IPSASB International Public Sector Accounting Standards Board®

529 Fifth Avenue, New York, NY 10017
T + 1 (212) 286-9344 F +1 (212) 286-9570
www.ipsasb.org

Meeting:	International Public Sector Accounting Standards Board	**Agenda Item 12**	For: ☐ Approval ☒ Discussion ☒ Information
Meeting Location:	Abu Dhabi, United Arab Emirates		
Meeting Date:	December 10–13, 2019		

INFRASTRUCTURE ASSETS

Project summary	The project objective is to research and identify issues stakeholders have when applying IPSAS 17, *Property, Plant, and Equipment* 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	12.1.1
	Instructions up to Previous Meeting	12.1.2
	Decisions up to Previous Meeting	12.1.3
Decisions required at this meeting	Agenda Papers Overview	12.2.1
	Applying the 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
Other supporting items	IPSASB approved Infrastructure Assets Issues list	12.3

Prepared by: Amon Dhliwayo (November 2019)

Agenda Item 12.1.1

INFRASTRUCTURE ASSETS: PROJECT ROADMAP

Meeting	**Completed Actions or Discussions / Planned Actions or Discussions:**
September 2019	1. Discuss issues. 2. Develop Exposure Draft (ED).
December 2019	1. Discuss issues. 2. Develop ED.
March 2020	1. Discuss issues. 2. Develop ED.
June 2020	1. Approval of ED.
H1 2021	1. Review of responses to ED. 2. Discuss issues.
H2 2021	1. Approve revisions to IPSAS 17 (or new IPSAS).

INSTRUCTIONS UP TO PREVIOUS MEETING

Meeting	Instruction	Actioned
September 2019	Amend the Flowchart as follows: • Change the question in Decision 3 from *"Does the issue impair the ability of financial statements to provide useful information?"* to *"Is this issue related to general purpose financial statements?"*; • Change the question in Decision 4 from *"Would additional non-authoritative guidance help constituents with the identified issue?"* to *"Is additional non-authoritative guidance necessary to enhance consistency of application?"*; • Incorporate the development of the Basis for Conclusions in "No further guidance necessary" boxes; • Add Decision 5 which evaluates whether the issue identified is relevant to other projects; and • Specify the type of guidance to be developed as either authoritative or non-authoritative.	Appendix 12.2.2B and Appendix 12.2.2C.
September 2019	Reperform the analysis of the issue of accounting for land under or over infrastructure assets using the amended Flowchart (this comprise of separating, control and valuing land under or over infrastructure assets).	Agenda Item 12.2.3; Agenda Item 12.2.4 and Agenda Item 12.2.5.
September 2019	Reperform the analysis of the following issues presented using the amended Flowchart: • Application of control requirements to complex infrastructure assets; and • Disclosure requirements of infrastructure assets.	To be discussed in the future.
September 2019	Where appropriate, prepare draft guidance for the issues analyzed for the IPSASB's consideration at the December 2019 meeting.	Appendix 12.2.3B; Appendix 12.2.4B; and , Appendix 12.2.5B.
September 2019	Consider the optimal location of additional guidance in its development. These discussions should be coordinated with the Measurement and Heritage projects and the revision/re-presentation of Study 14 material.	To be discussed in the future. (Preliminary discussions are in Appendix 12.2.2A).

Meeting	Instruction	Actioned
June 2019	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.	See June 2019 Infrastructure Assets Agenda Papers
June 2019	Develop a proposed plan for addressing the issues in accordance with the project roadmap.	See June 2019 Infrastructure Assets Agenda Papers
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
September 2019	The IPSASB decided to approve the comprehensive list and categorization of the issues identified by stakeholders for accounting for infrastructure assets.	To be finalized in March 2020 as BC paragraphs have not yet been prepared.
September 2019	The IPSASB decided to approve the Flowchart approach because it is helpful to analyze infrastructure assets issues, but that the Flowchart should be amended to reflect IPSASB input.	To be finalized in March 2020 as BC paragraphs have not yet been prepared.
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 March 2020 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

Agenda Papers Overview

Purpose

1. To provide an overview of the agenda papers in this session.

Background

2. At the September 2019 meeting, the IPSASB instructed the Infrastructure Assets Task Force (Task Force) to amend the Flowchart and develop guidance to address the infrastructure assets issues identified by stakeholders.

3. The Task Force has applied the Flowchart to analyze the separation, control and valuation of land under or over infrastructure assets. The analysis of control and disclosure of complex infrastructure assets will be discussed at the March 2020 IPSASB meeting.

4. Therefore, the purpose of the agenda papers is to show the application of the Flowchart by analyzing financial instruments and infrastructure assets issues.

Detail – Agenda Papers

5. Staff prepared the following agenda papers for the IPSASB's consideration.

Agenda Item 12.2.2*: Applying the Flowchart to Financial Instruments issues*

> This paper applies the amended Flowchart to issues addressed when developing IPSAS 41, *Financial Instruments* guidance. This is for informational purposes to help illustrate the application of the Flowchart to previous IPSASB decisions.

Agenda Item 12.2.3*: Separating land under or over infrastructure assets*

> The Flowchart approach is used in this paper to demonstrate whether additional guidance is necessary to address the issue raised by stakeholders when separating land under or over infrastructure assets.

Agenda Item 12.2.4*: Control of land under or over infrastructure assets*

> The Flowchart approach is used in this paper to demonstrate whether additional guidance is necessary to address the issue raised by stakeholders of control of land under or over infrastructure assets.

Agenda Item 12.2.5*: Valuing land under or over infrastructure assets*

> The Flowchart approach is used in this paper to demonstrate whether additional guidance is necessary to address the issue raised by stakeholders of valuing land under or over infrastructure assets.

Decisions required

6. No decision required. For information purposes.

Applying the Flowchart to Analyze Financial Instruments Issues

Purpose

1. To apply the Flowchart to issues addressed when developing IPSAS 41, *Financial Instruments* guidance.

Background

2. In September 2019, the IPSASB amended the Flowchart and instructed staff to apply the Flowchart to analyze infrastructure assets issues.

3. Before analyzing the infrastructure assets issues, staff applied the Flowchart to illustrate its use for a previous project.

Detail

4. At its June 2018 meeting, the IPSASB approved IPSAS 41, *Financial Instruments*. This standard included different types of guidance[1]. Staff selected one example for each type of guidance to illustrate the Flowchart.

