Agenda Item 12: Infrastructure Assets

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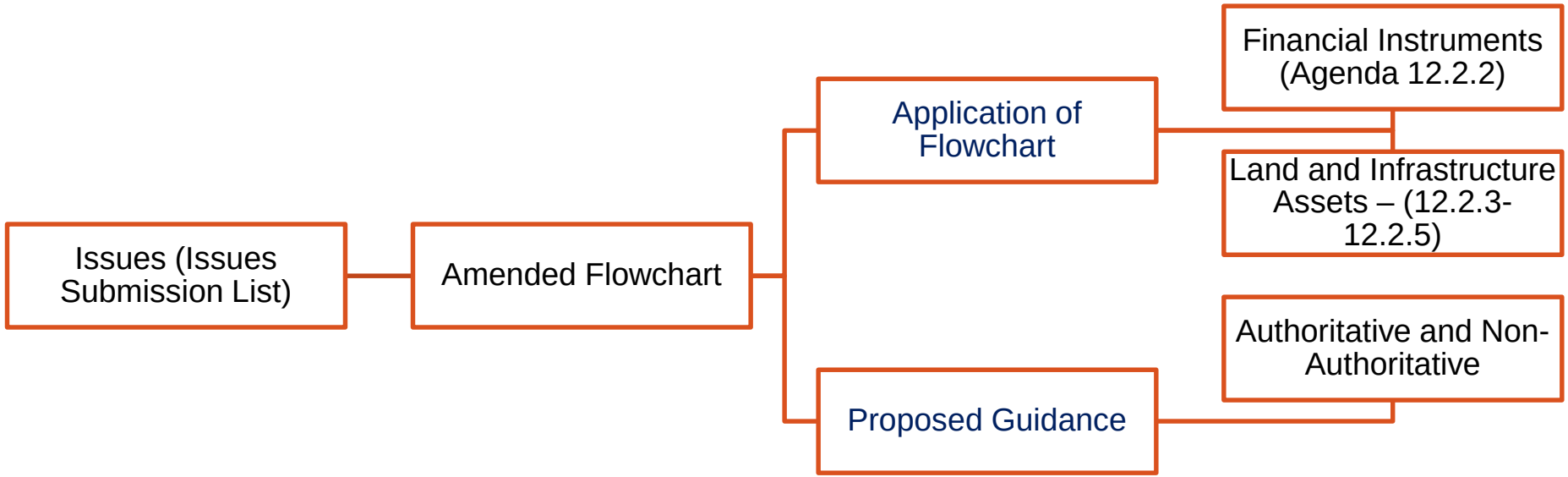
Project management: Stocktake

- Road Map – progress to date and future meeting plans
- Board Decisions – previous decisions taken and key future issues
- Board Instructions – satisfied with actions taken?
- Other Issues?

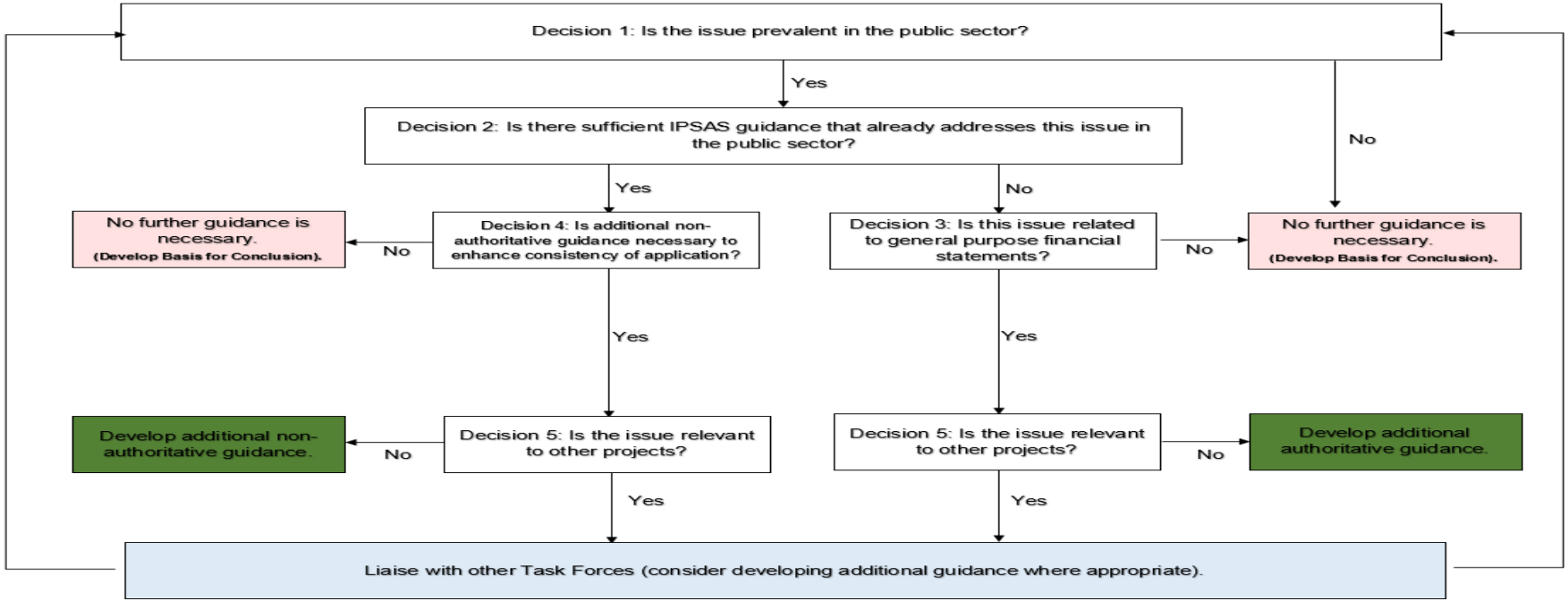
Session Outline (1/1)

