

Meeting: International Public Sector Accounting
Standards Board

Meeting Location: Virtual Meeting

Meeting Date: September 14–18 and 22, 2020

Agenda Item 9

For:

- ☐ Approval
☒ Discussion
☐ Information

ED 78, IPSAS 17 UPDATE, HERITAGE AND INFRASTRUCTURE

| | | |
|--|---|-----------------------|
| Project summary | Revise IPSAS 17, <i>Property, Plant, and Equipment</i> , for decisions arising from the Heritage, Infrastructure, and Measurement Projects | |
| Task Force members* | <ul style="list-style-type: none"> Ian Carruthers, IPSASB Chair Bernhard Schatz, IPSASB Member and Heritage Task Force Chair Marc Wermuth, IPSASB Member and Infrastructure Task Force Chair David Watkins, IPSASB Technical Advisor and Measurement Task Force Chair <p><i>*Note: This is the ED 78 Task Force, which was involved in development of this agenda item. The Heritage, Infrastructure and Measurement projects have Task Forces engaged on issues specific to those topics, as needed.</i></p> | |
| Meeting objectives Project management | Topic | Agenda Item |
| | Project Roadmap | 9.1.1 |
| | Instructions up to Previous Meeting | 9.1.2 |
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| Decisions required at this meeting | Coordinators Report of Cross-Cutting Issues | 9.2.1 |
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| | Depreciation | 9.2.8 |

| | | |
|-------------------------------|---|------------------------|
| | Componentization - Identifying parts of infrastructure assets that should be separately depreciated | 9.2.9 |
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| | Impairment | |
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| | Derecognition | |
| | Derecognition | 9.2.13 |
| | Disclosure | |
| | Presentation (Display and Disclosure) Heritage and Infrastructure | 9.2.14 |
| Other supporting items | [Draft] ED 78, Property, Plant, and Equipment | 9.3.1 |

ED 78, PROPERTY, PLANT, AND EQUIPMENT: PROJECT ROADMAP

| Meeting | Completed Actions or Discussions / Planned Actions or Discussions: |
|--------------------------------|--|
| Earlier meetings (2015 - 2019) | 1. The IPSASB developed its views on Heritage, Infrastructure, and Measurement, and issued two Consultation Papers (CP, <i>Financial Reporting for Heritage in the Public Sector</i> , and CP, Measurement) |
| March 2020 | 1. Decisions and instructions on Heritage, Infrastructure, and Measurement issues 2. Instructions on revisions to IPSAS 17, <i>Property, Plant and Equipment</i> , to include in a draft ED for review in June 2020 |
| June 2020 | 1. Review draft ED 78 (IPSAS 17 Update), <i>Property, Plant, and Equipment</i> 2. Decisions and instructions on Heritage, Infrastructure and Measurement issues 3. Provide instructions on further revisions to draft ED 78 (IPSAS 17 Update), <i>Property, Plant, and Equipment</i> |
| Mid-July 2020 | 1. Review draft ED 78 (IPSAS 17 Update), <i>Property, Plant, and Equipment</i> , which reflects revisions arising from the IPSASB's June 2020 decisions and instructions |
| September 2020 | 1. Decisions and instructions on remaining Heritage, Infrastructure, and Measurement issues impacting draft ED 78 (IPSAS 17 Update), <i>Property, Plant, and Equipment</i> 2. Review and approve text for inclusion in the draft ED 78 (IPSAS 17 Update), <i>Property, Plant, and Equipment</i> |
| Mid-October 2020 | 1. Review draft ED 78 (IPSAS 17 Update), <i>Property, Plant, and Equipment</i> , which reflects revisions arising from the IPSASB's September 2020 decisions and instructions |
| December 2020 | 1. Approve ED 78 (IPSAS 17 Update), <i>Property, Plant, and Equipment</i> |

INSTRUCTIONS UP TO PREVIOUS MEETING

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

| Meeting | Instruction | Actioned |
|------------|---|--|
| | Heritage | |
| July 2020 | <ol style="list-style-type: none"> 1. Revise recommended text on depreciation as follows: <ol style="list-style-type: none"> (a) Include a rebuttable presumption that non-land property, plant, and equipment has a finite useful life, and consider revisions to paragraph 45 to address the same underlying concern; (b) Revise paragraph 48 for clarity, and to remove the impression that the extent of maintenance is the main or only factor to consider when identifying whether assets have indefinite useful lives; (c) Revise paragraph 49 for clarity; (d) Ensure that “indefinite” is used throughout document, replacing “infinite” wherever necessary; and (e) Wherever the phrase “property, plant, and equipment assets” occurs in the recommended text, replace it with “property, plant and equipment”. | See Agenda Item 9.2.8 |
| March 2020 | <ol style="list-style-type: none"> 1. The issue of holding assets for “heritage purposes” and “non-heritage purposes” should be further explored; and, heritage issues are concerned with measurement and not recognition. | In progress (e.g. in Agenda Item 9.2.8) |
| March 2020 | <ol style="list-style-type: none"> 2. Develop illustrative examples on whether heritage items are resources when: (a) not on display to the public; (b) do not contribute to entity’s objectives; and/or (c) not an asset, because not a resource from entity’s perspective. | See Agenda Item 9.2.3 |
| March 2020 | <ol style="list-style-type: none"> 3. Revise illustrative examples on control and develop further examples, including examples that address existence of restrictions and different situations related to whether the entity can dispose of the heritage item. | See Agenda Item 9.2.3 |

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| Meeting | Instruction | Actioned |
|------------|---|--|
| March 2020 | 4. Provide specific proposals on impairment guidance, including impact on IPSAS 17 and/or the Impairment IPSASs (21 and 26). | See Agenda Item 9.2.12 |
| | Infrastructure | |
| July 2020 | 1. Revise the proposed Illustrative Examples (IEs) on control of land under or over infrastructure assets as follows: (a) Delete paragraph (d) of IE2 because the draft paragraph includes the principles of access rights and leases; (b) Reconsider the title for the example before paragraph IE4 as it may not be helpful; and (c) Revise IE4 and IE5 to illustrate the scenario where an entity may demonstrate control even though it does not have legal ownership. | See [draft] ED 78 paragraphs IG1-IG4, IE1-IE5 and BC23-BC25 |
| July 2020 | 2. Include the recommended text in ED 78 (IPSAS 17 Update), <i>Property, Plant, and Equipment</i> , after making the agreed revisions. | See [draft] ED 78 paragraphs IG1-IG4, IE1-IE5 and BC23-BC25 |
| June 2020 | 3. Consider whether the characteristics included in the Standard of “networks or systems” and “long useful lives” might lead to additional presentation requirements. | In progress. See [draft] ED 78 for placeholder paragraphs AG33 and BC51 inserted |
| June 2020 | 4. Assess whether the complexities of impairment and subsequent costs also impact the “long useful lives” characteristic. Consider a need to draft non-authoritative guidance in the form of Illustrative Examples (IEs) or Implementation Guidance (IGs) to clarify the complexities of impairment and subsequent costs pertaining to the “long useful lives” characteristic. | See Agenda Item 9.2.4 and Agenda Item 9.2.12 |
| March 2020 | 5. Revise IPSAS 17 guidance on land under or over Infrastructure: (a) Since not all land has an unlimited useful life because climate change, for example, may result in land disappearing or being damaged. The | See [draft] ED 78 paragraphs AG24-AG25 and BC39 |

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| Meeting | Instruction | Actioned |
|---------------|---|--|
| | IPSASB asked for guidance to be developed based on regular impairment reviews; | |
| March 2020 | (b) Consider the disclosure requirements in IPSAS 17 and how those relate to land (should there be additional requirements for land under or over Infrastructure?); | In progress. See [draft] ED 78 for placeholder paragraphs AG34 and BC51 inserted |
| March 2020 | (c) Consider including land under or over Infrastructure as an example of a separate class of property, plant, and equipment in paragraph 52 of the core text in IPSAS 17; and | See Agenda Item 9.2.7 |
| March 2020 | (d) Consider the relationship with Leases guidance, when analyzing the issue of control of land under or over Infrastructure. | See [draft] ED 78 paragraphs IG1-IG4, IE1-IE5 and BC23-BC25 |
| March 2020 | 6. Consider the impact of the revised characteristics and examples of Infrastructure on the disclosure requirements in IPSAS 17. | In progress. See [draft] ED 78 for placeholder paragraphs AG34 and BC51 inserted |
| March 2020 | 7. The IPSASB acknowledged that renewals accounting may be appropriate in limited circumstances, for example when Infrastructure with long useful lives (and measured using a current value model) and the condition and service potential is constantly renewed through maintenance (in accordance with a detailed maintenance plan). Therefore, further consideration of the renewals accounting approach should be undertaken, including whether IPSAS 17 guidance should be modified or added. To be undertaken with input from IPSASB Chair. | See Agenda Item 9.2.10 |
| December 2019 | 8. Consider whether the guidance to separately account for land and buildings also applies to separate disclosure of land and infrastructure assets | See Agenda Item 9.2.7 |
| December 2019 | 9. Make editorial changes to the draft guidance on the separation of land under or over infrastructure assets, the control of such land and its valuation. | See Agenda Item 9.2.7 |

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| Meeting | Instruction | Actioned |
|-----------|--|---|
| | Measurement (Specific to ED 78) | |
| July 2020 | <p>1. <u>Terminology – throughout (for example, paragraph 5)</u></p> <p>Review the measurement terminology throughout ED (IPSAS 17 Update), <i>Property, Plant, and Equipment</i> for consistency (for example, cost and historical cost, models compared to bases).</p> | <p>Consistency to be addressed in Q4</p> <p>See Agenda Item 9.2.2</p> |
| | <p>2. <u>Terminology – throughout</u></p> <p>Review the terminology when referring to property, plant, and equipment, assets, items, etc. throughout ED (IPSAS 17 Update), <i>Property, Plant, and Equipment</i> for consistency.</p> | <p>Consistency to be addressed in Q4</p> <p>See Agenda Item 9.2.2</p> |
| | <p>3. <u>Definitions – paragraph 6</u></p> <p>Add reference to measurement terminology defined in ED, <i>Measurement</i> and evaluate whether the definition of entity-specific value should include a reference to cash flows as cash flows may not exist.</p> | <p>Amended in ED 78</p> <p>See Agenda Item 9.2.2 for details</p> |
| | <p>4. <u>Spare Parts – paragraph 8</u></p> <p>Evaluate relocating spare parts guidance to AGs as it expands on the existing principle.</p> | <p>Amended in ED 78</p> <p>See Agenda Item 9.2.2 for details</p> |
| | <p>5. <u>“As an asset” – paragraphs 7, 12, 23, 24, AG7 and AG9</u></p> <p>Remove reference to “as an asset” throughout the ED, (IPSAS 17 Update), <i>Property, Plant, and Equipment</i>.</p> | <p>Amended in ED 78</p> <p>See Agenda Item 9.2.2 for details</p> |
| | <p>6. <u>Initial Recognition – paragraphs 12 and 13</u></p> <p>Combine paragraphs 12 and 13 using wording like “Initial measurement of an asset acquired for no cost is at fair value at the date of acquisition”.</p> | <p>Amended in ED 78</p> <p>See Agenda Item 9.2.2 for details</p> |
| | <p>7. <u>Drafting group – paragraphs 12-13 and 18-22, 24 and 29</u></p> | <p>Amended in [draft] ED 78</p> |

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| Meeting | Instruction | Actioned |
|---------|--|--|
| | <p>Work with members who expressed views on the above paragraphs during the meeting to consider:</p> <ul style="list-style-type: none"> ○ Clarifying guidance on non-exchange; ○ Adding guidance on “classes of property, plant, and equipment”; and ○ Clarifying the accounting policy choice to measure property, plant, and equipment at historical cost or current value. | See Agenda Item 9.2.2 for details |
| | <p>8. <u>Elements of Cost – paragraphs 16 and 17</u></p> <p>Review structure of guidance, as the relocation of guidance to ED, <i>Measurement</i> created a gap in the guidance of ED, (IPSAS 17 Update), <i>Property, Plant, and Equipment</i>.</p> | <p>Amended in [draft] ED 78</p> <p>See Agenda Item 9.2.2 for details</p> |
| | <p>9. <u>Elements of Cost – paragraph 17)</u></p> <p>Relocate guidance to AGs.</p> | <p>Amended in [draft] ED 78</p> <p>See Agenda Item 9.2.2 for details</p> |
| | <p>10. <u>Classes of Property, Plant, and Equipment – paragraph 29</u></p> <p>Add a bullet for a heritage items class.</p> | <p>Amended in [draft] ED 78</p> <p>See Agenda Item 9.2.2 for details</p> |
| | <p>11. <u>Derecognition – paragraph 54</u></p> <p>Add reference to ED XX, <i>Non-Current Assets Held for Sale and Discontinued Operations</i>.</p> | <p>Amended in ED 78</p> <p>See Agenda Item 9.2.2 for details</p> |
| | <p>12. <u>Depreciation – paragraph AG26</u></p> <p>Relocate to core text.</p> | See Agenda Item 9.2.2 |
| | <p>13. <u>Basis for Conclusion – paragraphs BC6 and BC7</u></p> <p>Update paragraphs BC6 and BC7 for redundant wording.</p> | <p>Amended in ED 78</p> <p>See Agenda Item 9.2.2 for details</p> |

DECISIONS UP TO PREVIOUS MEETING

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

| Meeting | Decision | BC Reference (ED 78) |
|-----------|--|---------------------------------------|
| | Heritage | |
| July 2020 | 1. The terminology of “finite” and “indefinite” useful lives should be used in ED 78 (IPSAS 17 Update) | See Agenda Item 9.2.8 |
| July 2020 | 2. A rebuttable presumption that non-land property, plant, and equipment has a finite useful life should be included in ED 78 (IPSAS 17 Update) | See Agenda Item 9.2.8 |
| June 2020 | 1. Revise IPSAS 17 to remove its heritage assets scope exclusion and related paragraphs, including deletion of paragraphs 10 and 11. | BC3 and BC8 |
| June 2020 | 2. IPSAS 17’s paragraph 5 should be (a) revised (for consistency and alphabetical order), and (b) moved to application guidance. | BC9 |
| June 2020 | 3. Remove the staff proposed term, “controlled by” from the definition of property, plant, and equipment in the core text of the Standard. | BC13-BC23 |
| June 2020 | 4. Supported that the control guidance added in the Application Guidance and Basis for Conclusions subject to Staff making the changes requested/instructed by the IPSASB. | BC13-BC23 |

