

Meeting: International Public Sector Accounting
Standards Board

Meeting Location: Lisbon, Portugal

Meeting Date: September 24–27, 2019

Agenda Item 6

For:

- ☐ Approval
☒ Discussion
☐ Information

INFRASTRUCTURE ASSETS

Project summary	The project objective is to research and identify issues stakeholders have when applying IPSAS 17, <i>Property, Plant, and Equipment</i> to infrastructure assets. Informed by this research the aim is to provide additional guidance on accounting for infrastructure assets.	
Meeting objectives	Topic	Agenda Item
Project management	Infrastructure Assets: Project Roadmap	6.1.1
	Instructions up to Previous Meeting	6.1.2
	Decisions up to Previous Meeting	6.1.3
Decisions required at this meeting	Issues identified when accounting for Infrastructure Assets	6.2.1
	Framework to analyze Infrastructure Assets issues	6.2.2
	Accounting for land under Infrastructure Assets	6.2.3
	Control requirements for Infrastructure Assets	6.2.4
	Disclosure requirements for Infrastructure Assets	6.2.5
	Project management plan	6.2.6

INFRASTRUCTURE ASSETS: PROJECT ROADMAP

Meeting	Completed Actions or Discussions / Planned Actions or Discussions:
September 2019	<ol style="list-style-type: none"> 1. Discuss issues. 2. Develop Exposure Draft (ED).
December 2019	<ol style="list-style-type: none"> 1. Discuss issues. 2. Develop ED.
March 2020	<ol style="list-style-type: none"> 1. Discuss issues. 2. Develop ED.
June 2020	<ol style="list-style-type: none"> 1. Approval of ED.
H1 2021	<ol style="list-style-type: none"> 1. Review of responses to ED. 2. Discuss issues.
H2 2021	<ol style="list-style-type: none"> 1. Approve revisions to IPSAS 17 (or new IPSAS).

INSTRUCTIONS UP TO PREVIOUS MEETING

Meeting	Instruction	Actioned
June 2019	1. Develop a list of generic issues for review at the September 2019 meeting, consolidating issues raised at the 2016 and 2017 Public Sector Standard Setters' Forums.	Agenda Item 6.2.1
June 2019	2. Develop a proposed plan for addressing the issues in accordance with the project roadmap.	Agenda Item 6.2.6
December 2017	Continue research – Project put on hold December 2017.	See revised Project Brief
September 2017	Undertake research on existing practices and guidance to identify issues.	See revised Project Brief
September 2015 – December 2015	Project await start. First discussion in September 2017.	See revised Project Brief
June 2015	Revise project brief	See revised Project Brief

DECISIONS UP TO PREVIOUS MEETING

Meeting	Decision	BC Reference
June 2019	The IPSASB decided to approve the revised project brief after staff had made a number of amendments identified by the IPSASB.	To be finalized in December 2019 as BC paragraphs have not yet been prepared.
September 2015 – March 2019	No decisions were made.	Not Applicable
June 2015	Approved the initial 'Infrastructure Assets' project brief.	Not Applicable

Issues identified when accounting for Infrastructure Assets**Question**

1. Whether the IPSASB agrees with the grouping of the issues identified when accounting for infrastructure assets.

Detail

2. In the public sector, infrastructure assets account for a large proportion of total assets and represent a major source of government spending.
3. Constituents, the IPSASB and Consultative Advisory Group (CAG) have identified challenges when applying the principles in IPSAS 17, *Property, Plant, and Equipment* to account for infrastructure assets.
4. The Infrastructure Assets Task Force (Task Force) was established in June 2019 and performed the following tasks to address the issues identified when accounting for infrastructure assets:
 - (a) Obtained an understanding of the issues identified such as lack of definition, characteristics of infrastructure assets, measurement, impairment and componentization (see [Appendix 6.2.1](#)); and
 - (b) Prepared a comprehensive issues list and grouped the issues into the following categories:
 - (i) Scope and Definition;
 - (ii) Recognition;
 - (iii) Initial measurement;
 - (iv) Subsequent measurement;
 - (v) Depreciation;
 - (vi) Componentization;
 - (vii) Impairment;
 - (viii) Derecognition; and
 - (ix) Presentation and Disclosure.

Decisions required

5. Does the IPSASB agree with the Task Force grouping of the issues that were identified in [Appendix 6.2.1](#)?

Comprehensive list and grouping of issues identified when accounting for Infrastructure Assets

List of Issues
Issue #1: Scope and Definition
<p><u>Issue #1(a) – There is insufficient guidance of the definition of infrastructure assets.</u></p> <p>Stakeholders note that there is no generally accepted definition for infrastructure assets. A definition for infrastructure assets may need to be considered.</p> <p>Currently infrastructure assets are classified as property, plant, and equipment. Other stakeholders note that infrastructure assets are not property, plant, and equipment and should be treated as a separate distinct group of assets.</p>
<p><u>Issue #1(b) – 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.</u></p> <p>Stakeholders note that the current list of characteristics and examples of infrastructure assets in IPSAS are not exhaustive because:</p> <ul style="list-style-type: none"> ▪ The list does not capture all the characteristics of infrastructure assets. For example, infrastructure assets are characterized as immovable whilst there are global infrastructure satellite networks that are movable. ▪ The list may not capture all the examples of infrastructure assets.
<p><u>Issue #1(c) – There is insufficient guidance on accounting for land under infrastructure assets.</u></p> <p>IPSAS does not provide sufficient guidance whether land under infrastructure should be accounted separately from infrastructure assets.</p> <p>Stakeholders questioned whether land and infrastructure assets should be treated separately or as a single asset.</p>
<p><u>Issue #1(d) – There is insufficient guidance on whether spare parts of infrastructure assets are capital or inventory.</u></p> <p>IPSAS does not provide sufficient guidance whether spare parts of infrastructure assets are capital or inventory in nature.</p> <p>This distinction is important because infrastructure assets that are capital in nature will be capitalized to the carrying amount of infrastructure assets in terms of IPSAS 17, <i>Property, Plant, and Equipment</i>. Infrastructure assets that are inventory in nature may need to be accounted in terms of IPSAS 12, <i>Inventories</i> where there will be expensed when consumed.</p>
Issue #2: Recognition
<p><u>Issue #2(a) – The control requirements of infrastructure assets are complex in the public sector.</u></p> <p>Stakeholders noted the control requirements of infrastructure assets are complex in the public sector because:</p> <ul style="list-style-type: none"> ▪ Infrastructure assets that are legally owned by other entities may be managed or operated by another public sector entity; ▪ Infrastructure assets may be jointly controlled by two (2) or more public sector entities.