Topic	Agenda Item
Overview of Presentation	12.2.1
Flowchart to analyze Financial Instruments issues	12.2.2
Separating Land under or over Infrastructure Assets	12.2.3
Control of Land under or over Infrastructure Assets	12.2.4
Valuing Land under or over Infrastructure Assets	12.2.5

Overview of Presentation (Agenda Item 12.2.1) (1/2)



Overview - Amended Flowchart (Agenda Item 12.2.1) (2/2)



Flowchart to Analyze Financial Instruments Issues (Agenda Item 12.2.2) (1/1)

Flowchart	Analysis of Financial Instruments Issues				
	Fair Value Measurement	Concessionary Loans	Unquoted Equity Instruments	Sovereign Debt Restructurings	Statutory Rec/ Payables
Decision 1	Yes	Yes	Yes	Yes	Yes
Decision 2	No	No	Yes	Yes	Yes
Decision 3	Yes	Yes	Not Applicable	Not Applicable	Not Applicable
Decision 4	Not Applicable	Not Applicable	Yes	Yes	No (Out of Scope)
Decision 5	Yes	Yes	Yes	Yes	Yes
Recommendation	Authoritative	Authoritative	Non-Authoritative	Non-Authoritative	Basis for Conclusions
IPSAS 41 Decision	Authoritative	Authoritative	Non-Authoritative	Non-Authoritative	Basis for Conclusions

Separating Land under or over Infrastructure Assets (Agenda Item 12.2.3) (1/5)

Insufficient guidance for separating land and infrastructure assets

Flowchart		Task Force Analysis
Decision 1	Is the issue prevalent in the public sector?	Yes
Decision 2	Is there sufficient IPSAS guidance?	Yes (IPSAS 17.21 and 74)
Decision 3	Is issue related to financial statements?	Not Applicable
Decision 4	Is non-authoritative guidance necessary?	Yes (Clarify principles)
Decision 5	Is the issue relevant to other projects?	No
Flowchart recommendation		Non-Authoritative Guidance

Separating Land under or over Infrastructure Assets (Agenda Item 12.2.3) (2/5)

Proposed Implementation Guidance (New text is underlined)

Infrastructure Assets

Is land accounted separately from infrastructure assets?

IG5. Yes. Similar to buildings, infrastructure assets are property, plant, and equipment. Therefore, land should be separated from infrastructure assets in accordance with IPSAS 17, paragraph 74.

IG6. This is because the future economic benefits, or service potential embodied in the land, differs from those included in infrastructure assets.

Separating Land under or over Infrastructure Assets (Agenda Item 12.2.3) (3/5)

Proposed Basis for Conclusions (New text is underlined)

Infrastructure Assets
Introduction

BC15. Stakeholders identified issues regarding accounting for infrastructure assets. The IPSASB obtained an understanding of the issues identified by stakeholders for accounting for infrastructure assets.

Separating Land under or over Infrastructure Assets (Agenda Item 12.2.3) (4/5)

Proposed Basis for Conclusions Continued (New text is underlined)

Separating land under or over infrastructure assets

BC16. The IPSASB acknowledged that the current principle in IPSAS 17 on accounting for land and buildings may be inconsistently applied when accounting for land under or over infrastructure assets even though IPSAS 17 is clear that buildings and infrastructure assets are property, plant, and equipment. Stakeholders questioned whether land under or over infrastructure assets should be treated as a single asset.

BC17. The IPSASB acknowledged that there are instances where it may not be straightforward to separate land under or over infrastructure assets. For example, land under or over infrastructure assets that are specialized in nature may be difficult to separate because the values are not easily determined.

BC18. The IPSASB clarified that land under or over infrastructure assets are separable assets and should be accounted for separately.