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| Meeting | Decision | BC Reference (ED 78) |
|----------------|--|--|
| March 2020 | <ol style="list-style-type: none"> Heritage items that satisfy the definition of PP&E should be recognized as assets when they meet the IPSAS 17 recognition criteria. June 2019's previously tentative decisions are confirmed. IPSAS 17's depreciation requirements apply to heritage assets, although in certain circumstances due to the nature of a heritage asset or the preservation approach adopted, depreciation could be zero. If this approach was adopted, it would need to be subject to regular impairment reviews. Heritage assets can be impaired and should be subject to normal impairment reviews. | BC3 [See June 2019 row.] BC23 - BC24 BC29 |
| December 2019 | No decisions | Not applicable. |
| September 2019 | No decisions | Not applicable. |
| June 2019 | Tentative (then confirmed in March 2020): <ol style="list-style-type: none"> No separate heritage standard. No definition of heritage assets. Operational/non-operational approach not to be taken forward, but "heritage purposes" and "non-heritage purposes" approach should be further explored. Heritage issues are concerned with measurement and not recognition. | BC3(d) BC13 BC16-BC17 BC2 |
| March 2019 | <ol style="list-style-type: none"> Focus on information in the financial statements; recognition and measurement specific to heritage assets. | BC31-32 |
| | Infrastructure | |
| July 2020 | <ol style="list-style-type: none"> Additional control guidance for land under or over infrastructure assets is necessary because infrastructure assets are "networks or systems" composed of different assets and components. This drives the accounting challenge of determining the reporting entity that controls the infrastructure assets, including the land that is under or over them | BC12-BC25 |
| July 2020 | <ol style="list-style-type: none"> Additional non-authoritative control guidance in the form of BCs, IGs and IEs should be developed to support the authoritative control principles drafted | BC12-BC25 |

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| Meeting | Decision | BC Reference (ED 78) |
|------------|---|--|
| July 2020 | 3. The proposed guidance on control of land under or over infrastructure assets in the IGs and IEs was appropriate | BC12-BC25 |
| July 2020 | 4. The revised core text, Application Guidance (AGs), and BCs in ED 78, (IPSAS 17 Update), <i>Property, Plant, and Equipment</i> was appropriate, subject to staff making further revisions as set out in the instructions below | No BCs. (No direct impact on ED 78 text) |
| June 2020 | 5. Characteristics of infrastructure assets that should be included in the Standard are “networks or systems” and “long useful lives” because they distinguish infrastructure assets from general property, plant, and equipment; and present complexities in the application and implementation of existing principles in IPSAS 17, <i>Property, Plant and Equipment</i> . | BC26-BC28 |
| June 2020 | 6. Infrastructure and Heritage characteristics guidance will be located in Application Guidance. | BC2 |
| March 2020 | 7. The IPSASB decided that land under or over Infrastructure is not a specific Infrastructure issue but rather a generic issue. | BC33 |
| March 2020 | 8. The IPSASB decided that the issue of control of land under or over Infrastructure is a cross-cutting issue that impacts the Heritage and Infrastructure projects, and future projects such as Natural Resources. | BC33 |
| March 2020 | 9. The IPSASB decided that infrastructure assets are property, plant, and equipment and the general principles of IPSAS 17, <i>Property, Plant, and Equipment</i> should be applied when accounting for Infrastructure. | BC26-BC28 |
| March 2020 | 10. The IPSASB decided that a separate definition for Infrastructure was not necessary. | BC26-BC28 |

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| Meeting | Decision | BC Reference (ED 78) |
|-----------------------------|--|--|
| March 2020 | 11. The IPSASB decided that it was important to develop the characteristics of Infrastructure to articulate the specific attributes that distinguish Infrastructure Assets from general property, plant, and equipment, and give rise to particular accounting issues. | BC26-BC28 |
| March 2020 | 12. The IPSASB decided that no additional guidance is necessary for treatment of Infrastructure spare parts because sufficient authoritative IPSAS 17 guidance exists and that this is not a specific Infrastructure issue but rather a generic issue. | BC31-BC32 |
| March 2020 | 13. The IPSASB decided that no additional guidance is necessary for treatment of costs to dismantle Infrastructure because sufficient authoritative IPSAS 17 guidance exists and that this is not a specific Infrastructure issue but rather a generic issue. | BC37-BC38 |
| December 2019 | 14. The IPSASB decided to approve the Amended Flowchart (subject to the change instructed above) and the analysis of the infrastructure assets issues related to the separation of land under or over infrastructure assets, the control of such land and valuation. | No BCs. (No direct impact on ED 78 text) |
| September 2019 | 15. The IPSASB decided to approve the comprehensive list and categorization of the issues identified by stakeholders for accounting for infrastructure assets. | No BCs. (No direct impact on ED 78 text) |
| September 2019 | 16. 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. | No BCs. (No direct impact on ED 78 text) |
| June 2019 | 17. The IPSASB decided to approve the revised project brief after staff had made a number of amendments identified by the IPSASB. | No BCs. (No direct impact on ED 78 text) |
| September 2015 – March 2019 | 18. No decisions were made. | No BCs. (No direct impact on ED 78 text) |

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| Meeting | Decision | BC Reference (ED 78) |
|-----------|---|--|
| June 2015 | 19. Approved the initial 'Infrastructure Assets' project brief. | No BCs. (No direct impact on ED 78 text) |
| | Measurement (Specific to ED 78) | |
| | No Decisions Specific to ED 78 | |

Coordinators Report of Cross-Cutting Issues

Purpose

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

Background

2. During the June 2020 meeting and the July 2020 IPSASB Check-In, the IPSASB:
 - (a) Reviewed drafts of ED 78;
 - (b) Took a stock-take of infrastructure and heritage issues; and
 - (c) Provided direction on how the remaining issues should be addressed by staff. Specifically, the IPSASB asked that the characteristics of infrastructure and heritage be considered when developing recommendations for the heritage and infrastructure issues.
3. For September, staff focused on developing recommendations for the outstanding heritage and infrastructure issues.

Analysis

Update to [draft] ED 78

4. ED 78 has been updated to reflect the IPSASB's July instructions and placeholders for September recommendations. These July instructions are:
 - (a) Reflected in [draft] ED 78 (see [Agenda Item 9.3.1](#));
 - (b) Summarized in [Agenda Item 9.2.2](#).

Heritage and Infrastructure Issues

5. Staff analyzed the outstanding heritage and infrastructure issues for the IPSASB's consideration (See [Appendix A](#) for issues list).
6. In developing the agenda items, staff worked closely with the cross-cutting issues task force (task force). The following process was followed when determining the most appropriate way to address the issue:
 - (a) Staff **identified and categorized** all the outstanding heritage and infrastructure issues identified by constituents/stakeholders when accounting for heritage assets and infrastructure assets;
 - (b) Staff **detailed the issue** identified by constituents, beyond the generic explanation provided. For example, constituents asked the IPSASB to consider renewals accounting. However, the challenge constituents faced in practice was whether they could apply condition-based information to estimate depreciation (see [Agenda Item 9.2.10](#) for analysis of the issue);
 - (c) The **task force reviewed** the issued listing and considered whether the issues were:
 - (i) **Generic to property, plant, and equipment.** Whether the issue identified is a generic issue that applied not only to heritage assets and infrastructure assets but also applied to general property, plant, and equipment. These issues were not analyzed further and Basis for Conclusions paragraphs were drafted to reflect IPSASB decisions;
 - (ii) **Specific to heritage and infrastructure.** Whether the issue identified is specific to heritage assets or infrastructure assets or both. These issues were analyzed and

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additional authoritative guidance in the form of core text and application guidance and non-authoritative guidance in the form of illustrative examples and implementation guidance were added where appropriate. Basis for Conclusions paragraphs were also drafted to reflect the IPSASB decisions to add guidance to address these issues; and

- (iii) **First-time adoption of IPSAS.** Whether the issue related to first-time adoptions of IPSAS. These issues were not analyzed further because guidance is already available in IPSAS 33 and Basis for Conclusions paragraphs were drafted to reflect IPSASB decisions.
- (d) Staff **incorporated the feedback** from the task force and developed issues papers for the task force to consider. All issues papers were:
 - (i) Reviewed by the task force;
 - (ii) Revised to incorporate comments from the task force; and
 - (iii) Developed into agenda items (see [Agenda Item 9.2.3](#) – [Agenda Item 9.2.14](#))

Decision Required

7. No decision required.

Appendix A – Issues List (Updated from June 2020)

| | | Issue (agreed in March 2020) | | |
|---|----------------|---|--|------------------------|
| Agenda Paper | Theme of Paper | Infrastructure | Heritage | Board agenda reference |
| Q2 – June 2020 | | | | |
| Characteristics of Infrastructure Assets | Definition | Issue 01 – Characteristics | - | 9.2.2 |
| Characteristics of Heritage Assets | | | Issue 01 – Characteristics | 9.2.3 |
| Location for Characteristics Guidance | | March 2020 Board Instruction - Provide joint paper (heritage and infrastructure) on the definition/description issue, which includes: (a) whether it should be in core text or other authoritative guidance, and (b) potential need for entities to disclose how they identify their heritage/infrastructure assets. | | 9.2.4 |
| Scope Exclusion | Scope | - | March 2020 Board Instruction – Provide recommended text for IPSASB to approve to remove IPSAS 17's heritage scope exclusion clause. | 10.2.2 |
| Cross-Cutting Issue (Control) | Recognition | - | Issue 05 – Control Criteria | 10.2.3 |
| Q3 – July 2020 | | | | |
| Land under / over infrastructure assets | | Issue 4 - Control - land under or over infrastructure assets | | 2.2.3 |
| Depreciation – Useful Lives | | Issue 17 – Depreciation | | 2.2.4 |
| Q3 – September 2020 | | | | |
| Land under / over infrastructure assets | Depreciation | Issue 02 – Separating land under / over infrastructure assets | - | 9.2.8 |
| Ownership/Stewardship/held in trust | Recognition | - | Issue 6 – Control - Ownership/stewardship/held in trust | 9.2.3 |
| Difficulty of measurement basis application | Measurement | Issue 7 - 13 – Measurement bases related issues | | 9.2.6 |
| Threshold of subsequent costs | Recognition | Issue 14 – Threshold of subsequent costs to capitalize or expense | | 9.2.5 |
| Capitalization of subsequent costs | Recognition | Issue 15 - Subsequent expenditure as capital or expense | | 9.2.4 |
| Maintenance costs | Impairment | Issue 16 - Planned/backlog/deferred maintenance costs | | 9.2.11 |

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| Agenda Paper | Theme of Paper | Issue (agreed in March 2020) | | Board agenda reference |
|------------------------------|----------------|------------------------------|---|------------------------|
| | | Infrastructure | Heritage | |
| Depreciation | Depreciation | Issue 17 – Depreciation | | 9.2.8 and 9.2.10 |
| Componentization | Depreciation | Issue 18 – Componentization | | 9.2.9 |
| Impairment | Impairment | Issue 19 – Impairment | | 9.2.12 |
| Derecognition | Derecognition | Issue 20 – Derecognition | - | 9.2.13 |
| Disclosure | Disclosure | Issue 21 – Disclosure | | 9.2.14 |
| Heritage or non-heritage use | Recognition | | Issue 22 - Heritage use/ non-heritage use | Note 1 |

Note 1 - Issue of recognition was addressed in 2019 with IPSASB decision that the heritage use/non-heritage use distinction should not drive recognition of heritage assets.

Overview of Changes to ED 78

Question

1. Does the IPSASB agree the July instructions related to updates to ED 78 are reflected in [draft] ED 78?

Recommendation

2. Staff recommend actioning the IPSASB's instructions as noted in ED 78 (see paragraph 4 and [Agenda Item 9.3.1](#)).

Background

3. During the July 2020 IPSASB Check-In, the IPSASB reviewed a draft of ED 78. The IPSASB instructed staff to update ED 78 for Board instructions.

Analysis

Overview of changes

4. Staff has actioned the relevant decision and instructions from the June meeting. The following table summarizes these changes:

| ED 78 section | ED 78 paragraph | Change | Instruction |
|--------------------|---------------------------------|---|---|
| Terminology Change | Throughout, for example para. 5 | To be addressed in Q4 – Consistency of terminology to be addressed following decisions on conceptual issues in measurement project and infrastructure/heritage project. | Review the measurement terminology throughout ED (IPSAS 17 Update), <i>Property, Plant, and Equipment</i> for consistency (for example, cost and historical cost, models compared to bases); |
| Terminology Change | Throughout | | Review the terminology when referring to property, plant, and equipment, assets, items, etc. throughout ED (IPSAS 17 Update), <i>Property, Plant, and Equipment</i> for consistency; |
| Definitions | Para. 6 | Definitions updated to reference ED 77 and IPSAS 21. | Add reference to measurement terminology defined in ED, <i>Measurement</i> and evaluate whether the definition of entity-specific value should include a reference to cash flows as cash flows may not exist; |
| Initial Costs | AG 16 | Para. 8 moved to AG16 | <i>Spare Parts – paragraph 8</i> Evaluate relocating spare parts guidance to AGs as it expands on the existing principle; |

| ED 78 section | ED 78 paragraph | Change | Instruction |
|----------------------|---|---|---|
| Throughout | Throughout – para. 7, 10, 11, 26, 27, AG7 and AG9 | Done | Remove reference to “as an asset” throughout the ED, (IPSAS 17 Update), <i>Property, Plant, and Equipment</i> ; |
| Initial Recognition | Para. 11 | Paragraphs 12 and 13 were combined | Combine paragraphs 12 and 13 using wording like “ <i>Initial measurement of an asset acquired for no cost is at fair value at the date of acquisition</i> ”; |
| Measurement | Para. 11-BC33-BC34, and 32 | Guidance clarified with support of members – See paragraph 5 below. | Work with members who expressed views on the above paragraphs during the meeting to consider: <ul style="list-style-type: none"> • Clarifying guidance on non-exchange; • Adding guidance on “classes of property, plant, and equipment”; and • Clarifying the accounting policy choice to measure property, plant, and equipment at historical cost or current value. |
| Elements of Cost | Para. 17-23 | Text added back to ED 78 – See paragraph 5 below. | Review structure of guidance, as the relocation of guidance to ED, <i>Measurement</i> created a gap in the guidance of ED, (IPSAS 17 Update), <i>Property, Plant, and Equipment</i> |
| Elements of Cost | AG 20 | Para. 16 moved to AG 20 | Relocate guidance to AGs |
| | Para. 32 | Class and example for heritage added. See para. 27n | Add a bullet for a heritage items class |
| Derecognition | Para. 57 | References to ED 79 added. See para. 48, 53, AG28 | Add reference to ED XX, <i>Non-Current Assets Held for Sale and Discontinued Operations</i> |
| Depreciation | Para. AG 6 | To be addressed in Q4 as part of overall review of ED. | Relocate to core text |
| Basis for Conclusion | Para. BC6 and BC7 | BC 7 was deleted as it repeated BC 6 | Update paragraphs BC6 and BC7 for redundant wording; |

5. Staff has made two significant changes of note:

- (a) **Accounting policy choice.** Members with views on paragraphs 18-22 in ED 78 (July Version) suggested the guidance be repurposed as a Basis for Conclusion because:

- (i) ED 78 (update to IPSAS 17) allows for an accounting policy choice to measure property, plant, and equipment using historical cost or using a current value model;
 - (ii) In June 2020, staff developed guidance to help constituents make the policy choice;
 - (iii) Several members raised concerns, both in June and July, with the guidance;
 - (iv) Staff reviewed members' suggested edits to the guidance, but understood the guidance was still a challenge;
 - (v) Staff engaged members and clarified:
 - a. The principle in the standard is the accounting policy choice;
 - b. No further principles in the core text are necessary;
 - c. If clarification is necessary it should be developed in the AGs, IGs or IEs;
 - d. The guidance staff had developed explained what the informational value of a historical cost measure was compared with a current value measure;
 - e. This is more appropriate in a Basis for Conclusion;
 - (vi) Staff agreed with this analysis and developed BC33 – BC34.
- (b) **Retention of measurement guidance.** In June 2020 generic measurement guidance in ED 78 was moved to ED, *Measurement*. This was consistent with the March 2019 decision to consolidate generic guidance in IPSAS, *Measurement*. However, in developing the historical cost appendix for ED, *Measurement*, staff focused on principles of initial and subsequent measurement for historical cost. The measurement guidance moved from ED 78 was not appropriate for inclusion. Staff recommend the guidance be retained in ED 78, which addressed the IPSASB instruction to reconsider the structure of ED 78. See Agenda Item 7.2.15 for further details.