Financial Instruments issue	Guidance	Type	IPSASB's rationale/criteria for guidance developed
Fair Value Measurement Considerations	Authoritative	Core text	Fair Value Measurement required in IPSAS 41. No principles existed in the Standard or elsewhere in IPSAS.
Concessionary Loans	Authoritative	Application Guidance	Principles exist in the core text. Concessionary Loans guidance needed to clarify principles.
Measurement of Unquoted Equity Instruments	Non-Authoritative	Illustrative Examples/ Implementation Guidance	Principles exist in the core text and application guidance. Examples required to illustrate the principles Unquoted Equity Instruments as they are common in the public sector
Sovereign Debt Restructurings	Non-Authoritative	Staff Q & A	Principles exist in core and application guidance. Published as its Topical.
Statutory receivables and payables	Non-Authoritative	Basis for Conclusions	Out of scope of IPSAS 41 because the instruments are non-contractual.

5. Staff applied the Flowchart to analyze financial instruments issues. The results of the analysis are consistent with the guidance developed in IPSAS 41. Refer to Appendix 12.2.2B and Appendix 12.2.2C in Agenda Item 12.2.2 for the Flowchart explanation and diagram.

[1] The guidance available in the IPSAS literature is explained further in Appendix 12.2.2A. in Agenda Item 12.2.2.

Flowchart	Staff Analysis of Financial Instruments issues				
	Fair Value Measurement Considerations	**Concessionary Loans**	**Measurement of Unquoted Equity Instruments**	**Sovereign Debt Restructurings.**	**Statutory receivables and payables**
Decision 1: Is the issue prevalent in the public sector?	Yes	Yes	Yes	Yes	Yes
Decision 2: Is there sufficient IPSAS guidance that already addresses this issue in the public sector?	No (No fair value guidance)	No (More principles needed)	Yes (Principles exist)	Yes (Principles exist)	Yes (Principles exist)
Decision 3: Is this issue related to general purpose financial statements?	Yes	Yes	Not Applicable	Not Applicable	Not Applicable
Decision 4: Is additional non-authoritative guidance necessary to enhance consistency of application?	Not Applicable	Not Applicable	Yes	Yes	No (Out of IPSAS 41 scope)
Decision 5: Is the issue relevant to other projects?	Yes (Measurement)	Yes (Measurement)	Yes (Measurement)	Yes (Measurement)	Yes (Revenue)
Flowchart recommendation	**Develop authoritative guidance**	**Develop authoritative guidance**	**Develop non-authoritative guidance**	**Develop non-authoritative guidance**	**Basis for Conclusions**
IPSASB decision when developing IPSAS 41	**Develop authoritative guidance**	**Develop authoritative guidance**	**Develop non-authoritative guidance**	**Develop non-authoritative guidance**	**Basis for Conclusions**

Decisions required

6. No decision required. To illustrate the application of the Flowchart to financial instruments issues.

Appendix 12.2.2A: IPSAS Guidance

Purpose

1. To summarize the guidance available in the IPSAS literature.

Background

2. At its September 2019 meeting, the IPSASB directed the Infrastructure Assets Task Force (Task Force) to prepare draft guidance for infrastructure assets issues analyzed and consider the optimal location of the additional guidance.

Detail

3. IPSAS guidance comprise of authoritative and non-authoritative sections.

IPSAS Authoritative Sections

4. The authoritative section of IPSAS includes:

   (a) Core text which prescribe the minimum requirements and principles for dealing with transactions in the Objective, Scope, Definition, Recognition, Measurement, Derecognition, Presentation, Disclosure and Effective Date paragraphs; and

   (b) Application Guidance which elaborates existing literature or principles and describes the application of the core text.

5. Core text and application guidance have equal authority and are integral to the Standard. Core text is in the main body of the Standard whilst application guidance is in the appendices of the Standard.

IPSAS Non-Authoritative Sections

6. Non-Authoritative Guidance includes Basis for Conclusions, Implementation Guidance (IGs) and Illustrative Examples (IEs) which do not form part of the Standard and are in the appendices.

7. The Basis for Conclusions summarizes decisions and considerations made by the IPSASB in reaching conclusions. It includes the IPSASB's rationale for accepting and rejecting certain views.

8. Implementation Guidance and Illustrative Examples illustrates certain principles of the Standard.

Decision required

9. No decision required. For information purposes only.

Appendix 12.2.2B: Flowchart to Analyze Infrastructure Assets Issues

Purpose

1. To illustrate the amendments to the Flowchart.

Background

2. In July and August 2019, the Infrastructure Assets Task Force (Task Force) developed a Flowchart which was tabled for the IPSASB's consideration at the September 2019 meeting. The IPSASB agreed that the Flowchart approach is helpful to analyze the infrastructure assets issues.

Issue

3. The IPSASB identified the main challenge of using the Flowchart to analyze infrastructure assets issues is that additional guidance is only recommended if specific IPSAS guidance is not available to address an infrastructure assets issue. This criterion could be incorrect because there are instances where IPSAS guidance exists but is inconsistently applied in the public sector.

Amended Flowchart

4. To address the issue noted in paragraph 3, the Task Force amended the Flowchart as follows.

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

   This criterion was not amended because it is consistent with the approach used by the IPSASB when considering potential new projects.

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

   This criterion was amended to consider if IPSAS guidance (authoritative and non-authoritative) is sufficient to address the issue. The former criterion evaluated whether specific IPSAS guidance is available to address an issue. IPSAS guidance is sufficient to address the issue if it exists; directly addresses the issue that is prevalent in the public sector; and is consistently applied in practice. This criterion requires significant professional judgment.

   (c) Decision 3: Is this issue related to general purpose financial statements?

   The former criterion evaluated whether the issue impairs the ability of financial statements to provide useful information. The criterion was amended to evaluate whether the identified issue is related to general purpose financial statements. This criterion only considers issues related to financial reporting.

   (d) Decision 4: Is additional non-authoritative guidance necessary to enhance consistency of application?

   The former criterion evaluated whether additional non-authoritative guidance could help constituents with the identified issue. The criterion was updated to evaluate whether additional non-authoritative guidance could be necessary to enhance consistency of application. This criterion also requires significant professional judgment. Additional non-authoritative guidance

is necessary if it elaborates/illustrates the application of a principle in order to enhance the consistency of application and if the issue identified is unique in the public sector. For example, additional non-authoritative guidance may be necessary if the infrastructure assets issue identified also exists in the private sector and if interpretation issues have been raised by the IFRS Standards adopters.

(e) Decision 5: Is the issue relevant to other projects?

This criterion was added to the Flowchart and requires consideration whether infrastructure assets issues identified are unique or relevant to other projects.

