, environmental, educational, and historical terms is unlikely to be fully reflected in a financial value based purely on a market price;

¹⁵ IPSAS 17.10(b) Legal and/or statutory obligations may impose prohibitions or severe restrictions on disposal by sale;

¹⁶ IPSAS 17.10(c) They are often irreplaceable and their value may increase over time, even if their physical condition deteriorates;

<p>Additional characteristics.</p>	<p>Value-related:</p> <ul style="list-style-type: none"> • Uniqueness of Heritage Assets: Heritage assets are unique and what would considerably be a highly valued asset in one community or jurisdiction may not be so in another. – R14 • May have an economic benefit that cannot be measured reliably. – R14 • May not generate direct income (for example a monument or historic structure in a public space). – R05 • Are difficult to value, as they have cultural value and/or are subject to legislative protection. – R28 <p>Constraints:</p> <ul style="list-style-type: none"> • They have information restrictions for measuring the cost or current value due to a lack of documentation – R35 • May be expensive to repair or preserve. – R05 • Has limited alternative uses. – R33 • Legal restrictions – R39 <p>Others:</p> <ul style="list-style-type: none"> • Unique and sometimes rare/incomparable – R16, R15 and R40 • May cross-jurisdiction boundaries. – R17 • Generally inherited or discovered. – R41 • Cultural, historic or environmental attributes. – R08
<p>Additional heritage asset guidance and examples.</p>	<ul style="list-style-type: none"> • R34 may be helpful to provide more detailed characteristics and examples of assets that fit into the finite and infinite useful life classes of assets respectively whilst providing more detailed guidance and example considerations for estimating useful lives. • R24 thinks that there should be guidance and examples to determine the measurement of heritage assets. • R33 recommends that some examples of what constitutes a heritage asset be provided for clarity and guidance purposes.

Infrastructure Assets Characteristics

Question

1. Does the IPSASB agree with Staff's recommendation?

Recommendation

2. Staff recommend retaining the characteristics of infrastructure assets as proposed in AG5 of ED 78, *Property, Plant, and Equipment*.
 - (a) Infrastructure assets typically have the following distinguishing characteristics:
 - (i) They are networks or systems; and
 - (ii) They have long useful lives.

Background

3. In June 2020, the IPSASB decided that ED 78 would include:
 - (a) The above characteristics, because they distinguish infrastructure assets from other property, plant, and equipment, while presenting complexities in the application and implementation of existing principles in the current IPSAS 17.
 - (b) The Basis for Conclusions of ED 78 (BC16) reflects that these infrastructure characteristics, discussed in 2(a) above, are the ones that present challenges when applying and implementing IPSAS 17, as opposed to attempting to include all infrastructure assets characteristics.
4. In December 2021, the IPSASB reviewed a summary analysis of responses to ED 78. The IPSASB instructed staff to develop a detailed response analysis of SMC 4 for the IPSASB's review.

Analysis

5. SMC 4 asked whether there are other infrastructure characteristics, besides the ones noted in AG5, that present complexities when applying ED 78 principles. Staff cataloged the 43 responses and noted:

No, Additional Characteristics	Yes, Additional Characteristics	No Comment
16	20	7

6. Staff further categorized the responses by themes:
 - (a) **Include a definition for infrastructure assets.**
 - (b) **Retaining certain IPSAS 17 infrastructure assets characteristics**, which were not carried forward to ED 78.
 - (c) **Clarification** of the meaning of 'networks' or 'systems' and whether a single specialized asset should be considered an infrastructure asset.
 - (d) **Clarification of why certain IPSAS 17 infrastructure asset characteristics were not retained.**
 - (e) **Additional characteristics.**
 - (i) Strategic in nature.