Decision Required

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

Control Over Heritage Items (Issue 6)

Question

1. Does the IPSASB agree with the recommended guidance to support the application of ED 78's principles on control over heritage items?

Recommendation

2. The Task Force recommends the Implementation Guidance (IG) in [Appendix A](#), which has a question and answer on control over items in a heritage collection.

Background

3. **Heritage:** Responses to CP, *Heritage*, raised control issues, highlighting that the IPSASB should consider concepts involving stewardship, custodianship, ownership, and duties of care, as these relate to control. Heritage assets may be held in trust rather than owned. Responses also highlighted that (a) control could be indicated either by purchase or through long term/indefinite loans from another party, and (b) the idea that control does not exist when there are restrictions.
4. **Infrastructure:** Stakeholders' comments on infrastructure issues did not raise this issue.
5. The IPSASB has approved additional authoritative guidance on control of an asset to include in ED 78. The relevant AG paragraphs are in [Appendix B](#), and in the latest draft of ED 78 in [Agenda paper 9.3.1](#).

Analysis

6. Staff analyzed these issues in the context of the agreed characteristics of heritage and guidance in ED 78, then provided a recommendation to the Task Force. Staff noted that:
 - (a) **Control over heritage items may be difficult to determine given restrictions on their use:** Heritage items may be held by the reporting entity without ownership and/or with restrictions. A commonly occurring restriction on heritage items is that the entity's ability to use the heritage item may be restricted, because the entity holds the item for the purposes of stewardship/guardianship and the public's access and appreciation.
 - (b) **Implementation guidance for "control" in ED 78:** ED 78's coverage includes authoritative application guidance to support entities' assessments of control, including indicators of control.
7. Based on this analysis the Task Force decided that:
 - (a) No additional authoritative guidance is necessary;
 - (b) An additional non-authoritative IG is necessary—to be included in ED 78—to enhance and clarify principles for control over heritage items; and
 - (c) Guidance in the form of Illustrative Examples is not necessary because an IG would better help constituents.
8. *Basis for Conclusions* paragraphs reflect the Task Force's recommendation that non-authoritative guidance is needed.

Implementation Guidance

9. [Appendix A](#) has the proposed text for insertion into draft ED 78, (IPSAS 17 Update), as follows:

- (a) *Basis for Conclusions* – to reflect IPSASB decision to add non-authoritative guidance in the form of implementation guidance (see paragraphs BC1-BC2); and
- (b) *Implementation Guidance*– to augment the application of the authoritative principles on control over PP&E in ED 78 (see paragraphs IG1-IG5).

Decision Required

10. Does the IPSASB agree with the Task Force’s recommendation?

Appendix A – Format of Guidance

11. Consistent with the analysis in Agenda Item 9.2.3, the following table highlights the proposed text/guidance to be included in Exposure Draft (ED) 78, *Property, Plant, and Equipment*¹.

| Guidance Type | Format / [Analysis] | Guidance |
|-------------------------|-------------------------|---|
| Implementation Guidance | Question/ answer format | <p>Implementation Guidance</p> <p><u>Control over items in a heritage collection</u></p> <p><u>Does a reporting entity retain control over items in its heritage collection if it holds them in storage, instead of displaying them to the public?</u></p> <p>IG1. <u>Yes. The reporting entity still controls items in its heritage collection when it holds them in storage instead of displaying them to the public.</u></p> <p><u>Does a reporting entity have control over items in its heritage collection, when it only has the right to hold the items for a short, defined period under an agreement (or agreements) with another entity (or entities) which has (have) temporarily allowed usage by the reporting entity?</u></p> <p>IG2. <u>No. The reporting entity does not have control over these items in its heritage collection.</u></p> <p><u>Does a reporting entity have control over items in its heritage collection, when it does not have legal ownership but has the right to hold the items for an indefinite period, through an arrangement that both parties to the agreement understand to be open-ended?</u></p> <p>IG3. <u>Yes. The reporting entity has control over these items in its heritage collection.</u></p> <p>IG4. <u>Apply IPSAS 17: When assessing control an entity applies IPSAS 17's application guidance on control assessment in paragraphs AG13 – AG15. AG13 states that an entity controls the resource if it has the ability to use the resource or direct other parties on its use or prevent other parties from using the resource so as to derive service potential or economic benefits embodied in the resource in the achievement of its service delivery or other objectives. AG14 identifies the indicators of control as follows: (a) legal</u></p> |

¹ New text/guidance that is proposed is underlined and deleted text is struck through.

| Guidance Type | Format / [Analysis] | Guidance |
|-----------------------|--------------------------|--|
| | | <p><u>ownership; (b) access to the resource, or the ability to deny or restrict others to access the resource; (c) the means to ensure that the resource is used to achieve its objectives; or (d) the existence of an enforceable right to service potential or the ability to generate economic benefits arising from the resource.</u></p> <p>IG5. <u>Where an entity does not have legal ownership it may nonetheless have control because, as shown by other control indicators, the situation is such that the entity has the ability to use the resource or direct other parties on its use or prevent other parties from using the resource so as to derive service potential or economic benefits embodied in the resource in the achievement of its service delivery or other objectives. When the entity has items in its heritage collection that it can hold indefinitely through an open-ended agreement it can demonstrate control, because it has the ability to use those items so as to derive service potential or economic benefits embodied in the resource in achievement of its objectives.</u></p> |
| Basis for Conclusions | Reflect IPSASB decisions | <p>Basis for Conclusions</p> <p><u>Control over heritage items</u></p> <p>BC1. <u>The IPSASB considered the issues identified by constituents with respect to control over heritage items and decided that additional guidance should be included in ED 78, (IPSAS 17 Update). The guidance addresses how an entity's assessment of control over heritage items is affected by (a) usage of a heritage item and specifically whether an entity either has the heritage item on display or keeps the heritage item in storage and out of the public or visitors' view; and (b) the length of time for which an entity is able to hold a heritage item.</u></p> |

Decision Required

- 2 Does the IPSASB agree with the Task Force recommendation?

Appendix B

ED 78's Application Guidance on Assessments of Control

1. Paragraph 6 of ED 78 defines property, plant, and equipment to be tangible assets. AG8 to AG15 provide application guidance on asset existence, including guidance on the assessment of control in paragraphs AG13-AG15:

Control of an Asset

AG13. An entity controls the resource if it has the ability to use the resource or direct other parties on its use or prevent other parties from using the resource so as to derive service potential or economic benefits embodied in the resource in the achievement of its service delivery or other objectives.

AG14. In assessing whether it presently controls a resource, an entity assesses whether one or more of the following indicators of control exists:

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

An entity is more likely to demonstrate control if it satisfies most of these indicators.

AG15. No one indicator is more important than another indicator. Legal ownership is only one indicator of demonstrating control of a resource. An entity may demonstrate that it controls the resource even when there is no legal ownership because it has the ability to direct the use of the resource and obtain the economic benefits or service potential that may flow from it. Conversely, an entity may have legal ownership but no rights to service potential or ability to generate future economic benefits. In such circumstances an entity considers substance over form in determining whether it controls an asset.

Subsequent Expenditure as Capital or Expense (Issue 15)

Question

1. Does the IPSASB agree with the recommended guidance to support the application of ED 78's principles on whether subsequent expenditure should be capitalized or expensed?

Recommendation

2. The Task Force recommends the IG in [Appendix A](#), which consists of a question and answer on whether subsequent expenditure on an unrecognized asset should be capitalized.

Background

3. **Heritage:** Some CP, *Heritage*, respondents stated that there is a need for guidance on when subsequent expenditure [on heritage assets] should be capitalized and when expensed. Some stated that all subsequent expenditure on heritage assets should be expensed. Others stated that there is a need for guidance on subsequent expenditure for off balance sheet items when assets are fair valued, and there is a need for guidance on heritage assets that must be restored on a regular basis, which could be similar to major maintenance or periodic inspections (Issue 15).
4. **Infrastructure:** Stakeholders' comments on infrastructure issues highlighted that distinguishing repairs and maintenance expenditure (expenses) with expenses of a capital nature that enhances the infrastructure asset could be complex in practice (Issue 15).

Analysis

5. Staff analyzed these issues in the context of the agreed characteristics of heritage and infrastructure and provided a recommendation to the Cross-Cutting Task Force. Staff noted that:
 - (a) Some of the heritage-related concerns have already been addressed or resolved through removal of IPSAS 17's heritage scope exclusion, which consequentially meant application of IPSAS 17's authoritative guidance on expense/capitalization of subsequent expenditure to heritage assets. Some heritage assets are likely to be unrecognized, due to their very long lives and irreplaceability, and there is a basis for providing additional implementation guidance that explains that where subsequent expenditure on an unrecognized asset meets IPSAS 17's recognition principle it should be capitalized.
 - (b) IPSAS 17's existing guidance has been sufficient for infrastructure issues, acknowledging that many types of PP&E present challenges which may involve technical expertise relating to both financial reporting principles and the capacity, construction, and operations of complex and interconnected assets. Guidance at standards level cannot replace this type of asset-specific expertise.
6. Based on this analysis the Task Force decided that:
 - (a) No additional authoritative guidance is necessary;
 - (b) An additional non-authoritative IG is necessary—to be included in ED 78—to enhance and clarify principles for capitalization of subsequent expenditure on unrecognized assets; and
 - (c) Guidance in the form of Illustrative Examples (IEs) is not necessary because an IG would better help constituents.

Agenda Item 9.2.4

7. *Basis for Conclusions* paragraphs reflect the Task Force's recommendation that non-authoritative guidance is needed.
8. [Appendix A](#) has the proposed text for insertion into draft ED 78, (IPSAS 17 Update), as follows:
 - (a) *Basis for Conclusions* – to reflect IPSASB decision to add non-authoritative guidance in the form of implementation guidance (see paragraphs BC1-BC2); and
 - (b) *Implementation Guidance* – to augment the application of the authoritative principles on capitalization of subsequent expenditure in ED 78 (see paragraph IG1).

Decision Required

9. Does the IPSASB agree with the Task Force's recommendation?

Appendix A – Format of Guidance

- 1 Consistent with the analysis in Agenda Item 9.2.4, the following table highlights the proposed text/guidance to be included in Exposure Draft (ED) 78, *Property, Plant, and Equipment*².

| Guidance Type | Format / [Analysis] | Guidance |
|-------------------------|--------------------------|---|
| Implementation Guidance | Question/ answer format | <p>Implementation Guidance</p> <p><u>Treatment of subsequent expenditure on unrecognized assets</u></p> <p><u>(1) Should a reporting entity capitalize subsequent expenditure on an unrecognized asset when the expenditure meets IPSAS 17's recognition principle?</u></p> <p>IG1. <u>Yes. A reporting entity should capitalize subsequent expenditure that it incurs on an unrecognized asset where that expenditure meets IPSAS 17's recognition principle.</u></p> |
| Basis for Conclusions | Reflect IPSASB decisions | <p>Basis for Conclusions</p> <p><u>Treatment of subsequent expenditure on unrecognized assets</u></p> <p>BC1. <u>The IPSASB considered constituents' views on additional guidance on decisions to capitalize or expense subsequent expenditure on heritage and infrastructure assets. The IPSASB decided that existing guidance in IPSAS 17 was generally sufficient for infrastructure issues, acknowledging that many types of PP&E present challenges which may involve technical expertise relating to both financial reporting principles and the capacity, construction, and operations of complex and interconnected assets. Guidance at standards level cannot replace this type of asset-specific expertise.</u></p> <p>BC2. <u>The IPSASB noted that its decision to remove IPSAS 17's heritage scope exclusion means that IPSAS 17's authoritative guidance on the expense/capitalization decision applies to heritage assets. As a result, there is sufficient authoritative guidance to address the heritage-related concerns. However, the IPSASB decided that additional implementation guidance (see paragraphs IGX-IGX) is needed on decisions to either capitalize or expense subsequent expenditure on unrecognized PP&E. Some heritage assets are likely to be unrecognized, due to their very long lives and irreplaceability. The IPSASB decided that it is important to provide implementation guidance that explains that where</u></p> |

² New text/guidance that is proposed is underlined and deleted text is struck through.

Agenda Item 9.2.4

| Guidance Type | Format / [Analysis] | Guidance |
|---------------|------------------------|---|
| | | <u>subsequent expenditure on an unrecognized asset meets IPSAS 17's recognition principle it should be capitalized.</u> |

Decision Required

- 2 Does the IPSASB agree with the Task Force recommendation?

Threshold of Costs to Capitalize (Issues 9 and 14)

Question

1. Does the IPSASB agree with the recommended guidance to support the application of ED 78's principles on capitalization/expensing of costs?

Recommendation

2. The Task Force recommends the IG in [Appendix A](#), which consists of a question and answer on factors to consider when identifying a capitalization threshold for property, plant, and equipment.

Background

3. **Heritage:** Responses to CP, *Heritage*, did not identify this issue. However, it is a cross-cutting issue because the same concerns could arise when accounting for heritage assets.
4. **Infrastructure:** Stakeholders' comments on infrastructure issues highlighted that determining the threshold of the costs of infrastructure assets to capitalize (and if below the threshold those costs that should be expensed) could be complex. (Issues 9 and 14 on the Issues log, where Issue 9 relates to initial costs and Issue 14 to subsequent costs. The Task Force agreed that the two issues were, in substance, the same.)

Analysis

5. Staff analyzed these issues in the context of the agreed characteristics of heritage and infrastructure. Staff noted that:
 - (a) ED 78/IPSAS 17 establishes a recognition principle for capitalization/expensing of expenditure and other authoritative guidance.
 - (b) Entities' decisions on capitalization thresholds are generally considered to be a practical issue that is best addressed through entities considering their specific assets holdings and applying materiality considerations.
 - (c) There is a lack of implementation guidance on establishing capitalization thresholds, and scope for attaching such guidance to ED 78/IPSAS 17 to address stakeholder's concerns.
6. Based on this analysis the Task Force decided that:
 - (a) No additional authoritative guidance is necessary;
 - (b) An additional non-authoritative IG is necessary—to be included in ED 78—to enhance and clarify existing principles for establishing capitalization thresholds; and
 - (c) Guidance in the form of Illustrative Examples (IEs) is not necessary because an IG would better help constituents.
7. *Basis for Conclusions* paragraphs reflect the Task Force's recommendation that non-authoritative guidance is needed.