List of Issues

- Land and infrastructure assets acquired together may be controlled or operated by different parties.
- Access rights; right of ways; 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.
- Infrastructure assets belonging to the central government are usually transferred to other public or private sector entities, which control the use of the infrastructure assets and can derive economic benefit or service potential from them.
- Infrastructure assets may cross more than one jurisdiction.

It is important to identify the entity that controls the infrastructure asset to determine the entity that recognizes the infrastructure asset in the statement of financial position (balance sheet).

Issue #2(b) - Control requirements of infrastructure assets in a service concession arrangement may be difficult to apply.

There is insufficient guidance in IPSAS to determine the party that controls the infrastructure assets in a Service Concession Arrangement (SCA) because:

- 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.
- Difficulties also arise in a service concession arrangement whereby the grantor may control the asset but does not have the capital expenditure information as the asset is operated and maintained by another party.

Issue #3: Initial measurement

Issue #3(a) - Measurement bases may be difficult to apply when valuing infrastructure 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 for General Purpose Financial Reporting by Public Sector Entities* (the Conceptual Framework), *Public Sector Measurement* and IPSAS 17 need to be considered.

Issue #3(b) - Measurement of land under infrastructure assets may be difficult to apply.

IPSAS does not provide sufficient guidance on whether land under infrastructure should be valued separately from infrastructure assets or valued in total as infrastructure assets.

Issue #3(c) - Determining the costs to dismantle infrastructure assets may be difficult.

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.

List of Issues

Issue #3(d) - Determining the threshold of initial costs to capitalize or expense may be difficult to apply when valuing infrastructure assets.

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.

Issue #3(e) – Valuation of Highway Networks may be complex.

It may be difficult to value formation costs of highway networks which by their nature are not repeatable and/or replaceable, not recoverable, likely to have a long if not infinite life and normally a material component of the cost of constructing a road.

The following may need to be considered:

- How applicable is a replacement cost approach to capitalized formation costs?
- When applying a replacement cost approach, is it appropriate to apply an uplift factor to formation costs which are a one-off non-repeatable cost which is not depreciated?
- How should an entity (a council or state government or national government) best account for the value of components necessary and attributable to getting the asset to its current condition but that do not need to be replaced, even if the asset itself was replaced?
- How do we account for the value of replacement costs that would need to be incurred if the asset was replaced, but which is not necessary, and have not been incurred in getting the asset to its current condition?

Issue #4: Subsequent measurement

Issue #4(a) – There is insufficient guidance on the appropriate measurement bases for subsequently valuing infrastructure assets.

Stakeholders note that there is insufficient guidance for the appropriate measurement bases for subsequently measuring infrastructure assets because:

- There are minimal records of the historical cost information.
- There is no active market for infrastructure assets that were acquired a long time ago.
- Measuring the remaining service potential of infrastructure assets that do not directly generate revenue could be complex.

Issue #4(b) - Determining the threshold of subsequent costs to capitalize or expense may be difficult to apply when valuing infrastructure assets.

Determine the threshold of the subsequent costs of infrastructure assets to capitalize or expense could be complex in practice.

List of Issues

Issue #4(c) – There is insufficient guidance for distinguishing subsequent expenditure as capital or expense and requires professional judgment.

Distinguishing repairs and maintenance expenditure (expenses) with expenses of a capital nature that enhances the infrastructure asset could be complex in practice.

- More guidance on distinguishing between capital expenditure on extending/ improving an infrastructure network, and its maintenance, is required in IPSAS (Stakeholders note that although IPSAS 17, paragraphs 23-25 discusses subsequent costs, it provides little guidance on making the distinction between these two types of expenditure).
- Determining whether the cost of replacing a major part of infrastructure, is capital or expense in nature could be complex in practice. Determining whether upgrades to infrastructure assets are capital or expense in nature could be complex in practice.

This distinction is important because expenses that are capital in nature are capitalized to infrastructure assets whilst normal expenses are expensed when incurred.

Issue #4(d) – There is insufficient guidance on the accounting treatment of for planned/backlog/deferred maintenance costs.

Infrastructure assets have long useful lives and require constant maintenance and renewal to maintain its operating capacity to continue delivering services.

Therefore, users of financial statements are interested in the information of the physical condition of infrastructure assets.

Backlog maintenance is maintenance that is delayed, postponed or deferred. There are differing views for accounting for backlog maintenance.

- View 1: Consider whether commitments arising from backlog maintenance should be recognized in the financial statements.
- View 2: Consider whether commitments arising from backlog maintenance should not be recognized but disclosed in the notes to the financial statements.
- View 3: Consider whether commitments arising from backlog maintenance should not be recognized and not disclosed in the financial statements.

Issue #5: Depreciation

Issue #5(a) – There is insufficient guidance for determining the appropriate depreciation method for infrastructure assets.

Some stakeholders are of the opinion that the conventional methods of depreciation 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.

These stakeholders are of the view that depreciation is only relevant for property, plant, and equipment items that have finite useful lives.

List of Issues

Some public sector entities have adopted alternative approaches to depreciating infrastructure assets that have long useful lives:

- Renewals accounting approach which expenses all expenditure incurred to maintain or replace infrastructure asset;
- Renewals accounting approach which expenses all expenditure incurred to maintain infrastructure assets and capitalizes expenditure which improves the infrastructure assets operating capacity; or
- Condition Based Depreciation method which require the condition of the asset to be assessed periodically on an annual basis. The annual cost of maintaining the asset is estimated. The estimated cost of maintenance is compared to the actual maintenance costs for the period. A shortfall in the estimated maintenance costs and actual maintenance expenditure incurred is recognized as depreciation expense. The depreciation expense and the maintenance costs are recognized in surplus or deficit as an expense.

Staff needs to consider if there is a public sector specific reason for the different depreciation approaches for infrastructure assets.

Issue #5(b) – There is insufficient guidance to determine whether infrastructure assets with long useful lives should be depreciated or not.

There is no guidance whether aging and obsolete infrastructure assets that have long useful lives should be depreciated or not.