- If the issue is relevant to other projects – liaise with other Task Forces (consider developing additional guidance or summarizing in the Basis for Conclusions if additional guidance is unnecessary where appropriate).
- If the issue is not relevant to other projects – develop additional authoritative or non-authoritative guidance where appropriate.

5. The Flowchart was also amended to indicate:

(a) The decision to not develop additional guidance should be summarized in the Basis for Conclusions. This communication informs stakeholders of the IPSASB's rationale to not develop additional guidance to address an infrastructure asset issue; and

(b) Whether additional guidance that will be developed is authoritative or non-authoritative.

6. The Task Force tested the Flowchart to:

(a) Analyze the following infrastructure assets issues:

(i) Separating land under or over infrastructure assets (see Agenda Item 12.2.3);

(ii) Control of land under or over infrastructure assets (see Agenda Item 12.2.4); and

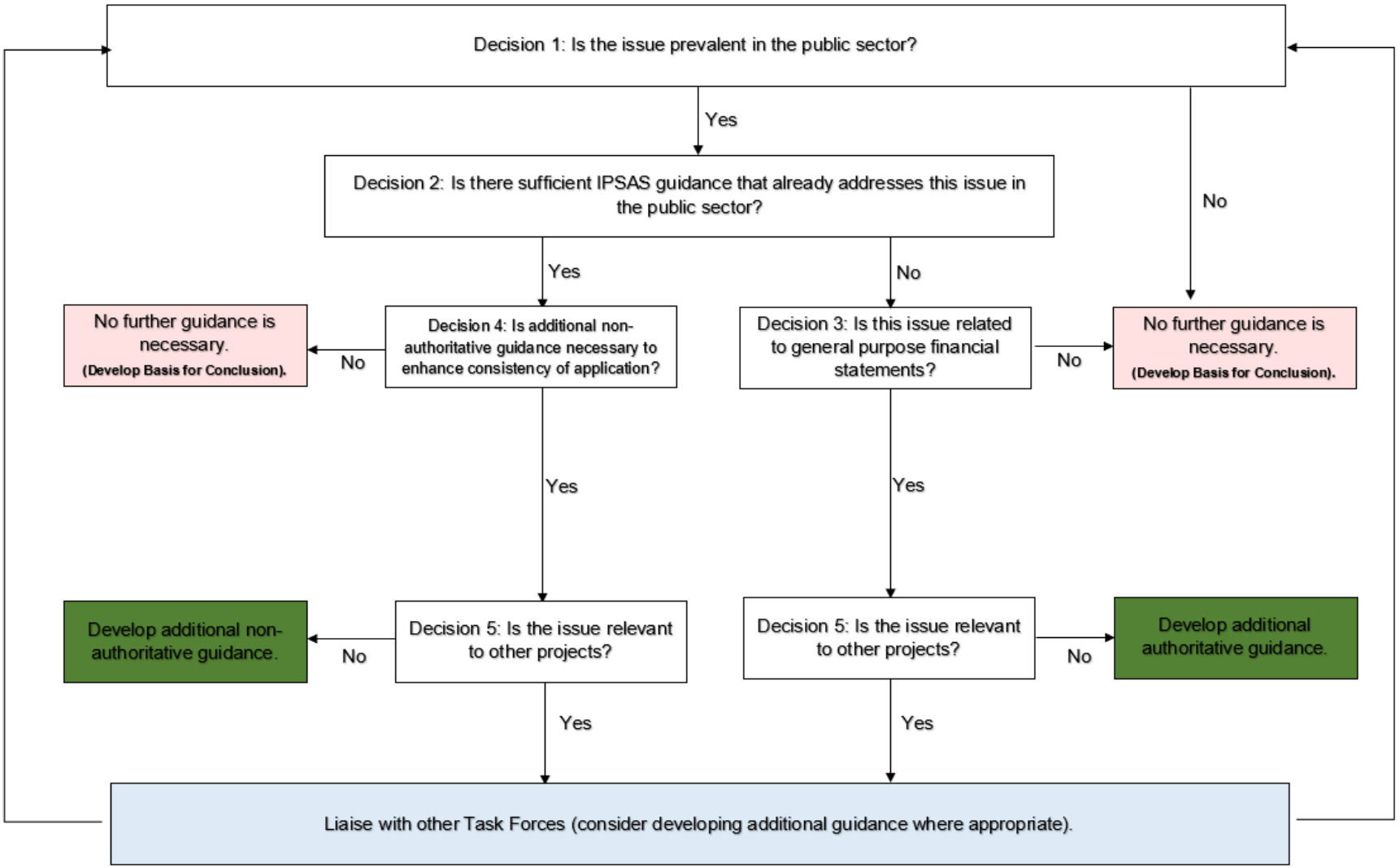
(iii) Valuing land under or over infrastructure assets (see Agenda Item 12.2.5).

7. The Flowchart diagram is in Appendix 12.2.2C in Agenda Item 12.2.2.

Decisions required

8. No decision required. To illustrate the amendments to the Flowchart.

Appendix 12.2.2C: Flowchart



Agenda Item 12.2.3

Separating Land under or over Infrastructure Assets

Question

1. Whether the IPSASB agrees existing guidance on separating land under or over infrastructure assets is insufficient.

Issue – (Issue #1(c))

2. IPSAS 17, *Property, Plant, and Equipment* indicates land and buildings are separate assets. Stakeholders questioned whether land and infrastructure assets should be treated as a single asset.

Task Force Analysis – Applying the Flowchart (Decision 1 - Decision 5)

3. The Task Force applied the Flowchart to analyze the infrastructure assets issue identified. The analysis is summarized in the table below. The detailed analysis is in 12.2.3A.

Flowchart	Task Force Analysis
Decision 1: Is the issue prevalent in the public sector?	Yes
Decision 2: Is there sufficient IPSAS guidance that already addresses this issue in the public sector?	Yes (IPSAS 17, par 21 and 74)
Decision 3: Is this issue related to general purpose financial statements?	Not Applicable
Decision 4: Is additional non-authoritative guidance necessary to enhance consistency of application?	Yes (Clarify principles)
Decision 5: Is the issue relevant to other projects?	No
Flowchart recommendation	**Develop non-authoritative guidance**

4. The Flowchart proposes developing non-authoritative implementation guidance to address the issue raised by stakeholders on separating land and infrastructure assets. This decision to develop guidance will be summarized in the Basis for Conclusions.