Separating Land under Infrastructure Assets (Agenda Item 12.2.3) (5/5)

Does the IPSASB agree with:

a) *The recommendation to develop additional non-authoritative guidance?*

b) *The additional guidance recommended by staff?*

Control of Land under or over Infrastructure Assets (Agenda Item 12.2.4) (1/5)

Insufficient guidance for separating land and infrastructure assets

Flowchart		Task Force Analysis
Decision 1	Is the issue prevalent in the public sector?	Yes
Decision 2	Is there sufficient IPSAS guidance?	No
Decision 3	Is issue related to financial statements?	Yes
Decision 4	Is non-authoritative guidance necessary?	Not Applicable
Decision 5	Is the issue relevant to other projects?	Yes (Heritage & Measurement)
Flowchart recommendation		Authoritative Guidance

Control of Land under or over Infrastructure Assets (Agenda Item 12.2.4) (2/5)

Proposed Application Guidance (New text is underlined)

Definition

Control

AG1. Control of an asset is the ability to direct the use of and obtain substantially all of the remaining economic benefits or service potential from the asset.

AG2. Control includes the ability to prevent other entities from directing the use of and obtaining the economic benefits or service potential from the asset.

Recognition (see paragraphs 14 - 25)

AG3. Control needs to be achieved prior to property, plant, and equipment being recognized.

AG4. Control of an asset refers to the ability of the entity to use the resource (or direct other parties on its use) to derive the service potential or economic benefits embodied in the resource in the achievement of its service delivery or other objectives.

Control of Land under or over Infrastructure Assets (Agenda Item 12.2.4) (3/5)

Proposed Implementation Guidance (New text is underlined)

How is control determined when land under or over infrastructure assets are controlled and operated by different parties?

IG7. The *Conceptual Framework for General Purpose Financial Reporting by Public Sector Entities* (the Conceptual Framework) defines an asset as a resource presently controlled by the entity as a result of a past event.

IG8. An entity should consider the substance rather than the legal form of the arrangement when deciding the party that controls the land under or over infrastructure assets. An entity controls the (asset) when the following indicators of control exist:

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

Control of Land under or over Infrastructure Assets (Agenda Item 12.2.4) (4/5)

Proposed Basis for Conclusions (New text is underlined)

Infrastructure Assets

Control of land under or over infrastructure assets

BC19. The IPSASB acknowledged that the current principle in IPSAS 17 on determining control for property, plant, and equipment may be inconsistently applied when land under or over infrastructure assets are operated by different parties.

BC20. The IPSASB agreed to add application guidance (paragraphs XX-XX) and implementation guidance (paragraphs XX-XX) to clarify how control should be assessed.

Control of Land under Infrastructure Assets (Agenda Item 12.2.4) (5/5)

Does the IPSASB agree with:

a) *The recommendation to develop additional authoritative and non-authoritative guidance?*

b) *The additional guidance recommended by staff?*

Valuing Land under or over Infrastructure Assets (Agenda Item 12.2.5) (1/5)

Insufficient guidance for separating land and infrastructure assets

Flowchart		Task Force Analysis
Decision 1	Is the issue prevalent in the public sector?	Yes
Decision 2	Is there sufficient IPSAS guidance?	No
Decision 3	Is issue related to financial statements?	Yes
Decision 4	Is non-authoritative guidance necessary?	Not Applicable
Decision 5	Is the issue relevant to other projects?	Yes (Heritage & Measurement)
Flowchart recommendation		Authoritative Guidance

Valuing Land under or over Infrastructure Assets (Agenda Item 12.2.5) (2/5)

Proposed Application Guidance (New text is underlined)

Measurement (see paragraphs 14 - 25)

AG5. The value of an infrastructure asset may increase as a result of construction or development of the infrastructure asset.

AG6. An increase in the value of the infrastructure assets does not affect the value of the land it stands on.

Valuing Land under or over Infrastructure Assets (Agenda Item 12.2.5) (3/5)

Proposed Implementation Guidance (New text is underlined)

Does the increase in the value of the infrastructure assets affect the value of the land that the infrastructure stands on?

IG9. No. IPSAS 17, paragraph 74 states that 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.

How is land under or over infrastructure assets valued or measured?

IG10. Some public sector entities use proxies such as adjacent values as an approximation of fair value to value the land that is under or over infrastructure assets. These adjacent values are usually adjusted to factor the cost of conversion of adjacent land.

IG11. Another proxy that may be used to value land under or over infrastructure assets are entry prices. The adjacent value would often represent the starting value, and there could be other costs that reflect the construction or development costs (such as formation costs).

Valuing Land under or over Infrastructure Assets (Agenda Item 12.2.5) (4/5)

Proposed Basis for Conclusions (New text is underlined)

Infrastructure Assets

Valuing land under or over infrastructure assets

BC21. The IPSASB acknowledged that the current principle in IPSAS 17 on valuing land under infrastructure assets may be inconsistently applied.

BC22. The IPSASB agreed to add application guidance (paragraphs XX-XX) and implementation guidance (paragraphs XX-XX) to clarify how to value land under or over infrastructure assets is valued.

Valuing Land under Infrastructure Assets (Agenda Item 12.2.5) (5/5)

Does the IPSASB agree with:

a) *The recommendation to develop additional authoritative and non-authoritative guidance?*

b) *The additional guidance recommended by staff?*



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