Development of implementation guidance

8. The recommended implementation guidance has been developed through reference to publicly available guidance on capitalization thresholds, focusing on guidance developed for public sector entities. Guidance terminology has been aligned with that used in IPSAS. Guidance has been edited to focus clearly on factors to consider.

Agenda Item 9.2.5

9. [Appendix A](#) has the proposed text for insertion into draft ED 78, (IPSAS 17 Update), *Property, Plant, and Equipment* as follows:
- (a) *Basis for Conclusions* – to reflect IPSASB decision to add non-authoritative guidance in the form of implementation guidance (see paragraphs BC1-BC2); and
 - (b) *Implementation Guidance* – to augment the application of the authoritative principles on recognition of costs in ED 78 (see paragraphs IG1 – IG4).

Decision Required

10. Does the IPSASB agree with the Task Force’s recommendation?

Appendix A – Format of Guidance

- 1 Consistent with the analysis in Agenda Item 9.2.5, the following table highlights the proposed text/guidance to be included in Exposure Draft (ED) 78, *Property, Plant, and Equipment*³.

| Guidance Type | Format / [Analysis] | Guidance |
|-------------------------|-------------------------|---|
| Implementation Guidance | Question/ answer format | <p>Implementation Guidance</p> <p><u>Capitalization threshold for costs</u></p> <p><u>What factors should be considered when choosing a capitalization threshold?</u></p> <p>IG1. <u>IPSAS 17's paragraph 14 establishes the recognition principle for determining whether or not costs should be recognized as an asset, i.e. "capitalized." Paragraph 14 states that the cost of an item of property, plant, and equipment shall be recognized as an asset if, and only if:</u></p> <p>(a) <u>It is probable that future economic benefits or service potential associated with the item will flow to the entity; and</u></p> <p>(b) <u>The cost or fair value of the item can be measured reliably</u></p> <p>IG2. <u>In practice, entities expense some costs that meet this recognition principle, because they fall below a "capitalization threshold." A capitalization threshold determines whether costs should be capitalized and included in the <i>Statement of Financial Position</i> or expensed. Amounts above the capitalization threshold are capitalized, while amounts below the capitalization threshold are expensed.</u></p> <p>IG3. <u>Capitalization thresholds apply the materiality principle. Not all tangible capital-type items with useful lives extending beyond a single reporting period must be capitalized. Many can be expensed without having a material impact on the information reported in the financial statements.</u></p> <p>IG4. <u>Management control over smaller capital-type items should not dictate capitalization thresholds. There are more efficient means than capitalization to maintain control over all potentially capitalizable items. Capital asset management systems that attempt to incorporate data on numerous smaller items are often costly and difficult to maintain and operate.</u></p> |

³ New text/guidance that is proposed is underlined and deleted text is struck through.

| Guidance Type | Format / [Analysis] | Guidance |
|-----------------------|--------------------------|--|
| | | <p>IG5. <u>Factors to consider when setting a capitalization threshold include:</u></p> <ul style="list-style-type: none"> (a) <u>Information needs of GPFR users:</u> Capitalization thresholds should result in reported information that <u>meets the needs of external users of the financial statements.</u> (b) <u>Capture substantially all value:</u> Capitalization thresholds should be such as to ensure that <u>substantially all capital asset value is captured, while eliminating the cost of tracking large numbers of small-value items.</u> (c) <u>Quality of reported information:</u> The capitalization threshold should result in reported amounts for <u>recognized assets that achieve the qualitative characteristics while taking into account the constraints on information, and specifically materiality and cost-benefit. Too high a capitalization threshold could reduce the value of assets recognized in the statement of financial position such that they do not present reliable and relevant information on the entity's asset holdings. The appropriate threshold expenses some items without materially impacting the reported information on assets and expenses.</u> (d) <u>Efficiency:</u> <u>Too low a capitalization threshold could create significant work for staff without any benefit in terms of accuracy of the total assets recognized in the statement of financial position and the related expenses.</u> <p>IG6. <u>An entity should consider whether different classes need different capitalization thresholds.</u></p> <p>IG7. <u>Capitalization thresholds should usually be applied to individual items rather than to groups of similar items except where the effect of this would be to eliminate a significant portion of an entity's total capital assets.</u></p> |
| Basis for Conclusions | Reflect IPSASB decisions | <p><u>Capitalization thresholds</u></p> <p>BC1. <u>The IPSASB considered the issues identified by constituents with respect to establishing capitalization thresholds for costs related to infrastructure assets.</u></p> <p>BC2. <u>The IPSASB noted that this issue is generally considered to be a practical issue that is best addressed through entities considering their specific assets holdings and applying materiality considerations. However, it concluded that there</u></p> |

| Guidance Type | Format / [Analysis] | Guidance |
|---------------|---------------------|--|
| | | <u>is scope for guidance on the factors for consideration when entities set their capitalization thresholds. This type of guidance is best provided outside of the Standard. On this basis the IPSASB decided to add Implementation Guidance after ED 78/IPSAS 17 on the factors to consider when establishing capitalization thresholds for property, plant, and equipment.</u> |

Decision Required

- 2 Does the IPSASB agree with the Task Force recommendation?

Measurement: Heritage Assets and Replaceability (Issue 12)

Question

1. Does the IPSASB agree with the Task Force's recommendations?

Recommendation

2. The Cross-Cutting Task Force recommends including the IG in [Appendix A](#), which consists of a question and answer on derivation of current cost for heritage assets for each situation:
 - (a) There are restrictions on how the entity can use the heritage asset; and
 - (b) A heritage asset is viewed as irreplaceable.

Background

3. Respondents to CP, *Heritage*, raised concerns that heritage assets (a) are difficult to value when there are restrictions on how they can be used, and (b) cannot be valued at a current value, including current replacement cost, because they are irreplaceable.

ED 78/IPSAS 17 use of current values, current cost in ED 78, and Measurement Project developments

4. IPSAS 17 requires entities initially to measure PP&E at cost. An entity shall use a current value as "deemed cost" if information about cost is either (a) not available or (b) not representationally faithful on the basis that the PP&E has been donated/received through a non-exchange transaction. For subsequent measurement IPSAS 17 allows entities to choose either:
 - (a) The historical cost model, where historical cost is the measurement basis; or
 - (b) The current value model.

Focus on current cost for heritage assets (and infrastructure assets)

5. The Measurement Project has identified four measurement bases that could potentially apply to derive current values in IPSAS. Current cost for assets reflects prices in the market in which the entity would pay to acquire an asset. This agenda item focuses on use of current cost, because:
 - (a) Heritage assets are usually held by public sector entities for their operational capacity; and
 - (b) Measurement Project developments convey that current cost applies when measuring the current value of an item held for its operational capacity (rather than financial capacity)⁴.

Cross-cutting Task Force support for use of current cost in ED 78

6. The Cross-Cutting Task Force considered whether current cost is an appropriate measurement basis for heritage and infrastructure assets, during development of ED 78 agenda items for September. Staff recommended that current cost should replace "fair value" in ED 78, on the basis that:
 - (a) This will align with the Measurement Task Force's work on when measurement bases should apply, given that property, plant, and equipment is held for its operational capacity rather than its financial capacity; and

⁴ The Measurement Project has also identified three measurement techniques: market approach, income approach, and cost approach.

- (b) Will address constituents' concerns with respect to the measurement of heritage and infrastructure assets.
7. The Cross-Cutting Task Force supported the recommendation to replace “fair value” with “current cost” in ED 78, and referred this recommendation to the Measurement Task Force for integration into its overall approach to Measurement.

Analysis

8. Staff analyzed these issues in the context of the agreed characteristics of heritage. With removal of the heritage scope exclusion clause in IPSAS 17, the authoritative guidance in that Standard will apply to heritage assets' measurement, thereby establishing authoritative guidance and addressing many of the measurement concerns raised through responses to CP, *Heritage*. However, heritage assets' characteristics of restrictions and irreplaceability indicate that additional non-authoritative guidance is needed to support the implementation of ED 78/IPSAS 17's principles to heritage assets.
9. Based on this analysis the Task Force decided that:
- (a) No additional heritage-specific authoritative guidance is necessary.
 - (b) An additional non-authoritative IG is necessary—to be included in ED 78—to enhance and clarify existing principles for measurement of heritage assets at current cost, when:
 - (i) There are restrictions on how an entity can use the asset (e.g. entity must hold and protect the asset indefinitely and cannot sell the asset); and
 - (ii) The asset is viewed as being irreplaceable, with possible implications for an entity's ability to derive a current cost for the asset.
 - (c) Guidance in the form of Illustrative Examples (IEs) is not necessary because an IG would better help constituents.
10. *Basis for Conclusions* paragraphs reflect the Task Force's recommendation that non-authoritative guidance is needed.
11. [Appendix A](#) has the proposed text for insertion into draft ED 78, (IPSAS 17 Update), as follows:
- (a) *Basis for Conclusions* – to reflect IPSASB decision to add non-authoritative guidance in the form of implementation guidance (see paragraph BC1); and
 - (b) *Implementation Guidance* – to augment the application of the authoritative principles on derivation of current cost for heritage assets in ED 78 (see paragraphs IG1 – IG4).

Decision Required

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

Appendix A – Format of Guidance

- 1 Consistent with the analysis in Agenda Item 9.2.6, the following table highlights the proposed text/guidance to be included in Exposure Draft (ED) 78, *Property, Plant, and Equipment*⁵.

| Guidance Type | Format / [Analysis] | Guidance |
|-------------------------|-------------------------|--|
| Implementation Guidance | Question/ answer format | <p>Implementation Guidance</p> <p><u>Current value measurement of heritage assets</u></p> <p><u>(1) Do restrictions on the use of heritage assets affect an entity's ability to derive its current value either (a) on initial recognition (if the asset is donated), or (b) subsequently (when the entity subsequently revalues its heritage assets)?</u></p> <p>IG1. <u>No. Restrictions on the use of heritage assets do not affect an entity's ability to derive current values for them. However, where a heritage asset has a restriction that means it cannot be sold this means that the asset contributes to the entity's operational capacity rather than financial capacity. The measurement basis should, therefore, be appropriate for showing operational capacity.</u></p> <p><u>(2) Where a heritage asset is viewed as irreplaceable does this affect an entity's ability to derive its current cost?</u></p> <p>IG2. <u>No. A view that a heritage asset is irreplaceable does not affect an entity's ability to derive a current cost. Only in rare and exceptional circumstances is an entity unable to derive a current cost for a heritage asset on the basis that it has unique qualities that cannot be replaced.</u></p> <p>IG3. <u>Most heritage assets are viewed as irreplaceable from a heritage perspective. From a financial reporting perspective, the ability to derive a current cost involves the ability to ascertain market values for equivalent assets. "Equivalent assets" do not have to be identical assets when deriving a current cost. Where a valuation involves identification of a replacement cost for a heritage asset, this should not be seen as automatically conflicting with the idea that the actual asset is, from the perspective of its heritage nature, irreplaceable.</u></p> <p>IG4. <u>A consideration of the following factors will support an entity's assessment of whether it can derive a current cost for a heritage asset:</u></p> <p>(a) <u>Replacement of service potential: A current cost is likely to be derivable, if the service potential of the</u></p> |

⁵ New text/guidance that is proposed is underlined and deleted text is struck through.

| Guidance Type | Format / [Analysis] | Guidance |
|-----------------------|--------------------------|---|
| | | <p><u>heritage asset could be replaced, if necessary, through either:</u></p> <ul style="list-style-type: none"> (i) <u>Purchasing a similar asset; or,</u> (ii) <u>Reproducing or reconstructing the asset, with reproduction applying to either the whole asset or parts of the asset on either an “as needed” basis or through application of a replacement cycle for the asset.</u> <p><u>By contrast, the heritage asset’s current cost may not be derivable if its service potential cannot be replaced through purchasing another, similar asset or through reproduction.</u></p> <p>(b) <u>Significance of the heritage asset: A current cost is likely to be derivable, if the heritage asset’s service potential mainly relates to its ability to represent an era or type, such that another heritage asset of the same era or same type could be similarly representative.</u></p> <p><u>By contrast, a heritage asset’s current cost may not be derivable if its service potential is independent of the heritage asset’s ability to represent an era or type and depends, instead, on something unique and specific to that heritage asset.</u></p> |
| Basis for Conclusions | Reflect IPSASB decisions | <p>Basis for Conclusions</p> <p><u>Current value measurement bases and techniques</u></p> <p>BC1. <u>The IPSASB considered constituents’ views on the need for guidance on application of IPSAS 17’s current value model to heritage assets. The IPSASB decided that additional implementation guidance (see paragraphs IG1-IG8) is needed on the derivation of current cost for heritage assets. Heritage assets’ irreplaceability and restrictions on their use may present challenges when deriving a current cost. The IPSASB decided that it is important to provide implementation guidance that explains that generally it should be possible to derive a current cost for heritage assets. Only in exceptional cases are entities likely to find that they hold heritage assets for which a current cost cannot be determined.</u></p> |

Separating and valuing land under or over Infrastructure Assets ([Issues 2 and 8](#))

Question

1. Does the IPSASB agree with the recommended guidance to support the application of Exposure Draft (ED) 78's principles on separating and valuing land under or over infrastructure assets?

Recommendation

2. The Task Force recommends:
 - (a) No additional authoritative guidance is necessary to address the specific issue that, IPSAS 17, *Property, Plant, and Equipment* guidance did not articulate whether land and infrastructure assets are separate assets that should be separately accounted; and
 - (b) Adding Implementation Guidance (IG) to clarify the approach to valuing land under or over infrastructure assets such as land under roads and railways.

Background

3. The Task Force considered whether IPSAS 17 guidance adequately addresses issues identified by constituents related to separately accounting and valuing land under or over infrastructure assets because constituents mentioned the existing guidance in IPSAS 17 did not:
 - (a) Articulate whether land and infrastructure assets are separate assets that should be separately accounted for; and
 - (b) Address the approach to valuing land under or over infrastructure assets such as land under roads and land under railways.

Analysis

Separately accounting for land under or over infrastructure assets

4. Infrastructure assets are characterized as “networks or systems” that comprise different assets. Separately accounting for the land that is under or over these assets that make up the infrastructure asset network or system may be challenging because the land is integral to the operation of the infrastructure asset.
5. The Task Force analyzed the issue of separately accounting for land and infrastructure assets and checked whether IPSAS 17 guidance is sufficient that land and infrastructure assets are separate assets that should be separately accounted for.
6. The Task Force recommends no additional authoritative guidance for separately accounting for land under or over infrastructure assets is necessary for inclusion in ED 78, (IPSAS 17 Update), *Property, Plant, and Equipment* because:

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- (a) Paragraph 74 of IPSAS 17⁶ is clear that, *land and buildings are separable assets that are accounted and valued separately. 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;* and
- (b) Paragraphs 52 and 88 of IPSAS 17 are clear that, *land, buildings, roads, electricity networks are examples of separate classes of property, plant, and equipment that should be separately disclosed.*

Therefore, sufficient authoritative guidance exists in the core text of IPSAS 17 that land and infrastructure assets are separate classes of property, plant, and equipment that should be separately accounted for, valued, and disclosed.