5. The table below shows current and proposed IPSAS guidance. Detailed guidance is in 12.2.3B.

IPSAS Guidance	Core Text	Application Guidance	Implementation Guidance	Illustrative Examples	Basis for Conclusions
Current	✓	X	X	X	X
Proposed	✓	X	12.2.3B	X	12.2.3B

Decisions required

6. Does the IPSASB agree with the:

   (a) Flowchart recommendation to develop additional non-authoritative guidance; and

   (b) Proposed guidance in 12.2.3B?

Appendix 12.2.3A: Detailed Analysis - Separating Land under or over Infrastructure Assets

Question

1. Whether the IPSASB agrees existing guidance on separating land under or over infrastructure assets is insufficient.

Issue – (Issue #1(c))

2. Stakeholders noted that IPSAS 17, *Property, Plant, and Equipment* provides insufficient guidance on whether land under or over infrastructure assets should be separately accounted from infrastructure assets.

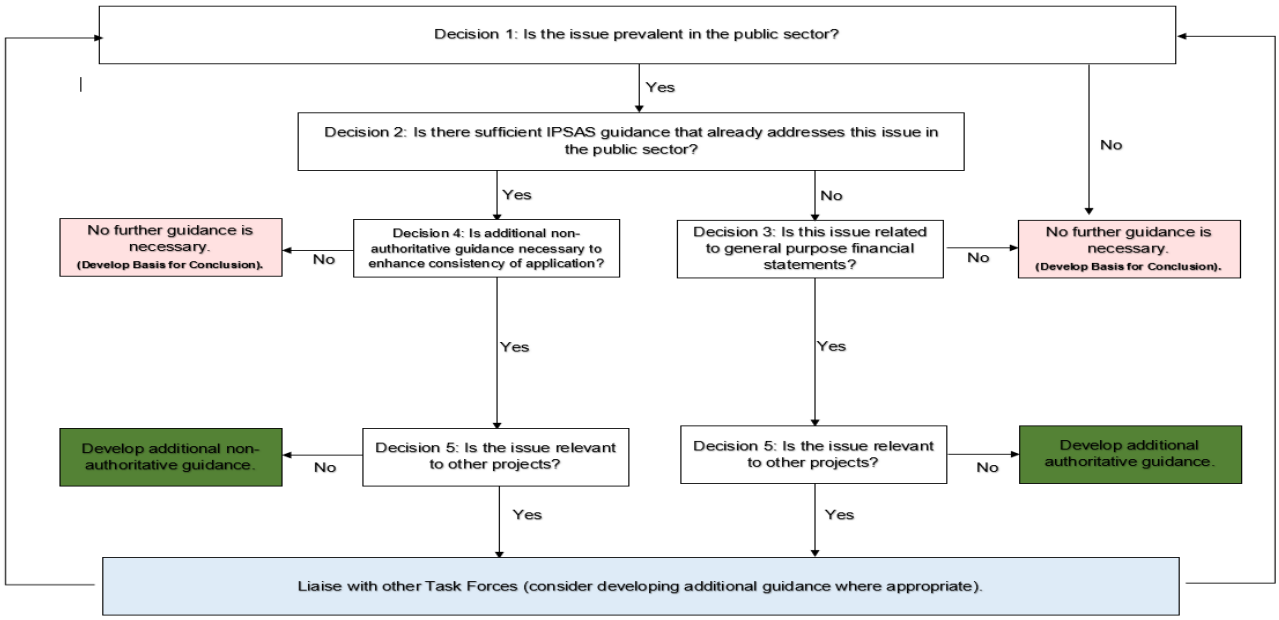
3. Even though IPSAS 17 indicates that land and buildings are separate assets and are accounted for separately, some stakeholders are of the view that land used for infrastructure assets should be included as a single asset or component of the infrastructure asset?

4. In August 2019, the Task Force approved the Flowchart and analyzed the accounting for land under or over infrastructure assets. The Task Force recommended that no further guidance is necessary because existing IPSAS guidance on accounting for land under or over infrastructure assets is sufficient for constituents to resolve the issue raised by stakeholders.

5. In September 2019, the IPSASB amended the Flowchart and instructed the Task Force to reperform the analysis for accounting for land under or over infrastructure assets using the amended Flowchart.

Task Force Analysis – Applying the Flowchart (Decision 1 - Decision 5)

6. The Task Force applied the Flowchart to analyze the infrastructure assets issues identified.



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

Yes

The issue of separately accounting for land under or over 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. This issue is prevalent in the public sector and stakeholders have questioned whether land and infrastructure assets should be treated separately or as a single asset.

Decision 2: Is there sufficient 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 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).* IPSAS 17 is explicit that infrastructure assets meet the definition of property, plant, and equipment.

Therefore, on balance, current IPSAS guidance is sufficient to address the issue of separately accounting for land under or over infrastructure assets because:

- Explicit guidance exists in paragraphs 21 and 74 that directly addresses the issue that is prevalent in the public sector; and
- Guidance is consistently applied in practice as it is unambiguous that land should be separated from the property, plant, and equipment the land supports.

Decision 3: Is this issue related to general purpose financial statements?

Not applicable

Decision 4: Is additional non-authoritative guidance necessary to enhance consistency of application?

Yes

It can be argued that no additional guidance is necessary to address the issue for separately accounting for land and buildings because IPSAS 17 is explicit that land and buildings are separable assets and should be accounted for separately.

Furthermore, the issue is not unique to the public sector because 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 land from that of the infrastructure assets.

However, on balance, additional non-authoritative guidance may be necessary to enhance and clarify existing principles of separately accounting for land under or over infrastructure assets because:

- IPSAS 17 only provides guidance on separating land and general property, plant, and equipment and does not provide specific guidance for separating land under or over infrastructure assets which are prevalent in the public sector;
- Current principles may be applied inconsistently because it may not be straightforward to separate land under or over infrastructure assets (for example road networks and pipelines);
- It may be challenging to separate the values of land under or over infrastructure assets due to the complex valuation requirements for infrastructure assets (refer to the valuation analysis in Agenda Item 12.2.5, 12.2.5A and 12.2.5B);
- It may be challenging to determine the entity that controls land under or over infrastructure assets if owned and operated at different levels of government (refer to the control analysis in Agenda Item 12.2.4, 12.2.4A and 12.2.4B).