This will impact the depreciable amount and the depreciation expense which is usually material for infrastructure assets in the public sector.

Issue #5(c) – There is insufficient guidance whether land under infrastructure assets should be depreciated.

There is insufficient guidance in IPSAS whether land under infrastructure should be depreciated as it is part of an infrastructure asset.

Issue #6: Componentization

Issue #6(a) – The guidance on applying the componentization approach may not be suitable for infrastructure assets.

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 on how separate elements of infrastructure assets should be componentized may be needed.

List of Issues
Issue #7: Impairment
<p><u>Issue #7(a) - Assessment of impairment of infrastructure assets could be complex.</u></p> <p>Specific impairment indicators of infrastructure assets could be required which may not be provided in IPSAS.</p> <p>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?)</p>
Issue #8: Derecognition
<p><u>Issue #8(a) - There is insufficient guidance on the derecognition of infrastructure assets.</u></p> <p>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.</p>
Issue #9: Presentation and Disclosure
<p><u>Issue #9(a) - There is insufficient guidance on the disclosure of infrastructure assets.</u></p> <p>Since there is no specific standard for infrastructure asset disclosure, asset reporting of has been mainly guided by the accounting principles of IPSAS 17.</p> <p>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.</p>

Framework to analyze Infrastructure Assets issues**Question**

1. Whether the IPSASB agrees with the Framework developed to analyze the issues identified when accounting for infrastructure assets.

Background

2. At the June 2019 meeting, the IPSASB instructed staff to consolidate a list of generic issues raised by stakeholders at the 2016 and 2017 Public Sector Standard Setters' Forums, together with proposed plans for addressing them.
3. To action the proposed plan, the Task Force developed a Framework designed to determine whether the current IPSAS literature is sufficient to address the issues identified when accounting for infrastructure assets.

Application of the Framework

4. The Framework considers the following to analyze issues identified when accounting for infrastructure assets:

(a) Decision 1: Is the issue prevalent in the public sector?

This criterion is consistent with the approach used by the IPSASB when considering potential new projects.

- If the issue identified is not prevalent in the public sector - no further guidance is necessary.
- If the issue identified is prevalent in the public sector – more consideration is required. Proceed to Decision 2.

(b) Decision 2: Is there specific IPSAS guidance that already addresses this issue in the public sector?

This criterion considers whether current IPSAS guidance (authoritative and non-authoritative) exists and directly addresses the issue that is prevalent in the public sector.

- If current IPSAS guidance is insufficient to address the issue identified - proceed to Decision 3.
- If current IPSAS guidance is sufficient to address the issue identified - proceed to Decision 4.

(c) Decision 3: Does the issue impair the ability of financial statements to provide useful information?

The criterion requires significant professional judgment. The issue impairs the ability of financial statements if users are provided insufficient information to make informed decisions. The Task Force has determined this occurs when the existing accounting principles are not sufficiently clear to promote consistent application in practice.

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- If the issue identified impairs the ability of financial statements to provide useful information – develop additional guidance.
 - If the issue identified does not impair the ability of financial statements to provide useful information – no further guidance is necessary.
- (d) Decision 4: Would additional non-authoritative guidance help constituents with the identified issue?

This criterion also requires significant professional judgment. Additional non-authoritative guidance is necessary if the issue identified is unique in the public sector. The Task Force considers this is a key consideration because when the issue also exists in the private sector and no interpretation issues have been raised for the IFRS Standards adopters, no further IPSAS guidance is necessary.

The Task Force may also consider it necessary to provide greater clarification to address a specific issue.

5. The key benefit to applying the Framework is that when prevalent, either Decision 3 or 4 is assessed and the Task Force and IPSASB are provided great flexibility to augment existing guidance in order to serve the public interest.
6. The Task Force tested the Framework to analyze the following issues:
 - (a) Accounting for land under infrastructure assets (see [Agenda Item 6.2.3](#));
 - (b) Control requirements of infrastructure assets (see [Agenda Item 6.2.4](#)); and
 - (c) Disclosure requirements of infrastructure assets (see [Agenda Item 6.2.5](#)).

Task Force recommendation

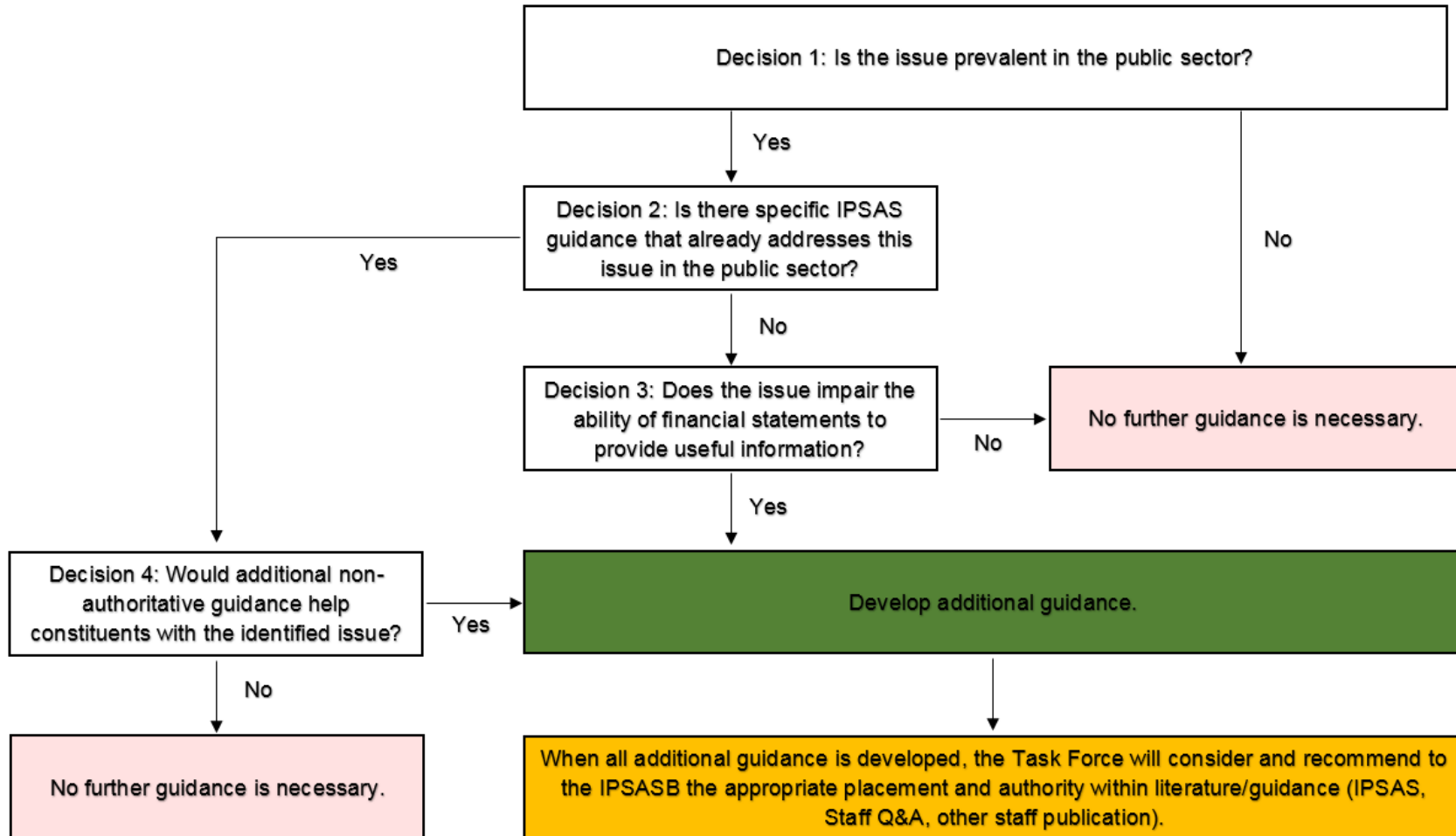
7. The Task Force recommends the use of the Framework to analyze the remainder issues identified when accounting for infrastructure assets (see [Appendix 6.2.2](#) for the Framework).