7. Basis for Conclusions paragraphs have been drafted to reflect the IPSASB decision to not add authoritative guidance (core text or application guidance) and non-authoritative guidance (illustrative examples and implementation guidance) related to accounting land from infrastructure assets separately in ED 78 (see paragraphs BC1-BC2 in [Appendix A](#)).

Valuing land under or over infrastructure assets

8. The Task Force analyzed the issue related to the approach to valuing land under or over infrastructure assets such as land under roads and railways and checked whether IPSAS 17 guidance is sufficient.
9. The Task Force noted that paragraphs 47 and 48 provide guidance on valuing specialized assets held for operational capacity. The paragraphs are clear that, *in the case of specialized buildings and other manmade structures, [current value] may be estimated using depreciated replacement cost which is established by reference to the buying price of a similar asset with similar remaining service potential in an active and liquid market. In some cases, an asset's reproduction cost will be the best indicator of its replacement cost.*
10. After analyzing the guidance, the Task Force recommends, additional non-authoritative implementation guidance be included in ED 78 to align with ED, *Measurement* requirements and clarify the valuation for land under infrastructure assets such as road and railways because:
- (a) If there is no locational requirement for the road and railways including the land underneath it, the assumption is [current value] is based on comparable land situated at an alternative site which can provide the same service potential; and
 - (b) Where a social policy decision has been made requiring the asset to be in a specific location, the assumption is [current value] is based on the existing site, rather than of comparable land. For example, if the major road runs through agricultural land, then the [current value] of the land under that section of the road will be agricultural; if the road runs through an industrial area, then the [current value] of the land under that section of the road will be industrial.
11. The additional guidance referred to in paragraph 10 should be developed as follows (see [Appendix B](#)) for insertion into draft ED 78 sections:

⁶ For simplicity, we have included the paragraph references of the current IPSAS 17, *Property, Plant, and Equipment* guidance. However, these paragraphs references will be updated as ED 78, (IPSAS 17 Update), *Property, Plant, and Equipment* is being developed.

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- (a) Basis for Conclusions – to reflect IPSASB decision to add non-authoritative guidance in the form of implementation guidance (see paragraphs BC1-BC2); and
- (b) Implementation Guidance (IG) – to augment the application of the authoritative principles on valuing land and buildings in ED 78 (see paragraphs IG1-IG3).

Decision Required

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

Appendix A – Format of Guidance – Separately accounting for land under or over infrastructure assets

- Consistent with the analysis in [Agenda Item 9.2.7](#), the following table highlights the proposed text/guidance to be included in Exposure Draft (ED) 78, *Property, Plant, and Equipment*⁷.

| Guidance Type | Format / [Analysis] | Guidance |
|-----------------------|--|--|
| Basis for Conclusions | Reflect IPSASB decisions [BCs should be developed to reflect all IPSAS decisions] | <p>Basis for Conclusions</p> <p><u>Separately accounting for land and infrastructure assets</u></p> <p>BC1. <u>The IPSASB considered the issue identified by constituents that, IPSAS 17, <i>Property, Plant, and Equipment</i> guidance did not articulate whether land and infrastructure assets are separate assets that should be separately accounted for.</u></p> <p>BC2. <u>The IPSASB decided that no additional authoritative guidance should be included in ED 78, (IPSAS 17 Update), <i>Property, Plant, and Equipment</i> because the guidance is clear that:</u></p> <p>(a) <u>Land and buildings are separable assets and are separately accounted and valued even when they are acquired together (see paragraph 48 of ED 78); and</u></p> <p>(b) <u>Land, buildings, roads and electricity transmission networks are examples of separate classes of property, plant, and equipment that should be separately disclosed (see paragraphs 32 and 62 of ED 78).</u></p> |

Decision Required

- Does the IPSASB agree with the Task Force recommendation?

⁷ New text/guidance that is proposed is underlined and deleted text is struck through.

Appendix B – Format of Guidance – Valuing for land under or over infrastructure assets

1. Consistent with the analysis in [Agenda Item 9.2.7](#), the following table highlights the proposed text/guidance to be included in Exposure Draft (ED) 78, *Property, Plant, and Equipment*.

| Guidance Type | Format / [Analysis] | Guidance |
|-------------------------|--|---|
| Implementation Guidance | Question / answer format [The Task Force agreed the measurement principles in the core text of ED 78 should be clarified to address the specific issue related to valuing land under roads and railways.] | <p>Implementation Guidance</p> <p><u>Measurement after Recognition</u></p> <p><u>Revaluation Model</u></p> <p><u>Valuing land under of over infrastructure assets</u></p> <p><u>How should the land under or over infrastructure assets, such as land under roads, and railways be valued because these infrastructure assets on top of the land are specialized and held for operational capacity?</u></p> <p>IG1. <u>ED 78 (IPSAS 17 Update), <i>Property, Plant, and Equipment</i> is clear that land under or over infrastructure assets accounted for under the current value model should be valued at [current value]. For specialized assets held for their operating capacity, [current value] is generally estimated by applying the cost approach. Often for specialized assets there is no directly observable market values.</u></p> <p>IG2. <u>ED, <i>Measurement</i> defines [current value] as the cost of an equivalent asset at the measurement date. In determining the [current value], the entity estimates the most economic cost required for the entity to replace the service potential of an asset. If there is no locational requirement for the road and railways, the assumption is the [current value] of the land is based on land which provides the same service potential and is situated at an alternative site.</u></p> <p>IG3. <u>Where a social policy decision has been made requiring the asset to be located in a specific location, the assumption is the [current value] of the land is based on the existing site, rather than an alternative site. For example, if the major road runs through agricultural land, then the [current value] of the land under that section of the road will be agricultural; and if the road runs through an industrial area, then the [current value] placed on the land under that section of the road will be industrial.</u></p> |

| Guidance Type | Format / [Analysis] | Guidance |
|-----------------------|--|--|
| Basis for Conclusions | Reflect IPSASB decisions [BCs should be developed to reflect all IPSAS decisions] | Basis for Conclusions Revaluation Model <u>Valuing land under of over infrastructure assets</u> BC1. <u>The IPSASB considered the issue identified by constituents that, IPSAS 17, <i>Property, Plant, and Equipment</i> guidance did not address the approach to valuing land under or over infrastructure assets such as land under roads and railways.</u> BC2. <u>The IPSASB decided to add non-authoritative Implementation Guidance to clarify the existing principles related to the valuation of land under or over infrastructure assets (see paragraphs IG1-IG3).</u> |

Decision Required

- Does the IPSASB agree with the Task Force recommendation?

Depreciation (Issue 17)

Question

1. Does the IPSASB agree with the recommended guidance to support the application of ED 78's principles on depreciation?

Recommendation

2. The Task Force recommends the ED 78 text in [Appendix A](#), which covers:
 - (a) A revision to IPSAS 17's core text, to include a requirement that all non-land property, plant and equipment with an indefinite useful life be reviewed for impairment annually; and
 - (b) An IG, which consists of a question and answer on the main factors to consider when deciding whether a heritage asset has an indefinite useful life.

Background

3. **Heritage:** Stakeholders' have had different views on whether heritage assets should be depreciated and, if so, whether some heritage assets could have an indefinite useful life so that depreciation would be zero.
4. **IPSASB's related decisions and instructions:** In March 2020, the IPSASB decided that heritage assets should be depreciated and that some heritage assets could have indefinite useful lives. In July 2020, the IPSASB reviewed draft ED 78 text on finite and indefinite useful lives. It instructed staff, *inter alia*, to include a rebuttable presumption that non-land property, plant, and equipment will have finite useful lives. [Appendix B](#) has the text, with highlighted staff revisions to address the 28 July instructions.
5. **Infrastructure:** Depreciation-related issues with respect to Infrastructure are being addressed separately.

Analysis

6. Staff analyzed the need for further guidance on heritage assets with indefinite useful lives in the context of the agreed characteristics of heritage and the revised guidance in ED 78. Staff noted that:
 - (a) **Identification of heritage assets with indefinite useful lives:** Although very long useful lives are a characteristic of heritage assets entities still need to consider whether heritage assets have finite or indefinite useful lives.
 - (b) **Authoritative guidance on useful lives in ED 78:** [Appendix B](#) has the authoritative core text and application guidance for inclusions in ED 78, which the IPSASB approved on 28 July 2020. (Paragraph includes a reinsertion of IPSAS 17 text that is recommended by the Cross-Cutting Task Force.) The authoritative guidance supports entities' assessments of whether property, plant, and equipment have finite or indefinite useful lives. There is scope to provide further guidance focused on heritage assets, given that their characteristic of having very long useful lives presents challenges for entities when they make such assessments.
7. Based on this analysis the Task Force decided that:
 - (a) A revision to IPSAS 17's core text is needed to include a requirement that all non-land property, plant and equipment with an indefinite useful life be reviewed for impairment annually;

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- (b) An additional non-authoritative IG should be added to enhance and clarify principles for assessing whether heritage assets have indefinite useful lives; and
 - (c) Guidance in the form of Illustrative Examples is not necessary because an IG would better help constituents.
8. [Appendix A](#) has the proposed text for insertion into draft ED 78, (IPSAS 17 Update), *Property, Plant, and Equipment* as follows:
- (a) *Core text revision* – paragraph 48 requires all non-land property, plant and equipment with an indefinite useful life be reviewed for impairment annually;
 - (b) *Basis for Conclusions* – to reflect IPSASB decision to add authoritative text to require annual impairment review (BC1) and non-authoritative guidance in the form of implementation guidance (see paragraph BC2); and
 - (c) *Implementation Guidance* – to augment the application of the authoritative principles on useful lives of PP&E in ED 78 (see paragraphs IG1 – IG3).

Decision Required

9. Does the IPSASB agree with the Task Force’s recommendation?

Appendix A – Format of Guidance

- 1 Consistent with the analysis in Agenda Item 9.2.8, the following table highlights the proposed text/guidance to be included in Exposure Draft (ED) 78, *Property, Plant, and Equipment*⁸.

| Guidance Type | Format / [Analysis] | Guidance |
|-------------------------|-------------------------|--|
| Core text | Principles | <p><u>Measurement after Recognition</u></p> <p><u>Depreciation</u></p> <p>48 <u>An entity is required annually to review non-land property, plant, and equipment with an indefinite useful life for impairment by comparing its recoverable service amount or its recoverable amount, as appropriate, with its carrying amount.</u></p> |
| Implementation Guidance | Question/ answer format | <p>Implementation Guidance</p> <p><u>Heritage assets' useful lives</u></p> <p><u>What are the main factors to consider when assessing whether a heritage asset has an indefinite useful life?</u></p> <p>IG1. <u>ED 78's paragraph 46 states that there is a rebuttable presumption that non-land property, plant, and equipment have finite useful lives. For a heritage asset to have an indefinite useful life an analysis of the relevant factors must show that there is no foreseeable limit to the period over which it is expected to provide service potential for the entity. Paragraph 48 states that estimates of useful life should reflect evidence at the time the estimate is made and realistic, rather than optimistic, projections going forward of the relevant factors.</u></p> <p>IG2. <u>ED 78's application guidance states that a heritage painting or sculpture held in a protective environment that is carefully controlled to preserve the asset is an example of an asset that could have an indefinite useful life.</u></p> <p>IG3. <u>The main factors to consider when assessing whether a heritage asset has an indefinite useful life are:</u></p> <p>(a) <u>Period providing service potential:</u> <u>There should be no foreseeable limit to the period over which the heritage asset is expected to provide service potential for the entity. The assets' heritage value for future generations</u></p> |

⁸ New text/guidance that is proposed is underlined and deleted text is struck through.

| Guidance Type | Format / [Analysis] | Guidance |
|-----------------------|--------------------------|--|
| | | <p>should be demonstrable, such that it is reasonable to expect that its heritage value will continue indefinitely.</p> <p>(b) Usage: The usage of the heritage asset should not result in physical wear and tear to the heritage asset.</p> <p>(c) Preservation: The entity should be able to demonstrate and substantiate: (1) its record of taking the necessary steps to preserve the heritage asset indefinitely, including adequate protection of heritage assets from the natural elements, where appropriate; (2) its plan to continue the same level of preservation going forward, and (3) that necessary staff and financial resources to carry out its preservation plan will continue indefinitely.</p> |
| Basis for Conclusions | Reflect IPSASB decisions | <p>Basis for Conclusions</p> <p><u>Annual impairment tests for non-land property, plant, and equipment with indefinite useful lives</u></p> <p>BC1 The IPSASB decided that where an entity has assessed non-land property, plant, and equipment as having indefinite useful lives it is important that the assets be reviewed regularly for reductions in value. On this basis the IPSASB decided to insert a requirement for annual impairment reviews for such assets into ED 78 (IPSAS 17 Update), (see paragraph 48).</p> <p><u>Property, plant, and equipment with indefinite useful lives</u></p> <p>BC2 To support entities' assessments of whether a heritage asset has a finite or indefinite useful life the IPSASB decided to add non-authoritative Implementation Guidance in ED 78, (IPSAS 17 Update), (see paragraphs IG1-IG3).</p> |

Decision Required

- 2 Does the IPSASB agree with the Task Force recommendation?