The Task Force proposes developing the following additional non-authoritative guidance to clarify or illustrate the existing principles in IPSAS 17:

- Guidance that illustrates the accounting for land under or over infrastructure assets (land under road networks and land over pipelines). The example must also highlight a scenario when 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 (refer to 12.2.3B); and;
- An example that illustrates the valuation of land under or over infrastructure assets (refer to the valuation analysis of land under of over infrastructure assets in Agenda Item 12.2.5, 12.2.5A and 12.2.5B); and
- An example that illustrates the recognition of land under or over infrastructure assets that are controlled at different levels of government in the public sector (refer to the control analysis in Agenda Item 12.2.4, 12.2.4A and 12.2.4B).

Decision 5: Is the issue relevant to other projects?

No

The infrastructure assets issue of separating land under or over infrastructure assets is unique to the Infrastructure Assets project and not relevant to other projects.

Task Force Recommendation

7. The Task Force recommends additional guidance be developed for separating land under or over infrastructure assets. 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

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

Appendix 12.2.3B: Additional Guidance - Separating Land under or over Infrastructure Assets

Proposed guidance

1. The proposed IPSAS guidance available to address the issue of separating land under or over infrastructure assets is in the table below[2].

Proposed Guidance (New text is underlined)				
Core Text	**Application Guidance**	**Implementation Guidance**	**Illustrative Examples**	**Basis for Conclusions**
IPSAS 17.21 explains infrastructure assets meet the definition of property, plant, and equipment and should be accounted for in accordance with this Standard (IPSAS 17). IPSAS 17.74, 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.	**None**	*This guidance accompanies, but is not part of, IPSAS 17* **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 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.	**None**	*This Basis for Conclusions accompanies, but is not part of, IPSAS 17* **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.

[2] The proposed IPSAS guidance are staff's initial thoughts and are subject to discussions with the Infrastructure Assets Task Forces.

Proposed Guidance (New text is underlined)				
Core Text	**Application Guidance**	**Implementation Guidance**	**Illustrative Examples**	**Basis for Conclusions**
IPSAS 17.21 explains infrastructure assets meet the definition of property, plant, and equipment and should be accounted for in accordance with this Standard (IPSAS 17). IPSAS 17.74, 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.	**None**	**None**	**None**	*This Basis for Conclusions accompanies, but is not part of, IPSAS 17* **Accounting or 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.

Decisions required

Does the IPSASB agree with the additional guidance recommended by staff?

Control of Land under or over Infrastructure Assets

Question

1. Whether the IPSASB agrees guidance on control of land and infrastructure assets is insufficient.

Issue – (Issue #2(a))

2. Stakeholders noted the guidance determining the party that controls land under or over infrastructure assets is insufficient. Land and infrastructure assets are controlled and operated by different parties.

Task Force Analysis – Applying the Flowchart (Decision 1 - Decision 5)

3. The Task Force applied the Flowchart to analyze the infrastructure assets issue identified. The analysis is summarized in the table below. The detailed analysis is in 12.2.4A.

Flowchart	Task Force Analysis
Decision 1: Is the issue prevalent in the public sector?	Yes
Decision 2: Is there sufficient IPSAS guidance that already addresses this issue in the public sector?	No
Decision 3: Is this issue related to general purpose financial statements?	Yes
Decision 4: Is additional non-authoritative guidance necessary to enhance consistency of application?	Not Applicable
Decision 5: Is the issue relevant to other projects?	Yes (Heritage and Measurement)
Flowchart recommendation	**Develop authoritative guidance**

4. The Flowchart proposes authoritative application and non-authoritative implementation guidance. The decision to develop guidance will be summarized in the Basis for Conclusions.

5. The table below shows current and proposed IPSAS guidance. Detailed guidance is in 12.2.4B.

IPSAS Guidance	Core Text	Application Guidance	Implementation Guidance	Illustrative Examples	Basis for Conclusions
Current	✓	X	X	X	X
Proposed	✓	12.2.4B	12.2.4B	X	12.2.4B

Decisions required

6. Does the IPSASB agree with the:

   (a) Flowchart recommendation to develop authoritative and non-authoritative guidance; and

   (b) Proposed guidance in 12.2.4B?

Appendix 12.2.4A: Detailed Analysis - Control requirements for Land under or over Infrastructure Assets

Question

1. Whether the IPSASB agrees existing guidance on the control requirements for land under or over infrastructure assets is insufficient.

Issue (Issue #2(a))

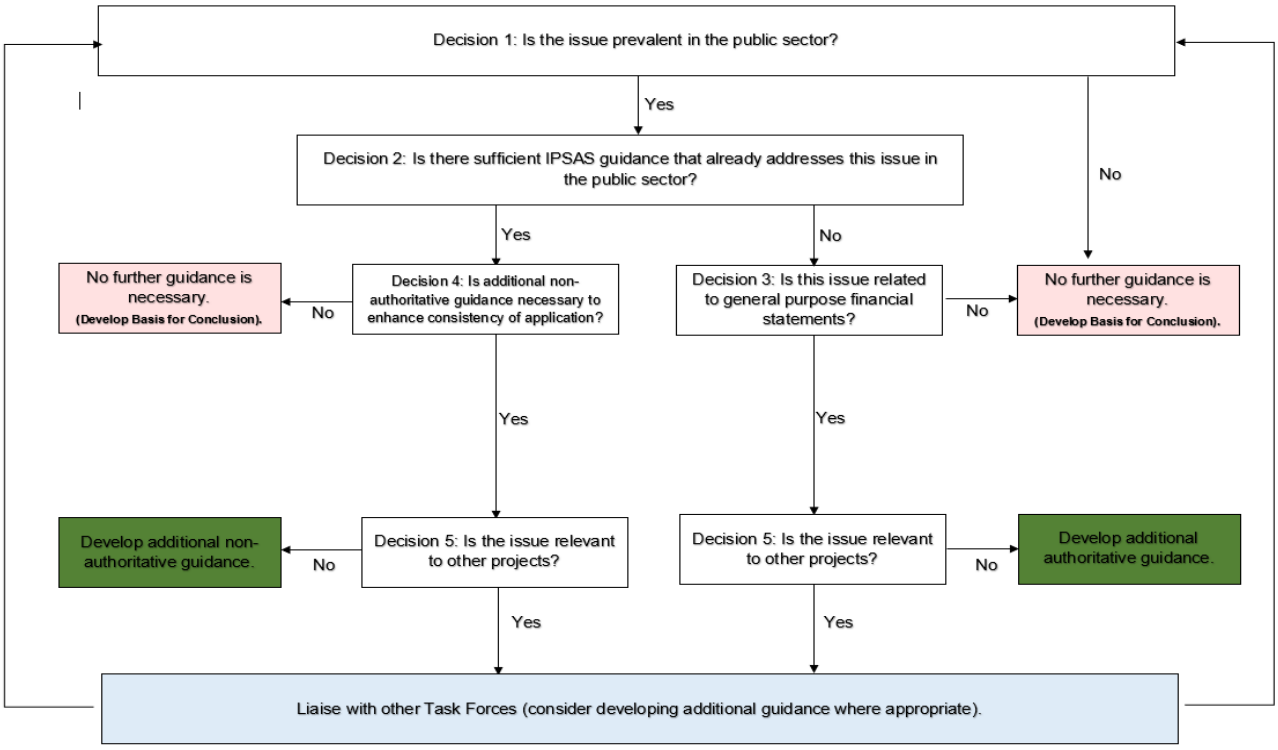
2. Stakeholders noted the control requirements for land under or over infrastructure assets are challenging because land and infrastructure assets acquired together by one entity may be managed or operated by different parties as there are separable assets.