Decisions required

8. Does the IPSASB agree with the Framework recommended by the Task Force?

Appendix 6.2.2

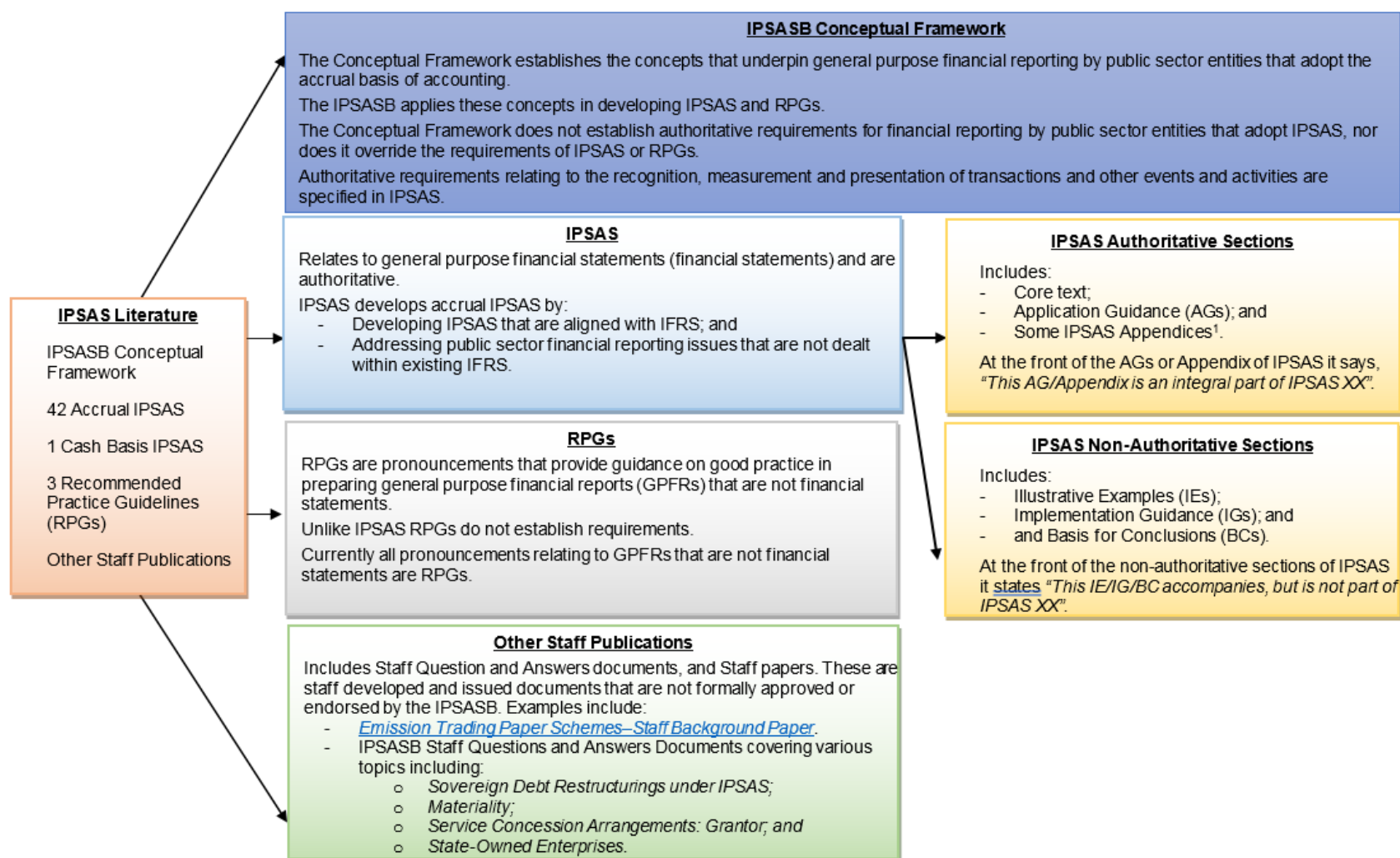
Framework



Appendix

6.2.2A

IPSASB Literature and Other Publications



¹ Principles from IFRIC 16, *Hedges of a Net Investment in a Foreign Operation* and IFRIC 19, *Extinguishing Financial Liabilities with Equity Instruments* have been included as authoritative appendices to IPSAS 29, *Financial Instruments: Recognition and Measurement* and IPSAS 41, *Financial Instruments*. (The IASB issues IFRICs as separate documents).