Appendix B

- 1 This appendix has text on depreciation which was proposed for inclusion in ED 78/IPSAS 17. The IPSASB reviewed this text at its 28 July meeting and instructed staff to make revisions. The revisions are shown in track changes. Paragraph 45 has a further revision, recommended by the Cross-Cutting Task Force, which is highlighted in red.
- 2 Note that:
 - (1) Text imported from IPSAS 17 is shaded grey.
 - (2) Proposed new text/guidance is underlined. Deleted text is struck through.

| NOTES | DRAFT IPSAS XX, Property, Plant, and Equipment | IAS 16? |
|--|---|------------------|
| Core text (Generic principles) | Depreciation | |
| New heading | Finite and Indefinite Useful Lives | |
| <i>IPSAS 17.74 with revisions to address IPSASB instructions from March and June 2020</i> | 45 Land and buildings are separable assets and are accounted for separately, even when they are acquired together. <u>With some exceptions, such as quarries and sites used for landfill, land has an unlimited useful life and therefore is not depreciated. Buildings generally 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.</u> | <i>IAS 16.58</i> |
| <i>IPSAS 31.87 with minor revisions (e.g. to refer to “PP&E” instead of “intangible.”)</i> | 46 <u>An entity shall assess whether the useful life of property, plant and equipment is finite or indefinite and, if finite, the length of, or number of production or similar units constituting, that useful life. Land usually has an indefinite useful life. There is a rebuttable presumption that non-land property, plant, and equipment have finite useful lives. Property, plant and equipment shall be regarded by the entity as having an indefinite useful life when, based on an analysis of all of the relevant factors, there is no foreseeable limit to the period over which the asset is expected to provide service potential to, or be used operationally to generate net cash inflows for the entity.</u> | No |
| <i>IPSAS 31.88 with minor revisions.</i> | 47 <u>A property, plant and equipment asset with a finite useful life is depreciated. A property, plant and equipment asset with an indefinite useful life is not depreciated.</u> | No |
| <i>IPSAS 31.90 revised to refer to property, plant and equipment.</i> | 48 <u>The term “indefinite” does not mean “infinite.” The useful life of property, plant and equipment should reflect evidence on factors that could affect the useful life at the time of estimating the asset’s useful life and realistic, rather than optimistic, projections going forward of those factors. For example, a conclusion that the useful life of property, plant and equipment is indefinite should not depend on planned future expenditure in excess of that required to maintain the asset at its current standard of performance. Nor should such a conclusion depend on preservation actions for which there is no realistic likelihood under present and projected budget constraints.</u> | No |

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| NOTES | DRAFT IPSAS XX, Property, Plant, and Equipment | IAS 16? |
|---|---|------------------------|
| <i>IPSAS 31.92 revised to refer to property, plant and equipment.</i> | 49 <u>The useful life of a-property, plant and equipment asset may be very long or even indefinite. Uncertainty about an asset's useful life when it is very long does not justify choosing a life that is unrealistically short.</u> | No |
| <i>IPSAS 17.75. revised to remove impression that land almost always has an unlimited useful life</i> | 50 If the <u>carrying amount</u> of land includes the cost of site dismantlement, removal, and restoration, that portion of the land asset is depreciated over the period of benefits or service potential obtained by incurring those costs. In some cases Where land has itself may have a finite useful life, it is depreciated in a manner that reflects the benefits or service potential to be derived from it. | IAS 16.59 (amended) |
| <i>AGs expand principles</i> | Application Guidance | |
| <i>New heading</i> | <u>Depreciation – Useful life of an asset</u> | |
| <i>Paragraphs AG24 is IPSAS 17.72 with revisions to align with IPSAS 31.89</i> | <p>AG18. The future economic benefits or service potential embodied in an item of property, plant, and equipment are consumed by the entity principally through the use of the asset. However, other factors such as technical or commercial obsolescence and wear and tear while an asset remains idle often result in the diminution of the economic benefits or service potential that might have been obtained from the asset. Consequently, all the following factors are considered in determining the useful life of an asset:</p> <ul style="list-style-type: none"> (a) Expected usage of the asset. Usage is assessed by reference to the asset's expected capacity or physical output. (b) Expected physical wear and tear, which depends on operational factors such as the number of shifts for which the asset is to be used and the repair and maintenance program, and the care and maintenance of the asset while idle. (c) The level of maintenance expenditure required to obtain the expected future economic benefits or service potential from the asset and the entity's ability and intention to reach such a level. (d) Technical or commercial obsolescence arising from changes or improvements in production, or from a change in the market demand for the product or service output of the asset. Expected future reductions in the selling price of an item that was produced using an asset could indicate the expectation of technical or commercial obsolescence of the asset, which, in turn, might reflect a reduction of the future economic benefits or service potential embodied in the asset. (e) The period of control over the asset and legal or similar limits on the use of the asset, such as the expiry dates of related leases. (f) Typical product life cycles for the asset and public information on estimates of useful lives of similar assets that are used in a similar way; (g) The stability of the industry in which the asset operates and changes in the market demand for the products or services output from the asset; (h) Expected actions by competitors or potential competitors. | IAS 16.56 |

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| NOTES | DRAFT IPSAS XX, Property, Plant, and Equipment | IAS 16? |
|---|---|-----------|
| | (i) Whether the useful life of the asset is dependent on the useful life of other assets of the entity. | |
| <i>Paragraphs AG25 is IPSAS 17.73</i> | AG19. The useful life of an asset is defined in terms of the asset's expected utility to the entity. The asset management policy of an entity may involve the disposal of assets after a specified time, or after consumption of a specified proportion of the future economic benefits or service potential embodied in the asset. Therefore, the useful life of an asset may be shorter than its economic life. The estimation of the useful life of the asset is a matter of judgment based on the experience of the entity with similar assets. | IAS 16.57 |
| <i>IPSAS 31.94 revised to refer to property, plant and equipment.</i> | AG20. There may be economic, political, social, and legal factors influencing the useful life of a property, plant and equipment asset. Economic, political, or social factors determine the period over which future economic benefits or service potential will be received by the entity. Legal factors may restrict the period over which the entity controls access to such economic benefits or service potential. The useful life is the shorter of the periods determined by these factors. | |
| <i>IPSAS 31.91 revised to refer to property, plant and equipment.</i> | <i>Finite and Indefinite Useful Lives</i> AG21. Given the history of rapid changes in technology, computers and many other property, plant and equipment assets are susceptible to technological obsolescence. Therefore, it will often be the case that their useful life is short. Expected future reductions in the selling price of an item that was produced using a property, plant and equipment asset could indicate the expectation of technological or commercial obsolescence of the asset, which, in turn, might reflect a reduction of the future economic benefits or service potential embodied in the asset. | |
| New – example of a non-land asset with an indefinite useful life | AG22. The useful lives of non-land property, plant and equipment assets, including buildings, are generally finite. However, there are circumstances in which a non-land property, plant and equipment asset could have an indefinite useful life. For example, a heritage painting or sculpture held in a protective environment that is carefully controlled to preserve the asset, could be considered to have an indefinite useful life, so long as those conditions continue to apply. | |
| IPSAS 17.74 sentence and new – sentence on land having a definite useful life | AG23. With some exceptions, such as quarries and sites used for landfill, land has an indefinite useful life and therefore is not depreciated ⁹ . Another example of land with a finite useful life is when land is being encroached by rising sea levels with the result that the entity expects that, within a finite period of time, the land will no longer | |

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| NOTES | DRAFT IPSAS XX, Property, Plant, and Equipment | IAS 16? |
|-------|--|---------|
| | be useable due either to a severe and continual risk of regular flooding or actual submersion beneath the water. | |
| | Basis for Conclusions | |
| New | <p>Depreciation of heritage assets</p> <p>BC37. Responses to the Heritage CP showed support from stakeholders for applying the same depreciation requirements to heritages asset as those applied to other types of PP&E. Where respondents raised issues with that approach, some argued against depreciation <i>per se</i>, while others stated that guidance is needed because depreciation is difficult to apply to heritage assets. Respondents stated that guidance is needed on how to estimate heritage assets' useful lives and identification of heritage assets for which there is no depreciation expense. The IPSASB decided that heritage assets generally are depreciable assets. Some heritage assets may have indefinite useful lives, due to their nature and/or the circumstances in which they are held, in which case depreciation will be zero.</p> | |

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| NOTES | DRAFT IPSAS XX, Property, Plant, and Equipment | IAS 16? |
|--------------------------------|--|---------|
| New | BC38. The IPSASB considered that most non-land PP&E have finite useful lives. On this basis the IPSASB decided to include a rebuttable presumption that non-land PP&E has a finite useful life, so that an entity must have evidence to rebut that presumption before it can treat non-land PP&E as having an indefinite useful life. | |
| | <u>BC39 To support entities' assessments of whether a heritage asset has a finite or indefinite useful life the IPSASB decided to add non-authoritative Implementation Guidance in ED 78, (IPSAS 17 Update), <i>Property, Plant, and Equipment</i> (see paragraphs IG1-IG3).</u> | |
| New | <p>Finite and indefinite useful lives</p> <p>BC40. When considering accounting for land under or over infrastructure the IPSASB noted that there are circumstances when land does not have an indefinite useful life. For example, rising sea levels mean that there is coastal land that will be unusable within the foreseeable future. The IPSASB decided that IPSAS 17's discussion of useful lives should be revised to better address situations where land has a finite useful life and should be depreciated. The IPSASB decided that the revised core text and related application guidance should also provide guidance to address situations where non-land property, plant and equipment assets (e.g. heritage assets) could have indefinite useful lives and should not, therefore be depreciated.</p> | |
| | <p>Implementation Guidance</p> <p><i>This guidance accompanies, but is not part of, IPSAS XX</i></p> | |
| [Placeholder – September 2020] | [See Appendix A for draft IGs.] | |

Componentization - Identifying parts of infrastructure assets that should be separately depreciated ([Issue 18](#))

Question

1. Does the IPSASB agree with the recommended guidance to support the application of Exposure Draft (ED) 78's principles on identifying parts of infrastructure assets that should be separately depreciated?

Recommendation

2. The Task Force recommends:
 - (a) Revising paragraph AG23 (paragraph 60 of IPSAS 17) of ED 78 (IPSAS 17 Update), *Property, Plant, and Equipment* to update the example that refers to parts of a road system identified for depreciation purposes to clarify the principles related to identifying parts for depreciation; and
 - (b) Adding Implementation Guidance (IGs) to clarify how to identify parts of infrastructure assets that should be separately depreciated.

Background

3. Infrastructure assets are characterized as “networks or systems” that are a group of interconnected assets that provide a particular service. IPSAS 17.59 requires that *each part of an item of property, plant, and equipment with a cost that is significant in relation to the total cost of the item shall be depreciated separately*. This principle requires entities to account for networks or systems of infrastructure assets in a way that:
 - (a) Provides an accurate depreciation expense for each part of the asset, as opposed to depreciating it as a single item or asset; and
 - (b) Facilitates derecognition of significant parts of the asset.
4. Constituents have highlighted challenges with identifying those ‘significant parts’.

Analysis

Understanding the issue

5. Infrastructure assets are networks and systems that comprise a number of assets. The Task Force concluded that the challenge faced by constituents is one of exercising judgment in considering the materiality when identifying the individual units of account that should be separately recognized and depreciated.

What current IPSAS 17 guidance addresses depreciation?

6. IPSAS 17.59 is clear that *each part of an item of property, plant, and equipment with a significant cost in relation to the total cost of the item shall be depreciated separately*. IPSAS 17.61 elaborates that *significant parts of the property, plant, and equipment may be grouped with other significant parts that have a similar useful life and / or depreciation method when determining the depreciation charge*.
7. The Task Force view is that the authoritative guidance is clear on requirements for depreciation.

Is Guidance Necessary

8. Even though the authoritative guidance to identify parts to depreciate separately is clear, additional non-authoritative guidance in the form of Implementation Guidance would better support constituents in determining how to identify significant parts of infrastructure asset networks or systems that should be separately depreciated.
9. The following amendments are proposed for insertion into draft ED 78, (IPSAS 17 Update), *Property, Plant, and Equipment* (see [Appendix A](#)):
 - (a) Application Guidance – to revise the example in paragraph AG23 (paragraph 60 of IPSAS 17) which currently lists as parts of a road system for separate depreciation, pavements, formation, curbs and channels, footpaths, bridges and lighting. These parts of a road system might not be at the appropriate level to illustrate the principle to depreciating parts of items of property, plant, and equipment separately. The Task Force propose changing the example to refer to parts of a road being the substructure and the surface (see proposed amendments to paragraph AG23 in [Appendix A](#)).
 - (b) Basis for Conclusions (see paragraphs BC1-BC3) – to reflect IPSASB decision to:
 - (i) Amend paragraph AG23 in the authoritative application guidance section; and
 - (ii) Add non-authoritative Implementation Guidance (IG) on identifying parts that should be separately depreciated in ED 78; and
 - (c) Implementation Guidance - to augment the application of the authoritative principles on identifying parts in ED 78 (see paragraphs IG1-IG4).

Decision Required

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

Appendix A – Format of Guidance – Identifying parts of infrastructure assets that should be separately depreciated

1. Consistent with the analysis in [Agenda Item 9.2.9](#), the following table highlights the proposed text/guidance to be included in Exposure Draft (ED) 78, *Property, Plant, and Equipment*.

| Guidance Type | Format / [Analysis] | Guidance |
|-------------------------|---|---|
| Application Guidance | Expand principles (generally with reference to transactions to clarify) [Application guidance exists in ED 78 that expands on the core principle.] | <p><u>Measurement after Recognition</u></p> <p><u>Depreciation</u></p> <p>AG23. An entity allocates the amount initially recognized in respect of an item of property, plant, and equipment to its significant parts and depreciates separately each such part. For example, in most cases, it would be required to depreciate separately the pavements, formation, curbs and channels, footpaths, bridges, and lighting within a road system <u>substructure and the surface of a road</u>. Similarly, it may be appropriate to depreciate separately the airframe and engines of an aircraft, whether owned or subject to a finance lease. If an entity acquires property, plant and equipment subject to an operating lease in which it is the lessor, it may also be appropriate to depreciate separately amounts reflected in the cost of that item that are attributable to favorable or unfavorable lease terms relative to market terms.</p> |
| Implementation Guidance | Question / answer format [The Task Force agreed the principle in the core text and application guidance should be clarified to address the specific issue related to identifying parts of infrastructure assets that should be depreciated.] | <p><u>Implementation Guidance</u></p> <p><u>Measurement after Recognition</u></p> <p><u>Depreciation</u></p> <p><u>Identifying significant parts of infrastructure assets</u></p> <p><u>What should be considered when identifying parts of infrastructure asset networks or systems for financial reporting purposes?</u></p> <p>IG1. <u>An entity allocates the amount initially recognized in respect of an item of property, plant, and equipment to its significant parts and depreciates separately each part that will have a material impact or effect on determining the annual depreciation expense.</u></p> |

| Guidance Type | Format / [Analysis] | Guidance |
|-------------------------|--|---|
| Implementation Guidance | <p>Question / answer format</p> <p>[The Task Force agreed the principle in the core text and application guidance should be clarified to address the specific issue related to identifying parts of infrastructure assets that should be depreciated.]</p> | <p>IG2. <u>Property, plant, and equipment including infrastructure assets do not require separate recognition beyond the level required for financial reporting purposes. ED 78, (IPSAS 17 Update), <i>Property, Plant, and Equipment</i> requires items with a cost that is significant in relation to the total cost of the item to be depreciated separately.</u></p> <p>IG3. <u>Judgement is required when identifying significant parts of infrastructure asset networks or systems. For financial reporting purposes, the following indicators can be helpful in identifying significant parts of an item of property, plant, and equipment:</u></p> <ul style="list-style-type: none"> (a) <u>Parts should be separately identifiable and measurable.</u> The surface and substructure are examples of parts of a road because they are separately identifiable and measurable; (b) <u>Parts should have significant value in relation to the asset.</u> The substructure is an example of a part of a road that is significant in value in relation to the value of the road; and (c) <u>Parts should have different estimated useful lives.</u> The surface and substructure are examples of separate parts of a road because they are likely to have vastly different useful lives. <p>IG4. <u>The entity must consider the facts and circumstances of its transaction as a whole, and materiality to determine the significant parts for the purposes of calculating depreciation.</u></p> |

| Guidance Type | Format / [Analysis] | Guidance |
|-----------------------|--|--|
| Basis for Conclusions | Reflect IPSASB decisions [BCs should be developed to reflect all IPSAS decisions] | <p>Basis for Conclusions</p> <p><u>Measurement after Recognition</u></p> <p><u>Depreciation</u></p> <p><u>Identifying significant parts of infrastructure assets</u></p> <p>BC1. <u>Constituents highlighted challenges with identifying significant parts of infrastructure assets that should be separately depreciated.</u></p> <p>BC2. <u>The IPSASB concluded that the challenge faced by constituents is one of exercising judgment in considering the materiality when identifying the individual units of account that should be separately recognized and depreciated.</u></p> <p>BC3. <u>The IPSASB noted the principles in IPSAS 17, <i>Property, Plant, and Equipment</i> are clear that parts of an item of property, plant, and equipment with a significant cost in relation to the total cost of the item shall be depreciated separately. However, the IPSASB concluded that additional guidance could clarify the principles related to accounting for significant parts of property, plant, and equipment for the purpose of calculating depreciation in the Application Guidance (see paragraph AG23) and in the Implementation Guidance (see paragraphs IG1-IG4) of ED 78 (IPSAS 17 Update), <i>Property, Plant, and Equipment</i>.</u></p> |

Decision Required

- Does the IPSASB agree with the Task Force recommendation?