- (ii) Value-related.
 - (iii) Others
7. Staff noted that the responses received do not present information the IPSASB has not previously considered, nor do they identify a public sector-specific issue or challenges when applying the principles in ED 78.
- (a) **Include a definition for infrastructure assets.** In March 2020, the IPSASB decided that a separate definition was not necessary for infrastructure assets, because they are a subset of property, plant, and equipment, and the principles of property, plant, and equipment should also apply to infrastructure assets. Rather than provide a definition, the decision was to include application guidance, including infrastructure asset characteristics to help entities identify their infrastructure assets¹⁷.
 - (b) **Retaining certain IPSAS 17 infrastructure assets characteristics.** In June 2020, the IPSASB decided to only keep characteristics that present complexities when applying and implementing the principles in ED 78, and distinguish infrastructure assets from other property, plant, and equipment. The IPSASB view is reflected in BC16.
 - (c) **Clarification.** Infrastructure assets are considered a subset of property, plant, and equipment; as such, whether a port or prison is considered an infrastructure asset does not change the principles an entity is to apply and implement. Defining 'networks' or 'systems' has no impact on the accounting of infrastructure assets. AG5(a) provides distinguishing characteristics of infrastructure assets from other property, plant, and equipment. AG5 does not look to provide entities with all the characteristics of infrastructure assets.
 - (d) **Clarification of why certain IPSAS 17 infrastructure asset characteristics were not retained.** Please see 7(b) above.
 - (e) **Additional characteristics.** Staff noted that respondents neither suggested characteristics that are distinctive to infrastructure assets nor provided new reasoning as to why the characteristics suggested create complexities when applying and implementing the principles in ED 78 that the IPSASB had not previously considered¹⁸.
8. Based on the analysis above, Staff does not recommend a departure from the existing infrastructure characteristics included in ED 78 AG5.

Decision Required

9. Does the IPSASB agree with the Staff recommendation?

¹⁷ ED BC.15

¹⁸ ED 78 BC.16

Appendix A – Summary of Relevant Responses

Themes	Relevant Responses
<p>Include a definition for infrastructure assets.</p>	<ul style="list-style-type: none"> • R42 thinks it may be worthwhile combining AG4 and AG5 into a single paragraph so that it effectively becomes a definition. • R09 believes a definition for infrastructure assets would be helpful.
<p>Retaining certain IPSAS 17 characteristics.</p>	<p>Some respondents (R01, R27, R33, and R41) advocated including infrastructure asset characteristics as written in IPSAS 17:</p> <ul style="list-style-type: none"> • They are specialized in nature and do not have alternative uses. ¹⁹ • They are immovable. ²⁰ • They may be subject to constraints on disposal. ²¹
<p>Clarification.</p>	<ul style="list-style-type: none"> • R13 recommends clarifying whether certain specialized assets, such as ports or correctional facilities, which might not be seen as networks or systems, should be considered infrastructure assets. • R39 proposes that clear guidance is provided on the words “Networks” and “Systems” for preparers to better understand whether an asset fulfills such characteristics. For instance, whether a common recreational park, a port, or a terminal is considered an infrastructure asset under ED 78. • R31 thinks that AG5(a) could be expanded to state that they are networks or systems that work together to deliver a good or service for public consumption.
<p>Clarification of why certain IPSAS 17 infrastructure asset characteristics were not retained.</p>	<ul style="list-style-type: none"> • R40 wondering why ‘immovability’ was not retained as a characteristic. • R11 thinks the IPSASB should explain why IPSAS 17.21(b) & (c) were removed.

¹⁹ IPSAS 17.21(b)

²⁰ IPSAS 17.21(c)

²¹ IPSAS 17.21(d)

Additional characteristics.	<p>Strategic in nature:</p> <ul style="list-style-type: none">• Sustainable competitive advantage: in many instances infrastructure assets are a natural monopoly, operating in markets where the barriers to entry are high. – R17• They provide essential services; Infrastructure assets are essential to the operation of an economy or society. – R17• Infrastructure assets are essential physical assets for the provision of basic public services. – R26• It has strategic importance for the country as a whole or for large geographic areas, constituting basic support for the development and operation of the country – R28 <p>Value-related:</p> <ul style="list-style-type: none">• The market price is not available in active markets due to the particular characteristics and limitations that some of these assets have. – R19• Their current measurement presents difficulties. – R38• The current age of some infrastructure assets might, similar to heritage assets prove to be a difficulty that impacts estimating costs of them. How does one value/compare a cobblestone street constructed in a prior century with a modern asphalt street today – R30 <p>Others:</p> <ul style="list-style-type: none">• An additional feature is the age of many of them. – R38• They often combine multiple asset types (such as land and buildings) that are distinct, rather than parts of a single asset type – R31• It may be difficult to separate the land from the built area. – R35• Infrastructure for public use has limitations established by the legal system and the authority that regulates its use. These assets are characterized by the fact that they are inalienable, imprescriptible and unseizable. – R19• Most of the infrastructure assets of the public sector (as is the case of transportation infrastructure) are intended for the use of the community and the State plays a role of protection, administration, maintenance and financial support. This makes it difficult to define who controls them and, consequently, should recognize them. – R19
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Unrecognized Heritage Assets Disclosure