Accounting for land under Infrastructure Assets

Question

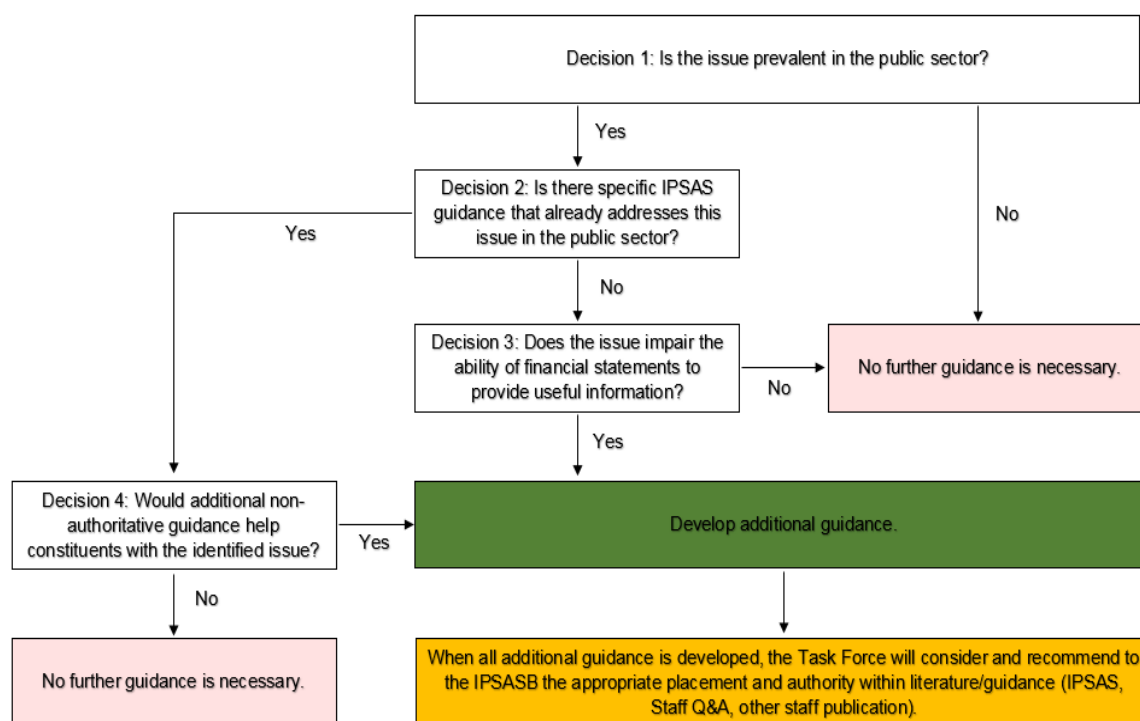
- Whether the IPSASB agrees existing guidance on accounting for land under infrastructure assets is sufficient.

Issue

- Stakeholders noted that IPSAS provides insufficient guidance on whether land under infrastructure assets should be accounted separately from infrastructure assets.

Task Force Analysis – Applying the Framework (Decision 1 - Decision 4)

- The Task Force applied the Framework to analyze the infrastructure assets issues identified.



Decision 1: Is the issue prevalent in the public sector?

Yes

The issue of accounting for land under infrastructure assets is widespread for public sector entities. Public sector entities' investments in land and infrastructure assets are numerous and financially significant. Public sector entities construct or purchase infrastructure assets (power, road and sewerage networks, public transport and water storage systems, etc.) which are built on land owned or leased by the public sector entity. These infrastructure assets provide services such as electricity, transport and water to citizens.

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Decision 2: Is there specific IPSAS guidance that already addresses this issue in the public sector?

Yes

IPSAS 17, *Property, Plant, and Equipment*, paragraph 74 is explicit land should be separated from the property, plant, and equipment the land supports.

Paragraph 74, states *land and buildings are separable assets and accounted for separately, even when they are acquired together. With some exceptions, such as quarries and sites used for landfill, land has an unlimited useful life and therefore is not depreciated. Buildings have a limited useful life and therefore are depreciable assets. An increase in the value of the land on which a building stands does not affect the determination of the depreciable amount of the building.*

Paragraph 21 explains, *infrastructure assets meet the definition of property, plant, and equipment and should be accounted for in accordance with this Standard (IPSAS 17).*

Decision 3: Does the issue impair the ability of financial statements to provide useful information?

Not applicable.

Decision 4: Would additional non-authoritative guidance help constituents with the identified issue?

No

Additional guidance can always help to clarify existing principles. However, IPSAS 17 is already explicit in how land under infrastructure assets should be accounted for.

Furthermore, this issue is not unique to the public sector. Infrastructure assets are built on land owned by private sector entities just as in the public sector (for example, in the private sector a mining company constructs, or purchases, a road network providing access to its mines. This road network can be built on the entity's own land).

As the land supports the infrastructure assets in delivering the service and may have no other use while it supports the infrastructure assets, it can also be challenging in the private sector to separate the value of the land from that of the infrastructure assets.

Whilst no additional guidance is recommended, the analysis above will be summarized in the Basis for Conclusions.