Use of Condition-Based Information [\(Issue 17\)](#)

Question

1. Does the IPSASB agree that condition-based information can be used to estimate depreciation for infrastructure assets?

Recommendation

2. The Task Force recommends:
 - (a) Discontinuing use of the term “renewals accounting” as it is not a defined term, and while it is used in different jurisdictions, it has different meanings and applications;
 - (b) Permitting the use of condition-based information to estimate depreciation for infrastructure asset components; and
 - (c) Adding Implementation Guidance (IGs) and Basis for Conclusions (BCs) to clarify the circumstances when condition-based information might best estimate depreciation.

Background

3. Some constituents asked the IPSASB to consider whether “renewals accounting” may be appropriate as a technique to estimate the consumption or depreciation of infrastructure assets when they are managed in accordance with a detailed asset management plan.

Analysis

Clarifying the issue

4. The Task Force considered whether “renewals accounting” could be used as a technique to estimate depreciation for infrastructure assets. The Task Force found that there is no “definitive” renewals accounting method, with jurisdictions using the term and applying the methodology in different ways. The Task Force concluded therefore, that the term “renewals accounting” is too broad in scope to be helpful in this context.
5. However, in researching the issue, the Task Force clarified that the actual issue was whether public sector entities that manage the condition of their infrastructure assets in accordance with a detailed asset management plan should be permitted to use the “condition-based information” available to them to estimate depreciation. Some of these entities are of the view their “condition-based information” offers a strong method for estimating depreciation, but are unclear whether it is permitted in IPSAS.

Is it appropriate to use condition-based information to estimate depreciation?

6. Depreciation reflects the consumption¹⁰ of the service potential of an asset.

¹⁰ Consumption is the wearing out, using up or reduction in the life of an asset from use, effluxion (passing) of time or obsolescence.

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7. The Task Force concluded that condition-based information can be used to estimate depreciation of infrastructure asset components¹¹ that are managed using a sufficiently detailed asset management plan because the data in the detailed asset management plans may be used to:
- (a) Estimate depreciation by providing a measure of the infrastructure asset component's actual consumption based directly on actual expenditure incurred and physical data on its condition; and
 - (b) Consider when expenditures should be expensed, or are capital in nature because they extend the life of or enhance the service potential of the component.

When can condition-based information estimate depreciation?

8. When an infrastructure asset network or system with a long useful life is managed in the following way, condition-based information can provide information useful for depreciation when:
- (a) **Infrastructure asset component is maintained using a sufficiently detailed asset management plan.** The level of annual expenditure required to maintain and / or replace the service potential of infrastructure asset components can be calculated from an asset management plan that provides at least as much details as is required for financial reporting purposes, and is developed or reviewed by a qualified person; and
 - (b) **Regular condition assessments are performed.** Regular condition assessments are performed on the infrastructure asset components to confirm whether the annual expenditures have preserved the condition of the infrastructure asset component or not.

Is it in the public interest to allow the use of condition-based information to estimate consumption?

9. The Task Force view is that it is in the public interest to permit the use of condition-based information to estimate depreciation for infrastructure assets because:
- (a) **Consumption estimates are supported by actual physical data.** Information used to estimate consumption of an infrastructure asset component is derived from detailed asset maintenance plans which show the cost of work required to maintain the physical condition and service level capacity of that component, and the adequacy of that expenditure is assessed through regular monitoring; and
 - (b) **Asset management promotes stewardship of assets.** Basing financial reporting estimates on detailed asset management plans promotes accountability, transparency and decision making by enabling the information used for these purposes to reflect directly the physical reality of the impact of expenditure on infrastructure asset components.
10. IPSAS 17, *Property, Plant, and Equipment* already provides authoritative guidance on estimating depreciation. However, additional non-authoritative implementation guidance addressing the use of condition-based information would be useful to clarify when it might be used to estimate depreciation.
11. The proposed guidance referred to in paragraph 10 is recommended for ED 78 (IPSAS 17 Update), *Property, Plant, and Equipment* (see [Appendix A](#)):

¹¹ Examples of components of infrastructure assets where condition-based information could be used to estimate depreciation include road surfaces, railway tracks and water and sewer pipes. Refer to [Agenda Item 9.2.9](#) for the detailed discussion on identifying components or parts.

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- (a) Basis for Conclusions (see paragraphs BC1-BC3) - to reflect the recommended IPSASB decisions to:
 - (i) Clarify that there is no definitive “renewals accounting” method and this has contributed to the debate about whether “renewals accounting” can be used to estimate consumption of service potential; and
 - (ii) Add non-authoritative guidance on condition-based information in the form of implementation guidance; and
- (b) Implementation Guidance (IG) – to set out the conditions for the use of condition-based information to estimate depreciation for infrastructure asset components in accordance with authoritative principles on depreciation in ED 78 (see paragraph IG1).

Decision Required

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

Appendix A – Format of Guidance – Use of Condition Based Information

1. Consistent with the analysis in [Agenda Item 9.2.10](#), the following table highlights the proposed text/guidance to be included in Exposure Draft (ED) 78, *Property, Plant, and Equipment*.

| Guidance Type | Format / [Analysis] | Guidance |
|-------------------------|---|--|
| Implementation Guidance | <p>Question / answer format</p> <p>[The Task Force agreed the principle in the core text should be clarified to address the specific issue related to using condition-based information to depreciate infrastructure assets.]</p> | <p>Implementation Guidance</p> <p><u>Measurement after Recognition</u></p> <p><u>Depreciation</u></p> <p><u>Use of Condition-Based Information</u></p> <p><u>Can condition-based information also be used to estimate consumption of infrastructure asset components?</u></p> <p>IG1. <u>Yes, condition-based information can be used to estimate depreciation when:</u></p> <p>(a) <u>The infrastructure asset component is maintained using a sufficiently detailed asset management plan.</u> <u>The level of annual expenditure required to maintain and / or replace the service potential of infrastructure asset components can be calculated from an asset management plan that is developed or reviewed by a qualified person and;</u></p> <p>(b) <u>Regular conditions assessments are performed.</u> <u>Regular condition assessments are performed on the infrastructure asset components to confirm whether the annual expenditures have maintained the infrastructure asset component or not.</u></p> |

| Guidance Type | Format / [Analysis] | Guidance |
|-----------------------|--|--|
| Basis for Conclusions | Reflect IPSASB decisions [BCs should be developed to reflect all IPSAS decisions] | <p>Basis for Conclusions</p> <p><u>Measurement after Recognition</u></p> <p><u>Depreciation</u></p> <p><u>Use of Condition-Based Information</u></p> <p>BC1. <u>Depreciation reflects the extent of consumption of the service potential of property, plant, and equipment items. Some constituents asked the IPSASB to consider whether “renewals accounting” may be appropriate as a depreciation technique to estimate depreciation of infrastructure assets components when they are managed in accordance with a detailed asset management plan.</u></p> <p>BC2. <u>The IPSASB concluded there is no definitive “renewals accounting” method and that this term should not be used in its literature given the numerous interpretations across different jurisdictions.</u></p> <p>BC3. <u>The IPSASB decided that using condition-based information to estimate depreciation was acceptable in certain circumstances because basing financial reporting for infrastructure asset components on sufficiently detailed asset management plans can promote accountability and decision making. The IPSASB decided that additional non-authoritative implementation guidance for using condition-based information to estimate depreciation was necessary (see paragraph IG1) in order to articulate when condition-based information best estimated depreciation.</u></p> |

Decision Required

- Does the IPSASB agree with the Task Force recommendation?

Under-maintenance of assets (Deferred maintenance) [\(Issue 16\)](#)

Question

1. Does the Task Force agree with the recommended guidance to support the application of Exposure Draft (ED) 78’s principles on under-maintenance of assets?

Recommendation

2. The Task Force recommends:
 - (a) Not using the terms, “backlog maintenance” or “deferred maintenance” and use the term “under-maintenance of assets”; and
 - (b) Adding Implementation Guidance (IG) to support the specific issue related to the accounting for “under-maintenance of assets”.

Background

3. Constituents noted that IPSAS 17, *Property, Plant, and Equipment* guidance did not adequately address the issue of accounting for backlog maintenance or deferred maintenance.

Analysis

Understanding the issue

4. The Task Force decided not to use the terms, “backlog maintenance” or “deferred maintenance” because these terms have different interpretations and applications. The rest of the paper will refer to the issue of “under-maintenance of assets”.
5. Under-maintenance of assets occurs when the lack of maintenance of on an asset reduces the service potential or the useful life of the asset. Therefore, the issue is, does IPSAS 17 provide sufficient guidance to account for under-maintenance of assets?
6. The Task Force noted it was important to clarify the issue of accounting for under-maintenance of assets because infrastructure assets require constant maintenance and replacement of its components and under-maintenance of assets is an indicator of poor asset management practices¹².

What current IPSAS 17 guidance addresses under-maintenance of assets?

7. The Task Force view is that IPSAS include sufficient authoritative guidance to determine the appropriate accounting treatment for property, plant, and equipment which have been under-maintained, as follows:
 - (a) Consider whether under-maintenance of property, plant, and equipment is an indicator for impairment¹³. The relevant guidance for impairment is available in paragraph 79 of IPSAS 17 and IPSAS 21, *Impairment of Non-Cash-Generating Assets* or IPSAS 26, *Impairment of Cash-Generating Assets*; and

¹² Source: Infrastructure Financial Management Manual (IIFMM 2020).

¹³ Paragraph 27(f) of IPSAS 21, *Impairment of Non-Cash-Generating Assets* and paragraph 25(g) of IPSAS 26, *Impairment of Cash-Generating Assets* states that *in assessing whether an asset may be impaired, an entity shall consider, as a minimum, this indicator, “Evidence is available from internal reporting that indicates that the service performance of an asset is, or will be, significantly worse than expected”*.

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- (b) Consider whether the useful life of the property, plant, and equipment has changed. The relevant guidance for assessing the useful life of property, plant, and equipment is available in paragraphs 67 and 68 of IPSAS 17.
- 8. The Task Force recommends, however, additional non-authoritative implementation guidance to clarify the meaning of the term, “under-maintenance of assets” and clarify that under-maintenance of assets should not be recognized as a liability because IPSAS 19, Provisions, Contingent Liabilities and Contingent Assets is clear that, *no provision is recognized, and no amount is capitalized in respect of future expenses that are yet to occur*.
- 9. The additional guidance referred to in paragraph 8 should be developed as follows (see [Appendix A](#)) for insertion into draft ED 78, (IPSAS 17 Update), *Property, Plant, and Equipment* sections:
 - (a) Basis for Conclusions (see paragraphs BC1-BC3) – to reflect IPSASB decision to:
 - (i) Not use the terms, “backlog maintenance” or “deferred maintenance” and use the term “under-maintenance of assets”; and
 - (ii) Add non-authoritative guidance in the form of implementation guidance.
 - (b) Implementation Guidance – to augment the application of the authoritative principles on accounting for under-maintenance of assets in ED 78 (see paragraphs IG1-IG3).

Decision Required

- 10. Does the IPSASB agree with the Task Force recommendation?

Appendix A – Format of Guidance - Under-maintenance of assets

1. Consistent with the analysis in [Agenda Item 9.2.11](#), the following table highlights the proposed text/guidance to be included in Exposure Draft (ED) 78, *Property, Plant, and Equipment*.

| Guidance Type | Format / [Analysis] | Guidance |
|-------------------------|---|--|
| Implementation Guidance | <p>Question / answer format</p> <p>[The Task Force agreed the principle in the core text should be clarified to address the specific issue related to using condition-based information to depreciate infrastructure assets.]</p> | <p>Implementation Guidance</p> <p><u>Measurement after Recognition</u></p> <p><u>Impairment</u></p> <p><u>Under-maintenance of assets</u></p> <p><u>What is under-maintenance of assets?</u></p> <p>IG1. <u>Under-maintenance of assets occurs when the lack of maintenance of on an asset reduces the service potential or the useful life of the asset.</u></p> <p><u>Infrastructure assets require constant maintenance. Should under-maintenance of infrastructure assets be recognized in the financial statements?</u></p> <p>IG2. <u>No, the appropriate accounting for under-maintenance of assets is to:</u></p> <p>(a) <u>Consider whether under-maintenance of property, plant, and equipment is an indicator for impairment. The relevant guidance for impairment is available in paragraph 52 of ED 78, (IPSAS 17 Update), <i>Property, Plant, and Equipment</i> and IPSAS 21, <i>Impairment of Non-Cash-Generating Assets</i> or IPSAS 26, <i>Impairment of Cash-Generating Assets</i>; and</u></p> <p>(b) <u>Consider whether the useful life of the property, plant, and equipment has changed. The relevant guidance for assessing the useful life of property, plant, and equipment is available in paragraphs 46 and 47 of ED 78.</u></p> <p>IG3. <u>It is incorrect to recognize under-maintenance of assets as a liability because IPSAS 19, <i>Provisions, Contingent Liabilities and Contingent Assets</i> is clear there is no present obligation to recognize expenses that are yet to occur in the future.</u></p> |

| Guidance Type | Format / [Analysis] | Guidance |
|-----------------------|--|---|
| Basis for Conclusions | Reflect IPSASB decisions [BCs should be developed to reflect all IPSAS decisions] | <p>Basis for Conclusions</p> <p><u>Measurement after Recognition</u></p> <p><u>Impairment</u></p> <p><u>Under-maintenance of assets</u></p> <p>BC1. <u>The IPSASB considered the issue that, IPSAS 17, <i>Property, Plant, and Equipment</i> guidance did not articulate whether “backlog maintenance” or “deferred maintenance” should be recognized.</u></p> <p>BC2. <u>The IPSASB decided not to use the terms, “backlog maintenance” or “deferred maintenance” because the terms “backlog maintenance” or “deferred maintenance” have different interpretations and applications. The IPSASB clarified that the issue highlighted by constituents related to “under-maintenance of assets”.</u></p> <p>BC3. <u>Even though IPSAS 17 principles are clear on the accounting for under-maintenance of assets, the IPSASB added implementation guidance to clarify the accounting for under-maintenance of assets in ED 78, (IPSAS 17 Update), <i>Property, Plant, and Equipment</i> (see paragraphs IG1-IG3).</u></p> |

Decision Required

- Does the IPSASB agree with the Task Force recommendation?

Impairment of Heritage and Infrastructure Assets ([Issue 19](#))

Question

1. Does the IPSASB agree no additional guidance is necessary for impairment of heritage and infrastructure assets?

Recommendation

2. The Task Force recommends no additional guidance is necessary to elaborate whether either (a) heritage assets are impaired, or (b) the network or system should be impaired when a part of that network is damaged.