3. In August 2019, the Task Force approved the Flowchart and analyzed the control requirements for land under or over infrastructure assets. The Task Force recommended that no further guidance is necessary for control of land under or over infrastructure assets.

4. In September 2019, the IPSASB amended the Flowchart and instructed the Task Force to reperform the analysis for control of land under or over infrastructure assets using the amended Flowchart.

Task Force Analysis – Applying the Flowchart (Decision 1 - Decision 5)

5. The Task Force applied the Flowchart to analyze the infrastructure assets issues identified.



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

Yes

The issue of determining control of land under or over infrastructure assets are widespread for public sector entities because public sector entities may acquire land and infrastructure assets together which may be managed or operated by other public sector or private sector entities.

Decision 2: Is there sufficient 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 benefits 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 land and infrastructure assets acquired together by one entity and managed or operated by different parties as there are separable assets.

IPSAS 17, paragraph 74 is explicit *land and buildings are accounted for separately, even when they are acquired together*. However, there is insufficient guidance for accounting for land under or over infrastructure assets that is controlled by different parties at different levels of government. The current principles may also be applied inconsistently because it may not be straightforward to determine the entity that controls land under or over infrastructure assets if owned and operated at different levels of government.

Decision 3: Is this issue related to general purpose financial statements?

Yes

The lack of explicit guidance related to issue 2 may impair the ability of financial statements to provide useful information for accountability and decision making because there is no control guidance for land and infrastructure assets acquired by one entity and managed by different parties.

The Flowchart proposes:

- Developing authoritative guidance to provide the principles to address the control of land under or over infrastructure assets; and
- Developing non-authoritative guidance in the form of 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.

It is important to develop non-authoritative guidance to illustrate or augment the application of the principles that will be developed in the authoritative guidance to address the issue of land under or over infrastructure assets.

Decision 4: Is additional non-authoritative guidance necessary to enhance consistency of application?

Not Applicable

Decision 5: Is the issue relevant to other projects?

Yes The infrastructure assets issue of control requirements of land under or over infrastructure assets operated by different parties is not unique to the Infrastructure Assets project because applying the control criterion of paragraph 5.12 of the Conceptual Framework will also be relevant for the Heritage project. Therefore, an alignment in developing the authoritative guidance and respective examples (non-authoritative guidance) for control of Infrastructure and Heritage assets would be necessary.

Task Force Recommendation

6. The Task Force recommends additional control guidance be developed for control of land under or over infrastructure assets. Staff/Task Force will also liaise with the Measurement and Heritage projects to address the issue of control of land under or over infrastructure assets. 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

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

Appendix 12.2.4B: Additional Guidance – Control of Land under or over Infrastructure Assets

Proposed guidance

1. The proposed IPSAS guidance available to address the issue of control of land under or over infrastructure assets is in the table below[3].

Proposed Guidance (New text is underlined)				
Core Text	**Application Guidance**	**Implementation Guidance**	**IEs**	**Basis for Conclusions**
Recognition IPSAS 17.14 The cost of an item of property, plant, and equipment shall be recognized as an asset if, and only if: (a) It is probable that future economic benefits or service potential associated with the item will flow to the entity; and (b) The cost or fair value of the item can be measured reliably.	*This Appendix is an integral part of IPSAS 17* **Definitions (see paragraph 13)** **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.	*This guidance accompanies, but is not part of, IPSAS 17* **Infrastructure Assets** **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.	**None**	*This Basis for Conclusions accompanies, but is not part of, IPSAS 17* **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.

[3] The proposed IPSAS guidance are staff's initial thoughts and are subject to discussions with the Infrastructure Assets, Heritage and Measurement Task Forces.

Proposed Guidance (New text is underlined)				
Core Text	**Application Guidance**	**Implementation Guidance**	**IEs**	**Basis for Conclusions**
None	*This Appendix is an integral part of IPSAS 17 (Continued)* **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. …	*This guidance accompanies, but is not part of, IPSAS 17 (Continued)* 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. …	**None**	*This Basis for Conclusions accompanies, but is not part of, IPSAS 17 (Continued)* BC20. The IPSASB agreed to add application guidance (paragraphs XX-XX) and implementation guidance (paragraphs XX-XX) to clarify how control should be assessed. …

Decisions required

2. Does the IPSASB agree with the additional guidance recommended by staff.

Agenda Item 12.2.5

Valuing Land under or over Infrastructure Assets

Question

1. Whether the IPSASB agrees guidance on valuing for land and infrastructure assets is insufficient.

Issue – (Issue #3(b))

2. Stakeholders questioned whether the current guidance for valuing land and buildings in IPSAS 17, *Property, Plant, and Equipment* is also applicable to land under or over infrastructure assets.

Task Force Analysis – Applying the Flowchart (Decision 1 - Decision 5)

3. The Task Force applied the Flowchart to analyze the infrastructure assets issue identified. The analysis is summarized in the table below. The detailed analysis is in 12.2.5A.

Flowchart	Task Force Analysis
Decision 1: Is the issue prevalent in the public sector?	Yes
Decision 2: Is there sufficient IPSAS guidance that already addresses this issue in the public sector?	No
Decision 3: Is this issue related to general purpose financial statements?	Yes
Decision 4: Is additional non-authoritative guidance necessary to enhance consistency of application?	Not Applicable
Decision 5: Is the issue relevant to other projects?	Yes (Heritage and Measurement)
Flowchart recommendation	**Develop authoritative guidance**

4. The Flowchart proposes developing authoritative application and non-authoritative implementation guidance. The decision to develop this guidance will be summarized in the Basis for Conclusions. The table below shows current and proposed guidance. Detailed guidance is in 12.2.5B.