Task Force Recommendation

4. The Task Force recommends no further guidance be developed because the existing guidance is sufficient.

Decisions Required

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

Control requirements of Infrastructure Assets

Question

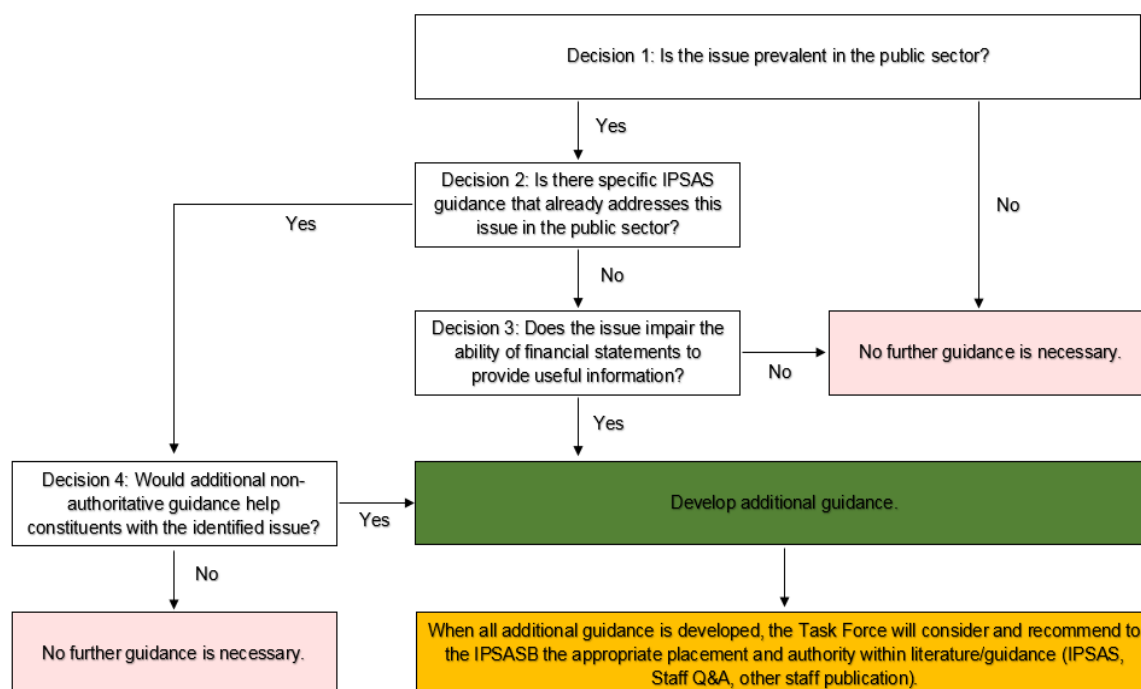
- Whether the IPSASB agrees existing guidance on the control requirements of infrastructure assets is insufficient.

Issue

- Stakeholders noted the control requirements of infrastructure assets are complex because:
 - Infrastructure assets that are legally owned by other entities may be managed or operated by another public sector entity;
 - Infrastructure assets may be jointly controlled by two (2) or more public sector entities;
 - Land and infrastructure assets that are acquired together by one entity may be managed or operated by different parties as there are separable assets;
 - Access rights; right of ways; or easements are usually granted over the land for the purpose of transportation such as highways, footpaths or rail transport, electrical transmission lines and oil and gas pipelines which may or may not revert to its original owners;
 - Infrastructure assets belonging to the central government are usually transferred to other public or private sector entities, which control the use of the infrastructure assets and can derive economic benefit or service potential from them; and
 - Infrastructure assets may cross more than one jurisdiction.

Task Force Analysis – Applying the Framework (Decision 1 - Decision 4)

- The Task Force applied the Framework to analyze the infrastructure assets issues identified.



Decision 1: Is the issue prevalent in the public sector?

Yes

The issues of determining control of infrastructure assets identified in paragraph 2 are widespread for public sector entities:

- (a) Infrastructure assets that are legally owned by other entities may be managed or operated by another public sector entity;
Governments enter into arrangements with private sector and public sector entities to operate and manage infrastructure assets such as roads, bridges, tunnels, water distribution facilities and telecommunication networks. The infrastructure assets may or may not revert to the government at the conclusion of the arrangement.
- (b) It is common for public sector entities to jointly control infrastructure assets;
Public sector entities enter into joint arrangements with other public sector or private sector entities to manage infrastructure assets. This may be the case with an airport jointly controlled by a municipality and a state.
- (c) Land and infrastructure assets that is acquired together by one entity may be managed or operated by different parties as there are separable assets;
Public sector entities may acquire land and infrastructure assets together which may be managed or operated by other public sector or private sector entities. See (a) above.
- (d) Access rights; right of ways; or easements are usually granted over the land for the purpose of transportation such as highways, footpaths or rail transport, electrical transmission lines and oil and gas pipelines which may or may not revert to its original owners;
Public sector entities lay power networks across many states in order to deliver electricity to households. In order to cross multiple jurisdictions, the public sector entity may obtain a right of way or easement.
- (e) Infrastructure assets belonging to the central government are usually transferred to other public or private sector entities, which control the use of the infrastructure assets and can derive economic benefit or service potential from them; and
It is common infrastructure assets to be transferred between public sector entities and other state-owned entities or Government Business Enterprises (GBEs).
- (f) Infrastructure assets may cross more than one jurisdiction.
Public sector infrastructure assets such as roads, bridges and dams cross many jurisdictions.

Decision 2: Is there specific IPSAS guidance that already addresses this issue in the public sector?

No

The core authoritative text in paragraph 14 of IPSAS 17, *Property, Plant, and Equipment* indicates control needs to be achieved prior to property, plant, and equipment being recognized. Recognition occurs when: *it is probable that the future economic benefit or service potential associated with the item will flow to the entity; and the cost or fair value of the item can be measured reliably.*

However, IPSAS 17, does not provide explicit guidance for each scenario identified in paragraph 2.

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Decision 3: Does the issue impair the ability of financial statements to provide useful information?

Yes

There is insufficient guidance in IPSAS to address the following issues identified in paragraph 2:

- (d) Access rights; right of ways; or easements are usually granted over the land for the purpose of transportation such as highways, footpaths or rail transport, electrical transmission lines and oil and gas pipelines which may or may not revert to its original owners; and
- (f) Infrastructure assets may cross more than one jurisdiction.

The lack of explicit guidance related to issues (d) and (f) in paragraph 2 may impair the ability of financial statements to provide useful information. The guidance for determining control in paragraph 14 of IPSAS 17 is difficult to apply to arrangements where control of the asset changes at a specific location. This issue seems to be more prevalent in the public sector than in the private sector.

The Task Force proposes developing examples to illustrate the application of paragraph 14 to these scenarios. The Task Force will provide real-life scenarios and consider the control guidance in paragraph 5.12 of *The Conceptual Framework for General Purpose Financial Reporting by Public Sector Entities* (the Conceptual Framework) when developing illustrative examples for infrastructure assets.

No

There is sufficient guidance in IPSAS that addresses the remainder of the issues identified in paragraph 2:

- (a) Infrastructure assets that are legally owned by other entities may be managed or operated by another public sector entity;
These are leases or service concession arrangements. Guidance is provided in IPSAS 13, *Leases* or IPSAS 32, *Service Concession Arrangements: Grantor* depending on the nature of the arrangement;
- (b) It is common for public sector entities to jointly control infrastructure assets;
These are joint arrangements. Guidance is provided in IPSAS 37, *Joint Arrangements*;
- (c) Land and infrastructure assets that is acquired together by one entity and managed or operated by different parties as there are separable assets;
These are leases or service concession arrangements. Guidance is provided in paragraph 14 of IPSAS 17, IPSAS 13 or IPSAS 32 depending on the nature of the arrangement; and
- (e) Infrastructure assets belonging to the central government are usually transferred to other public or private sector entities, which control the use of the infrastructure assets and can derive economic benefit or service potential from them.
This represents a sale/disposal of infrastructure assets. Guidance is provided in paragraph 14 of IPSAS 17.