Question

1. Does the IPSASB agree with Staff's recommendation?

Recommendation

2. Staff recommend retaining the scope of the disclosure to unrecognized heritage assets only²² as proposed in ED 78, *Property, Plant, and Equipment*.

Background

3. In September and December 2020, the IPSASB discussed the measurement challenges related to the initial measurement of heritage assets. Specifically, the cost or current value of a heritage asset cannot always be measured reliably. When this is the case, ED 78 proposed disclosure of these heritage assets as recognition is not possible (cannot measure).
4. In December 2021, the IPSASB reviewed a summary analysis of responses to ED 78, *Property, Plant, and Equipment*. The IPSASB instructed staff to develop a detailed response analysis of SMC 5 for the IPSASB's review.

Analysis

5. Overall respondents supported²³ the disclosure requirements being limited to unrecognized heritage assets. However, some respondents:
 - (a) Believed the **scope should be expanded** to include either infrastructure assets²⁴ or all property, plant, and equipment²⁵. If the latter three respondents, in particular, suggested the disclosure requirements should be subject to the materiality criterion.
 - (b) Suggested **additional disclosure** requirements for both recognized and unrecognized heritage assets. The majority suggested a disclosure on the nature of heritage assets, along with a detailed list of the entities' heritage assets.
6. Staff noted that the responses received did not present information the IPSASB had not previously considered, nor do they identify a public sector-specific issue or challenges to reliably measured non-heritage property, plant, and equipment.
 - (a) **Scope should be expanded.**
 - (i) The IPSASB, in September and December of 2020, concluded that measurement challenges, which prevent recognition of a tangible asset, were specific to heritage assets, and that authoritative guidance was needed to address the presentation issues identified in the Heritage CP. Staff had noted, in September 2020 that measurement may not be possible in some circumstances given the irreplaceability and very long lives of

²² Heritage property, plant, and equipment that is not recognized in the financial statements because, at initial measurement, its cost or current value cannot be measured reliably.

²³ 75% of ED respondents agreed or partially agreed with the disclosure requirements of unrecognized heritage assets. See [Supporting Document 1 – Summary of Responses](#)

²⁴ Two respondents suggested the scope be expanded to infrastructure assets.

²⁵ 11 respondents suggested the scope be expanded to all property, plant, and equipment.

heritage assets. Respondents requesting to broaden the scope of the disclosure to all property, plant, and equipment did not provide the IPSASB with new information on how the measurement challenges expand beyond heritage assets.

- (ii) Some respondents suggested that infrastructure assets have a similar recognition challenge to heritage assets. Staff's view is that the issue is likely related to IPSAS 33, *First-Time Adoption of Accrual Basis*, as opposed to ED 78. Staff has logged the issue and will handle it in the narrow scope update project of IPSAS 33 (pre-commitment for the 2023 work plan).
- (b) **Additional disclosures.** Only four respondents suggested the inclusion of additional disclosures for both recognized and unrecognized heritage assets. One repeating theme among respondents was requiring information on the preservation and maintenance policies for heritage assets, which may be useful for broader accountability purposes. Information related to the preservation and maintenance of heritage assets extends beyond the scope of financial statements. However, to support strong public financial management, Staff noted that there is existing guidance:
- (i) IPSAS 1, *Presentation of Financial Statements* encourages reporting entities to disclose additional information, for example, to assist users in the assessment of an entity's performance, stewardship of assets, and allocation of resources²⁶.
 - (ii) *Recommended Practice Guidelines* provide sufficient guidance for reporting supplementary information about heritage assets outside of the financial statements²⁷.
7. No reason was identified from the responses to SMC 5 that leads Staff to recommend the IPSASB expand the scope of the proposed disclosure.