IPSAS Guidance	Core Text	Application Guidance	Implementation Guidance	Illustrative Examples	Basis for Conclusions
Current	✓	X	X	X	X
Proposed	✓	12.2.5B	12.2.5B	X	12.2.5B

Decisions required

5. Does the IPSASB agree with the:

   (a) Flowchart recommendation to develop additional authoritative and non-authoritative guidance; and

   (b) Proposed guidance in 12.2.5B?

Detailed Analysis - Valuing Land under or over Infrastructure Assets

Question

1. Whether the IPSASB agrees existing guidance on valuing land under or over infrastructure assets is insufficient.

Issue – (Issue #3(b))

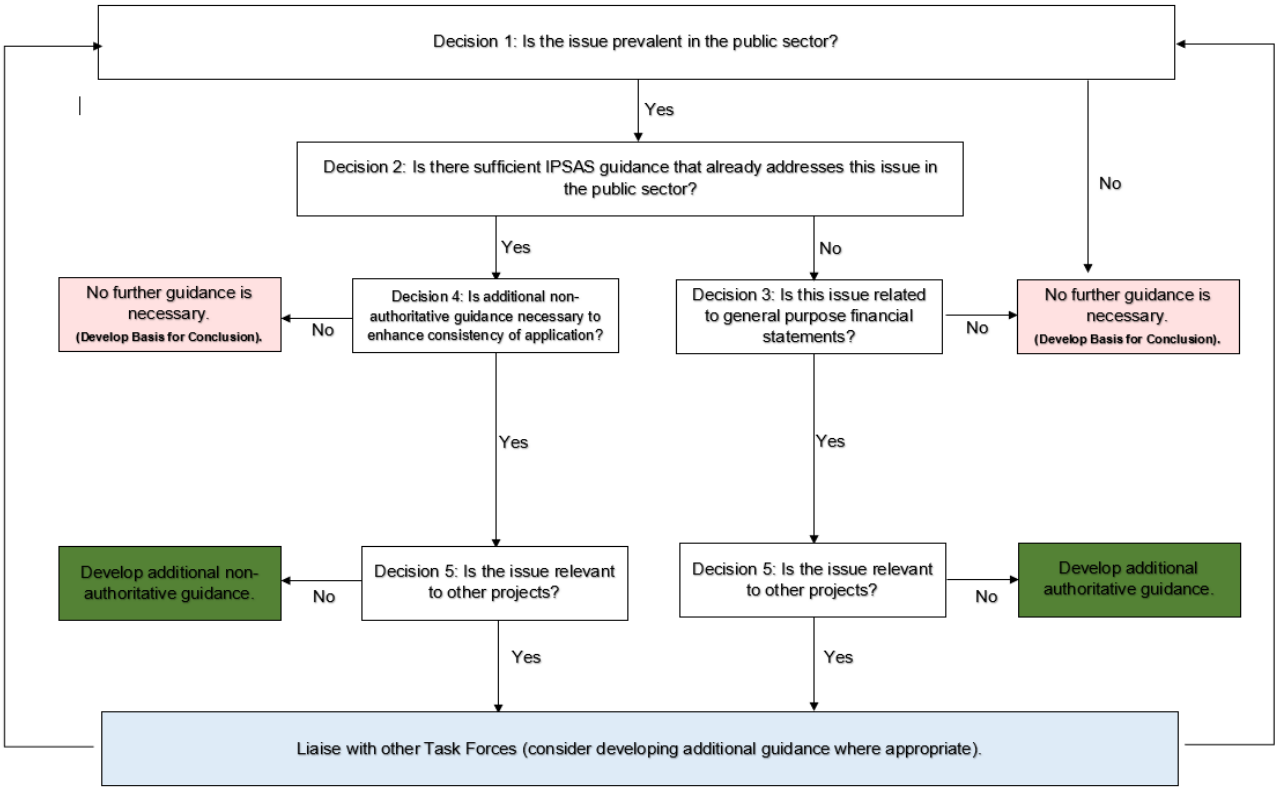
2. Stakeholders noted that IPSAS provides insufficient guidance on whether land under or over infrastructure assets should be separately valued from infrastructure assets due to the complex valuation requirements for infrastructure assets.

3. In August 2019, the Task Force approved the Flowchart and analyzed the valuation of land under or over infrastructure assets. The Task Force recommended that no further guidance is necessary because existing IPSAS guidance on valuation of land under or over infrastructure assets is sufficient for constituents to resolve the issue raised by stakeholders.

4. In September 2019, the IPSASB amended the Flowchart and instructed the Task Force to reperform the analysis for valuation of land under or over infrastructure assets using the amended Flowchart.

Task Force Analysis – Applying the Flowchart (Decision 1 - Decision 5)

5. The Task Force applied the Flowchart to analyze the infrastructure assets issues identified.



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

Yes

The issue of separately valuing land under or over infrastructure assets, is widespread for public sector entities. Public sector entities own numerous lands and infrastructure assets that cannot be valued easily because there are minimal records of the historical cost information or there is no active market to determine the value of infrastructure assets. As a result, public sector entities need to determine whether the values of land under or over infrastructure assets should be aggregated or valued separately.

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

No

Whilst paragraph 74 of IPSAS 17, *Property, Plant, and Equipment* is explicit that land and property, plant, and equipment are separable assets that should be accounted for separately, even when are acquired together, there is no sufficient guidance that land and property, plant, and equipment should be separately valued.

The current guidance in 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 may be applied inconsistently in the public sector when determining whether the values of land under or over infrastructure assets should be aggregated or separated*.

It can be argued that guidance for separately valuing land under or over infrastructure assets in paragraph 74 of IPSAS 17 may be difficult to apply or may be applied inconsistently in practice.

Decision 3: Is this issue related to general purpose financial statements?

Yes

The lack of explicit guidance on separately valuing land under or over infrastructure assets may impair the ability of financial statements to provide useful information for accountability and decision making.

The guidance for separately valuing land under or over infrastructure assets in paragraph 74 of IPSAS 17 may be difficult to apply or may be applied inconsistently. This issue seems to be more prevalent in the public sector than in the private sector.

The Flowchart proposes:

- Developing additional authoritative guidance that clarifies the existing principles in IPSAS 17 on separately valuing land under or over infrastructure assets; and
- Developing non-authoritative guidance in the form of examples to illustrate the application of the principles of separately valuing land under or over infrastructure assets.