Whilst no additional guidance is recommended, the analysis above will be summarized in the Basis for Conclusions.

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Decision 4: Would additional non-authoritative guidance help constituents with the identified issue?

<i>Not applicable.</i>

Task Force Recommendation

4. The Task Force recommends additional control guidance be developed for issues (d) and (f). No further guidance is necessary for issues (a), (b), (c) and (e). When all additional guidance is developed, the Task Force will consider and recommend to the IPSASB the appropriate placement and authority within literature/guidance.

Decisions Required

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

Disclosure requirements for Infrastructure Assets

Question

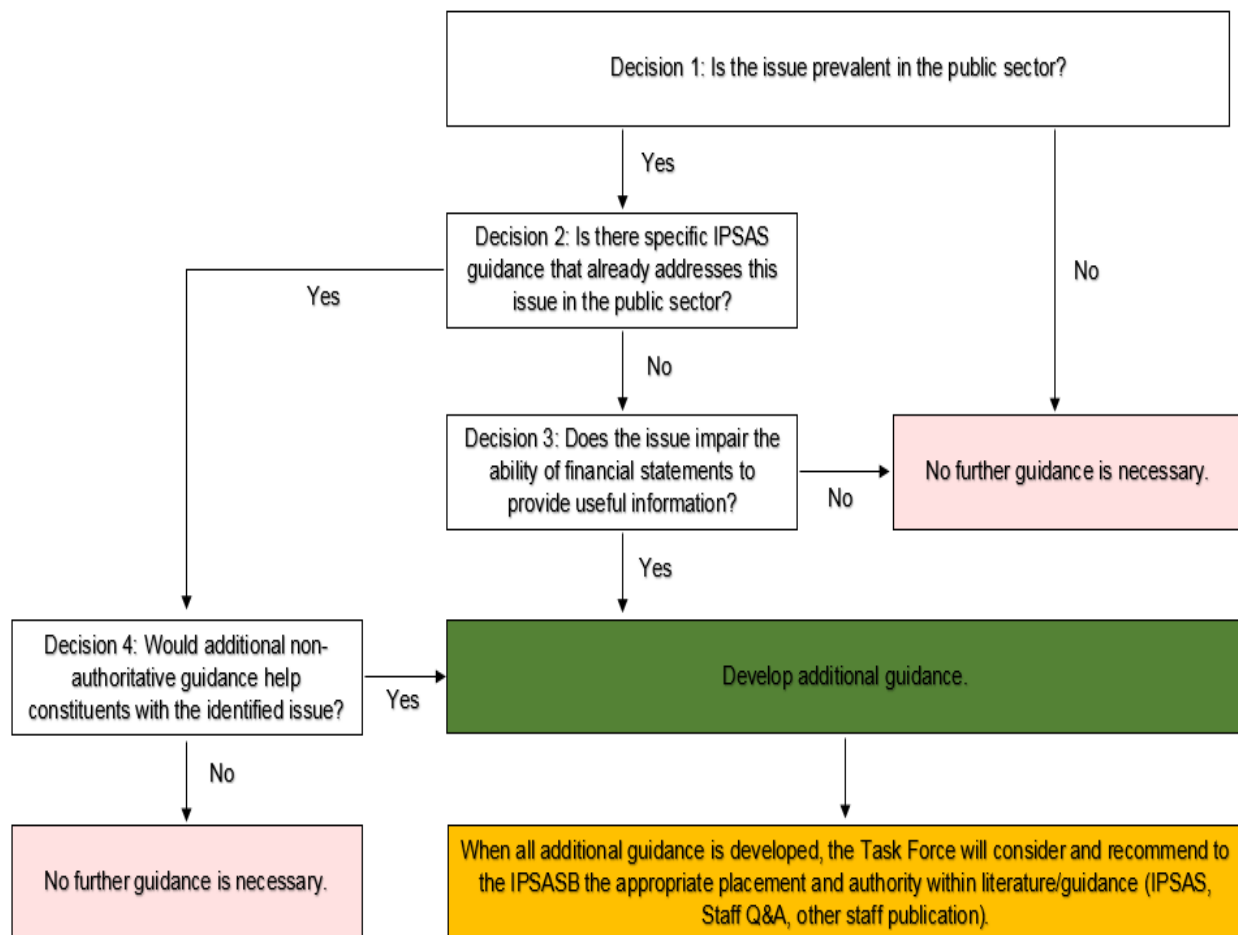
- Whether the IPSASB agrees existing disclosure guidance is sufficient.

Issue

- Stakeholders noted that a major responsibility of governments is to maintain and upgrade infrastructure assets and yet there is insufficient guidance on the presentation and disclosure of:
 - The physical condition;
 - Planned and backlog maintenance; and
 - Long-term nature and valuation of infrastructure assets.

Task Force Analysis – Applying the Framework (Decision 1 - Decision 4)

- The Task Force applied the Framework to analyze the infrastructure assets issues identified.



Decision 1: Is the issue prevalent in the public sector?

Yes

The issue of limited disclosure of the physical condition; planned and backlog maintenance and long-term nature and valuation of infrastructure assets is widespread for public sector entities because:

- (a) Public sector entities have the responsibility to maintain and upgrade infrastructure assets in order to maintain a specific level of service to its citizens and stakeholders. As such the physical condition of the infrastructure assets, planned / backlog maintenance; and long-term nature and valuation of the infrastructure assets are important to those who are provided services from the infrastructure assets.

For example, the level of maintenance of the infrastructure assets network providing fresh water to citizens is relevant to those citizens. Information on the physical condition of the infrastructure assets, planned / backlog maintenance and long-term nature and valuation of the infrastructure assets helps those citizens evaluate the service they are being provided.

Decision 2: Is there specific IPSAS guidance that already addresses this issue in the public sector?