Decision Required

8. Does the IPSASB agree with the Staff recommendation?

²⁶ IPSAS 1, *Presentation of Financial Statements* paragraph 25

²⁷ ED 78 BC76

Appendix A – Summary of Relevant Responses

Themes	Relevant Responses
<p>Expand the Scope.</p>	<ul style="list-style-type: none"> • The disclosure should apply to all assets that are not recognized because at the initial measurement their cost or current value cannot be reliably measured. - R19, R26, R05, R08, R31, R14, R33, and R38 • The scope should be for all property, plant, and equipment, subject to the materiality criterion. – R02, R28, and R01 • The disclosure should also apply to infrastructure assets, as they have the same problems for the determination of their cost and current value. – R20 and R34
<p>Additional Disclosures.</p>	<ul style="list-style-type: none"> • R08 thinks the ED should request governments to an overview and listing of the different heritage assets, along with yearly budgets spend for acquisitions, maintenance, preservation, archaeological and historical examinations; as well as the actual amounts spent in the reporting year. • R12 recommends brief disclosure of the nature of recognized heritage assets, as well as preservation and maintenance policies needed to justify material depreciation estimates. • R15 recommends detailed disclosures for each heritage asset, notwithstanding if they are recognized or unrecognized. One of the suggestions is to include the name, place, year, type (operational or non-operational), and nature (e.g., historical, artistic, archaeological, archival, etc.). • R41 suggests heritage assets that cannot be reliably measured be recognized at a nominal value of one currency unit and the following disclosures be required: reasons why the asset was measured at one currency unit, and any subsequent capitalized expenditure.

Non-Authoritative Guidance for Heritage Assets

Question

1. Does the IPSASB agree with Staff's recommendation?

Recommendation

2. Staff recommend retaining the non-authoritative guidance for Heritage as proposed in ED 78, *Property, Plant, and Equipment*.

Background

3. The IPSASB developed non-authoritative guidance to enhance the consistency of entities' application of ED 78 on the following topics: control (IG6-IG8), recognition related to subsequent expenditures on unrecognized assets (IG9), capitalization thresholds (IG10-IG14), measurement at current value (IG15-IG18), and depreciation related to useful lives (IG26-IG29).
4. In December 2021, the IPSASB reviewed a summary analysis of responses to ED 78, *Property, Plant, and Equipment*. The IPSASB instructed staff to develop a detailed response analysis of SMC 6 for the IPSASB's review.

Analysis

5. Most respondents supported²⁸ the additional non-authoritative guidance on heritage assets included in ED 78, and some of them provided recommendations for the consideration of the IPSASB:
 - (a) **Additional examples** showing the application of the principles to an illustrative fact pattern, specific to certain jurisdictions, and of transfers of heritage assets for free between public entities.
 - (b) **Further guidance** on appreciating heritage assets, acknowledgment of the complexity in valuing certain heritage assets, and the recognition of assets that are not yet heritage assets but are being preserved for future generations, hence expected to be one.
 - (c) **Requests clarification** on why an entity is to capitalize subsequent expenditures on unrecognized heritage assets.
 - (d) **Revisions to specific non-authoritative guidance** (IG8, IG17, and IG29), for example, R06 suggests IG8 should focus on the effect of control of storage, rather than on the control scenario over the heritage assets. R16 recommends that IG29 should explain that an adjustment on depreciation should be accounted for as a change in estimate.
 - (e) **Other recommendations** relate to the development of a specific standard for heritage assets, recognition at a nominal value when heritage assets are not measurable, and the structure of ED 78's content, for example, recommends AG8-AG15 to be deleted and 'subsequent costs' guidance to be moved back to the core text.

²⁸ 93% of ED respondents agreed or partially agreed with the heritage asset non-authoritative guidance developed as part of ED 78. See [Supporting Document 1 – Summary of Responses](#)