Staff/Task Force will liaise with the Measurement and Heritage projects because valuation of land under or over infrastructure assets is also relevant to those projects.

Decision 4: Is additional non-authoritative guidance necessary to enhance consistency of application?

Not applicable

Decision 5: Is the issue relevant to other projects?

Yes The infrastructure assets issue for separately valuing land under or over infrastructure assets is relevant to other projects. Staff/Task Force will liaise with the Measurement and Heritage projects because the valuation of land under or over infrastructure assets is relevant to other projects.

Task Force Recommendation

6. The Task Force recommends developing additional guidance that clarifies the existing principles on valuing land under or over infrastructure assets. Staff/Task Force will liaise with the Measurement and Heritage projects with respect to the valuation requirements of land under or over infrastructure assets.

Decisions required

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

Appendix 12.2.5B: Additional Guidance – Valuing Land under or over Infrastructure Assets

Proposed guidance

1. The proposed IPSAS guidance available to address the issue of valuing land under or over infrastructure assets is in the table below[4].

Proposed Guidance (New text is underlined)				
Core Text	**Application Guidance**	**Implementation Guidance**	**Illustrative Examples**	**Basis for Conclusions**
Measurement IPSAS 17.74, 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.	*This Appendix is an integral part of IPSAS 17* **Measurement (see paragraphs 42 - 81)** AG8. The value of an infrastructure asset may increase as a result of construction or development of the infrastructure asset. AG9. An increase in the value of the infrastructure assets does not affect the value of the land it stands on. …	*This guidance accompanies, but is not part of, IPSAS 17* **Infrastructure Assets** **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.	**None**	*This Basis for Conclusions accompanies, but is not part of, IPSAS 17* **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. …

[4] The proposed IPSAS guidance are staff's initial thoughts and are subject to discussions with the Infrastructure Assets, Heritage and Measurement Task Forces.

Proposed Guidance (New text is underlined)				
Core Text	**Application Guidance**	**Implementation Guidance**	**Illustrative Examples**	**Basis for Conclusions**
Refer Above	*This Appendix is an integral part of IPSAS 17 (Continued).*	*This guidance accompanies, but is not part of, IPSAS 17 (Continued).* **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. IG13. 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).	**None**	*This Basis for Conclusions accompanies, but is not part of, IPSAS 17 (Continued).* BC23. 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. …

Decisions required

2. Does the IPSASB agree with the additional guidance recommended by staff?

IPSASB approved list of issues identified accounting for Infrastructure Assets

List of Issues
Issue #1: Scope and Definition
Issue #1(a) – There is insufficient guidance of the definition of infrastructure assets. Stakeholders note that there is no generally accepted definition for infrastructure assets. A definition for infrastructure assets may need to be considered. 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.
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. Stakeholders note that the current list of characteristics and examples of infrastructure assets in IPSAS are not exhaustive and relevant because: ▪ 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. For example, the European Union (EU) has a network of satellites used to provide the EU version of GPS. When accounting for these assets, IPSAS 17, is the applicable standard. However, IPSAS 17 refers to immovable assets, and satellites move, so stakeholders see an issue with IPSAS 17. The list does not capture all the examples of infrastructure assets.
Issue #1(c) – There is insufficient guidance on accounting for land under or over infrastructure assets. IPSAS does not provide sufficient guidance whether land under or over infrastructure should be separately accounted from infrastructure assets. Stakeholders questioned whether land and infrastructure assets should be treated separately or as a single asset.
Issue #1(d) – There is insufficient guidance on whether spare parts of infrastructure assets are capital or inventory. IPSAS does not provide sufficient guidance whether spare parts of infrastructure assets are capital or inventory in nature. 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. Infrastructure assets that are inventory in nature may need to be accounted in terms of IPSAS 12, *Inventories* where there will be expensed when consumed.

Issue #2: Recognition

Issue #2(a) – Application of the control requirements to complex infrastructure assets in the public sector.

Stakeholders noted the control requirements of infrastructure assets are complex in the public sector because:

- Poor record keeping;
- Infrastructure assets that are legally owned by other entities may be managed or operated by another public sector entity (for example, a water system may have many different public sector entities and various levels of government operating different parts of the same network. Assessing control and which entity should account for the infrastructure network is a big challenge).
- Infrastructure assets may be jointly controlled by two (2) or more public sector entities.
- Land and infrastructure assets acquired together may be controlled or operated by different parties. There is risk of double recognition/counting if land and infrastructure assets are held and operated by different levels in the public sector.
- 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.

In the EU many questions related to the satellite system arise when considering the accounting treatment, such as the question of who controls the system. Is it the EU or the companies involved in operating the satellites? A further issue leading from this point is whether the transaction between the EU and companies operating the network is a service concession arrangement?

Issue #3: 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*, Public Sector Measurement* and IPSAS 17 need to be considered.

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

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

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.

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) – Valuing network assets may be complex.

It may be difficult to value network assets such as road (highway networks), water/sewer systems and railway systems which by their nature are not repeatable, not replaceable or likely to have a long if not infinite life.

For example, formation costs of highway networks are 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.
- It is not clear whether the cost model or revaluation model applicable to property, plant, and equipment also applies to infrastructure assets.
- Measuring the remaining service potential of infrastructure assets that do not directly generate revenue could be complex. There is a need to define service potential.

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.

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 depreciation methods in IPSAS 17 may not be suitable for infrastructure assets that have long useful lives and are constantly maintained and renewed because it may be difficult to reliably estimate their useful lives.

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

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 assets;
- 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 or over infrastructure assets should be depreciated.

There is insufficient guidance in IPSAS whether land under or over 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/clarification on how separate elements of infrastructure assets should be componentized may be needed.
Issue #7: Impairment
Issue #7(a) - Assessment of impairment of infrastructure assets could be complex. Specific impairment indicators of infrastructure assets could be required which may not be provided in IPSAS. Impairment of components of infrastructure assets could be complex (For example, if a portion of an infrastructure asset is impaired, should the whole infrastructure asset be impaired?).
Issue #8: Derecognition
Issue #8(a) - There is insufficient guidance on the derecognition of infrastructure assets. 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.
Issue #9: Presentation and Disclosure
Issue #9(a) - There is insufficient guidance on the disclosure of infrastructure assets. Since there is no specific standard for infrastructure asset disclosure, asset reporting of has been mainly guided by the accounting principles of IPSAS 17. As a result, stakeholders note that there is insufficient guidance on the presentation and disclosure of the physical condition, planned and deferred/backlog maintenance, long-term nature and valuation of infrastructure assets.