Yes

While IPSAS 17, *Property, Plant, and Equipment* does not provide specific guidance on the disclosure requirements for the physical condition, planned and backlog maintenance, and long-term nature and valuation of infrastructure assets, the core authoritative text in paragraphs 23 and 88-94 of IPSAS 17 provides general guidance on the disclosure requirements of property, plant, and equipment that address the issues above.¹

Disclosure requirements of the physical condition of infrastructure assets

IPSAS does not require the disclosure of the physical condition of infrastructure assets. As the financial statements present a financial snapshot of an entity at a point in time, evaluating the physical condition of infrastructure is beyond the scope of the requirements public sector financial statements.

Given this point, in interpreting “disclosure of the physical condition of infrastructure assets”, staff are of the view the most useful information to financial statement users is when the physical condition has deteriorated beyond what an informed user of the financial information should expect. For financial statement purposes, this is when an asset is impaired. IPSAS 17 provides the following authoritative guidance on the disclosure requirements of the physical condition of property, plant, and equipment:

Paragraph 93 states *an entity discloses information on impaired property, plant, and equipment in accordance with IPSAS 21, Impairment of Non-Cash-Generating Assets and IPSAS 26, Impairment of Cash-Generating Assets*. Furthermore, paragraph 94 states *entities are encouraged*

¹ Paragraph 21 explains in the context of IPSAS 17, *infrastructure assets meet the definition of property, plant, and equipment and should be accounted for in accordance with this Standard (IPSAS 17)*.

to disclose the gross carrying amounts of idle, retired, and fully depreciated property, plant, and equipment.

Disclosure requirements for planned and backlog maintenance of infrastructure assets

Planned or backlog maintenance are tasks that are essential to repair or prevent infrastructure assets failures that have not been completed yet. Paragraph 23 of IPSAS 17 indicates *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.* While there are no specific disclosure requirements for these maintenance costs, they are recognized when incurred.

When these maintenance costs have not been incurred, they have a negative impact on the value of the property, plant, and equipment. When the value of the property, plant, and equipment decreases below its costs, the impairment requirements of paragraph 93, noted above, apply and disclosure is required.

It is unlikely circumstances exist where the property, plant, and equipment are not impaired by backlog maintenance as the asset is unlikely to be in service if repair is necessary or a failure of the property, plant, and equipment is imminent.

Given backlog maintenance likely impacts the value of the property, plant, and equipment presented on the face of the financial statements, disclosure requirements exist.

Disclosure requirements of the long-term nature and valuation infrastructure assets

IPSAS 17 currently provides robust authoritative disclosure requirements related to the long-term nature and valuation of property, plant, and equipment.

Paragraph 88 states the financial statements shall disclose, *for each class of property, plant, and equipment, the measurement basis used; the depreciation method used (useful lives or depreciation rates); the gross carrying amount and the accumulated depreciation (aggregated with the accumulated impairment losses) at the beginning and end of the period, if any; and a reconciliation of the carrying amount at the beginning and end of the period.*

Paragraphs 90-91 states the financial statements shall also disclose *the depreciation method and the estimated useful life of the assets or the depreciation rates, the nature and effect of a change in an accounting estimate with respect to residual values; the estimated costs of dismantling, removing, or restoring items of property, plant and equipment; useful lives; and depreciation methods.*

Paragraph 92 states *the methods and significant assumptions applied in estimating the assets' fair values (whether by reference to observable prices in an active market or recent market transactions on arm's length terms or were estimated using other valuation techniques) should be disclosed if the property, plant, and equipment is stated at the revalued amount.*

Paragraph 94 states entities are encouraged to disclose *the fair value of the property, plant, and equipment which is materially different to the cost of the item measured on the cost model.*

As the useful life of each class of property, plant, and equipment is disclosed as part of the paragraph 88 requirements, the long-term nature of property, plant, and equipment is disclosed. While current valuation is not explicitly required, the impairment requirements noted above in

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paragraph 93 and disclosures related to amortization provide financial statement users with useful information to support decision making.

Decision 3: Does the issue impair the ability of financial statements to provide useful information?

Not applicable.

Decision 4: Would additional non-authoritative guidance help constituents with the identified issue?

No

Additional guidance can always help to clarify existing principles. However, IPSAS 17 provides general guidance on the disclosure requirements of property, plant, and equipment that address the issues above.

Furthermore, this issue is not unique to the public sector. Private sector entities also have a responsibility to maintain and upgrade infrastructure assets. However, this responsibility is not owed to citizens, but to shareholders of the company. Private sector entities should maximize the profits to shareholders, and this requires the infrastructure assets owned by the entity be maintained and upgraded. For example, in order to maximize the shareholder return, a utility company delivering electricity continually maintains its power network in order to continually deliver electricity to its customers. This allows the entity to continue to generate revenue in order to maximize return.

Whilst no additional guidance is recommended, the analysis above will be summarized in the Basis for Conclusions.

Task Force Recommendation

4. The Task Force recommends no further guidance be developed because the existing guidance is sufficient.

Decisions Required

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

Project management plan

Question

- Whether the IPSASB approves the proposed project plan.

Detail

- At the June 2019 meeting, the IPSASB approved the revised project brief and delegated responsibility for developing additional guidance to the Infrastructure Assets Task Force.
- Recommendations of the Task Force would be tabled for the IPSASB's consideration at future board meetings.
- The IPSASB instructed staff/Task Force to develop a proposed plan in accordance with the project roadmap to address the issues identified when accounting for infrastructure assets.

Task Force Plan

- The below tentative schedule highlights the projected activities outstanding.

Date	Activities	Status of the Activity
September 2019 – IPSASB meeting.	Task Force report back of the identified issues, Framework and detailed analysis to the IPSASB for consideration by the IPSASB.	Outstanding.
October 2019 - Teleconference	Task Force discussion of the detailed analysis of the remainder of issues identified.	Outstanding.
November 2019 – Teleconference.	Task Force discussion of the detailed analysis of the remainder of issues identified.	Outstanding.
December 2019 – IPSASB meeting.	Task Force report back of the identified issues and final detailed analysis to the IPSASB for consideration by the IPSASB.	Outstanding.
January and February 2020	Task Force develop additional guidance for inclusion in the draft Exposure Draft (ED).	Outstanding.
March 2020 – IPSASB meeting.	Review of the additional guidance in draft ED by the IPSASB.	Outstanding.
June 2020 – IPSASB meeting.	Approval of the additional guidance in draft ED by the IPSASB.	Outstanding

Decisions required

- Does the IPSASB agree with the Task Force proposal on the project plan?