Background

3. Constituents raised concerns with application and implementation of IPSAS impairment requirements to heritage and infrastructure assets. For heritage assets constituents that supported impairment of heritage assets nonetheless stated that guidance is needed to support impairment review. For infrastructure assets constituents highlighted that when accounting for infrastructure assets, IPSAS 17, *Property, Plant, and Equipment* guidance did not provide sufficient guidance on whether an infrastructure asset network or system is impaired when one part of that network or system becomes damaged.

Analysis

What current IPSAS 17 guidance addresses impairment of heritage and infrastructure assets?

4. IPSAS 17.79 states an entity applies IPSAS 21, *Impairment of Non-Cash-Generating Assets* or IPSAS 26, *Impairment of Cash-Generating Assets*, as appropriate when determining whether an item of property, plant, and equipment is impaired.
5. IPSAS 21 and 26 explain that an asset is impaired if there is a loss in the future economic benefits or service potential of an asset. Therefore, an asset is impaired when its utility to the entity has declined as the asset is no longer providing the entity with service potential¹⁴.
6. Both Standards have extensive authoritative guidance on how to (a) identify an asset that may be impaired (see Appendix B for IPSAS 21's coverage), and (b) evaluate an impairment. IPSAS 21 has non-authoritative guidance in the form of IGs and Illustrative Examples.
7. The Task Force recommends no additional guidance is necessary to address (a) the impairment of heritage assets, and (b) whether the infrastructure asset network or system should be impaired when a part of that network/system becomes inoperable because sufficient authoritative impairment guidance exists in IPSAS 17, IPSAS 21 and IPSAS 26. A network is impaired when a part of the network that is damaged causes the utility of the network to decline. Conversely, a network is not impaired if a part of the network is damaged but does not impact the utility of the network. Only that part of the network is impaired.

¹⁴ See paragraph 23 of IPSAS 21, *Impairment of Non-Cash-Generating Assets* and paragraph 20 of IPSAS 26, *Impairment of Cash-Generating Assets*. IPSAS 21 is the more relevant Standard for most public sector assets including heritage assets and infrastructure assets because most assets are held for service delivery purposes rather than for commercial return.

8. For example, if an earthquake destroys a portion of the road network and that portion of the network is no longer accessible, judgement is required to determine if the inaccessible portion reduces the service potential of the entire network. If the damaged portion reduces the service potential of the entire network, the network is impaired. Conversely if the damaged portion does not impact the service potential of the entire network, the network is not impaired. The damaged portion may be impaired.
9. Therefore, Basis for Conclusions paragraphs (see BC1-BC3) should be developed for insertion into ED 78, (IPSAS 17 Update), *Property, Plant, and Equipment* to reflect the IPSASB decision to not add guidance on impairment of heritage and infrastructure assets (see paragraphs in [Appendix A](#)).

Decision Required

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

Appendix A – Format of Guidance – Impairment of Heritage and Infrastructure Assets

- 1 Consistent with the analysis in [Agenda Item 9.2.12](#), the following table highlights the proposed text/guidance to be included in Exposure Draft (ED) 78, *Property, Plant, and Equipment*.

| Guidance Type | Format / [Analysis] | Guidance |
|-----------------------|--|--|
| Basis for Conclusions | Reflect IPSASB decisions [BCs should be developed to reflect all IPSAS decisions] | <p>Basis for Conclusions</p> <p><u>Measurement after Recognition</u></p> <p><u>Impairment of infrastructure assets</u></p> <p>BC1. <u>The IPSASB considered the issue identified by constituents that, IPSAS 17, <i>Property, Plant, and Equipment</i> did not provide sufficient guidance whether an infrastructure asset network or system is impaired when one part becomes damaged or inoperable.</u></p> <p>BC2. <u>The IPSASB decided no additional guidance is necessary because sufficient authoritative impairment guidance exists in IPSAS 21, <i>Impairment of Non-Cash-Generating Assets</i> and IPSAS 26, <i>Impairment of Cash-Generating Assets</i>, for entities to determine when a network is impaired. For example, when part of a network is damaged and it causes the utility of the network to decline, this may indicate an impairment. Conversely, when part of a network is damaged, but that damage does not impact the utility of the network, this may indicate the network is not impaired. However, the part of the network which is damaged may be impaired</u></p> <p><u>Impairment of heritage assets</u></p> <p>BC3. <u>The IPSASB considered constituents' views on additional guidance on impairment of heritage assets. The IPSASB decided that existing authoritative guidance in IPSAS 17, which then brings in the guidance in the two IPSASs that address impairment (IPSAS 21 and IPSAS 26) is sufficient to address this issue.</u></p> |

Decision Required

- 2 Does the IPSASB agree with the Task Force recommendation?

Appendix B – Relevant Impairment Paragraphs in IPSAS 21

1. This appendix has IPSAS 21's authoritative and non-authoritative guidance relevant to:
 - (a) Identification of impairment of non-cash-generating assets, and
 - (b) Determination of the extent of impairment.
2. IPSAS 21 has authoritative guidance in core text and non-authoritative guidance in the form of IGs and Illustrative Examples (IEs). The IEs are examples of impairment which explain the evidence for impairment but focus primarily on the evaluation of impairment using different evaluation approaches.

IPSAS 21's Core Text on Identification of an Asset that may be Impaired

3. IPSAS 21's paragraphs 24 to 34 address how to identify an asset that may be impaired. These paragraphs are reproduced below:

Identifying an Asset that may be Impaired

24. Paragraphs 26–34 specify when recoverable service amounts would be determined.
25. A non-cash-generating asset is impaired when the carrying amount of the asset exceeds its recoverable service amount. Paragraph 27 identifies key indications that an impairment loss may have occurred. If any of those indications are present, an entity is required to make a formal estimate of recoverable service amount. If no indication of a potential impairment loss is present, this Standard does not require an entity to make a formal estimate of recoverable service amount.
26. **An entity shall assess at each reporting date whether there is any indication that an asset may be impaired. If any such indication exists, the entity shall estimate the recoverable service amount of the asset.**
- 26A. **Irrespective of whether there is any indication of impairment, an entity shall also test an intangible asset with an indefinite useful life or an intangible asset not yet available for use for impairment annually by comparing its carrying amount with its recoverable service amount. This impairment test may be performed at any time during the reporting period, provided it is performed at the same time every year. Different intangible assets may be tested for impairment at different times. However, if such an intangible asset was initially recognized during the current reporting period, that intangible asset shall be tested for impairment before the end of the current reporting period.**

- 26B. The ability of an intangible asset to generate sufficient future economic benefits or service potential to recover its carrying amount is usually subject to greater uncertainty before the asset is available for use than after it is available for use. Therefore, this Standard requires an entity to test for impairment, at least annually, the carrying amount of an intangible asset that is not yet available for use.

27. **In assessing whether there is any indication that an asset may be impaired, an entity shall consider, as a minimum, the following indications:**

External sources of information

- (a) **Cessation, or near cessation, of the demand or need for services provided by the asset;**
- (b) **Significant long-term changes with an adverse effect on the entity have taken place during the period, or will take place in the near future, in the technological, legal, or government policy environment in which the entity operates;**

Internal sources of information

- (c) **Evidence is available of physical damage of an asset;**
 - (d) **Significant long-term changes with an adverse effect on the entity have taken place during the period, or are expected to take place in the near future, in the extent to which, or manner in which, an asset is used or is expected to be used. These changes include the asset becoming idle, plans to discontinue or restructure the operation to which an asset belongs, or plans to dispose of an asset before the previously expected date and reassessing the useful life of an asset as finite rather than indefinite;**
28. The demand or need for services may fluctuate over time, which will affect the extent to which non-cash-generating assets are utilized in providing those services, but negative fluctuations in demand are not necessarily indications of impairment. Where demand for services ceases, or nearly ceases, the assets used to provide those services may be impaired. Demand may be considered to have nearly ceased when it is so low that the entity (a) would not have attempted to respond to that demand, or (b) would have responded by not acquiring the asset being considered for impairment testing.

29. The list in paragraph 27 is not exhaustive. There may be other indications that an asset may be impaired. The existence of other indications may result in the entity estimating the asset's recoverable service amount. For example, any of the following may be an indication of impairment:
- (a) During the period, an asset's market value has declined significantly more than would be expected as a result of the passage of time or normal use; or
 - (b) A significant long-term decline (but not necessarily cessation or near cessation) in the demand for or need for services provided by the asset.
30. The events or circumstances that may indicate an impairment of an asset will be significant, and will often have prompted discussion by the governing board, management, or media. A change in a parameter such as demand for the service, extent or manner of use, legal environment, or government policy environment would indicate impairment only if such a change was significant, and had or was anticipated to have a long-term adverse effect. A change in the technological environment may indicate that an asset is obsolete, and requires testing for impairment. A change in the use of an asset during the period may also be an indication of impairment. This may occur when, for example, a building used as a school undergoes a change in use and is used for storage. In assessing whether an impairment has occurred, the entity needs to assess changes in service potential over the long term. This underlines the fact that the changes are seen within the context of the anticipated long-term use of the asset. However, the expectations of long-term use can change, and the entity's assessments at each reporting date would reflect that. The Implementation Guidance sets out examples of impairment indications referred to in paragraph 27.
31. In assessing whether a halt in construction would trigger an impairment test, the entity would consider (a) whether construction has simply been delayed or postponed, (b) whether there is an intention to resume construction in the near future, or (c) whether the construction work will not be completed in the foreseeable future. Where construction is delayed or postponed to a specific future date, the project may be treated as work-in-progress and is not considered as halted.

32. Evidence from internal reporting that indicates that an asset may be impaired, as referred to in paragraph 27(f) above, relates to the ability of the asset to provide goods or services rather than to a decline in the demand for the goods or services provided by the asset. This includes the existence of:

- (a) Significantly higher costs of operating or maintaining the asset, compared with those originally budgeted; and
- (b) Significantly lower service or output levels provided by the asset, compared with those originally expected due to poor operating performance.

A significant increase in operating costs of an asset may indicate that the asset is not as efficient or productive as initially anticipated in output standards set by the manufacturer, in accordance with which the operating budget was drawn up. Similarly, a significant increase in maintenance costs may indicate that higher costs need to be incurred to maintain the asset's performance at a level indicated by its most recently assessed standard of performance. In other cases, direct quantitative evidence of an impairment may be indicated by a significant long-term fall in the expected service or output levels provided by the asset.

33. The concept of materiality applies in identifying whether the recoverable service amount of an asset needs to be estimated. For example, if previous assessments show that an asset's recoverable service amount is significantly greater than its carrying amount, the entity need not re-estimate the asset's recoverable service amount if no events have occurred that would eliminate that difference. Similarly, previous analysis may show that an asset's recoverable service amount is not sensitive to one (or more) of the indications listed in paragraph 27.
34. If there is an indication that an asset may be impaired, this may indicate that (a) the remaining useful life, (b) the depreciation (amortization) method, or (c) the residual value for the asset needs to be reviewed and adjusted in accordance with the IPSAS applicable to the asset, even if no impairment loss is recognized for the asset.

IPSAS 21's Implementation Guidance on Indications of impairment

Implementation Guidance

This guidance accompanies, but is not part of, IPSAS 21.

Indications of Impairment (paragraph 27)

External Sources of Information

(a) Cessation, or Near Cessation, of the Demand or Need for Services Provided by the Asset.

IG1. The asset still maintains the same service potential, but demand for that service has ceased or nearly ceased. Examples of assets impaired in this manner include:

- (a) A school closed because of a lack of demand for school services, arising from a population shift to other areas. It is not anticipated that this demographic trend affecting the demand for the school services will reverse in the foreseeable future;
- (b) A school designed for 1,500 students currently has an enrollment of 150 students – the school cannot be closed because the nearest alternative school is 100 kilometers away. The entity does not envisage the enrollment increasing. At the time of establishment, enrollment was 1,400 students – the entity would have acquired a much smaller facility had future enrollment been envisaged to be 150 students. The entity determines that demand has nearly ceased, and the recoverable service amount of the school should be compared with its carrying amount;
- (c) A railway line closed due to lack of patronage (for example, the population in a rural area has substantially moved to the city due to successive years of drought, and those that have stayed behind use the cheaper bus service); and
- (d) A stadium whose principal occupant does not renew its occupancy agreement, with the result that the facility is expected to close.

(b) Significant Long-Term Changes with an Adverse Effect on the Entity in the Technological, Legal, or Government Policy Environment in Which the Entity Operates.

Technological Environment

IG2. The service utility of an asset may be reduced if technology has advanced to produce alternatives that provide better or more efficient service. Examples of assets impaired in this manner are:

- (a) Medical diagnostic equipment that is rarely or never used because a newer machine embodying more advanced technology provides more accurate results (would also meet indication (a) above);

- (b) Software that is no longer being supported by the external supplier because of technological advances, and the entity does not have the personnel to maintain the software; and
- (c) Computer hardware that has become obsolete as the result of technological development.

Legal or Government Policy Environment

- IG3. An asset's service potential may be reduced as a result of a change in a law or regulation. Examples of impairments identified by this indication include:
- (a) An automobile that does not meet new emission standards or an airplane that does not meet new noise standards;
 - (b) A school that can no longer be used for instruction purposes due to new safety regulations regarding its building materials or emergency exits; and
 - (c) A drinking water plant that cannot be used because it does not meet new environmental standards.

Internal Sources of Information

(c) Evidence is Available of Physical Damage of an Asset.

- IG4. Physical damage would likely result in the asset being unable to provide the level of service that it once was able to provide. Examples of assets impaired in this way include:
- (a) A building damaged by fire or flood or other factors;
 - (b) A building that is closed due to identification of structural deficiencies;
 - (c) Sections of an elevated roadway that have sagged, indicating that these sections of roadway will need to be replaced in 15 years rather than the original design life of 30 years;
 - (d) A dam whose spillway has been reduced as a result of a structural assessment;
 - (e) A water treatment plant whose capacity has been reduced by an intake blockage, and the removal of the blockage is not economical;
 - (f) A bridge that is weight-restricted due to identification of structural deficiencies;
 - (g) A navy destroyer damaged in a collision; and
 - (h) Equipment that is damaged and can no longer be repaired, or for which repairs are not economically feasible.

(d) Significant Long-Term Changes, with an Adverse Effect on the Entity, in the Extent to Which an Asset is Used, or is Expected to be Used.

IG5. The asset still maintains the same service potential, but long-term changes have an adverse effect on the extent to which the asset is used. Examples of circumstances in which assets may be impaired in this manner include:

- (a) If an asset is not being used to the same degree as it was when originally put into service, or the expected useful life of the asset is shorter than originally estimated, the asset may be impaired. An example of an asset that might be identified as potentially being impaired by this indication is a mainframe computer that is underutilized, because many applications have been converted or developed to operate on servers or PC platforms. A significant long-term decline in the demand for an asset's services may translate itself into a significant long-term change in the extent to which the asset is used; and
- (b) If the asset is not being used in the same way as it was when originally put into service, the asset may be impaired. An example of an impaired asset that might be identified by this indication is a school building that is being used for storage rather than for educational purposes.

(e) A decision to Halt the Construction of the Asset Before it is Complete or in a Usable Condition.

IG6. An asset that will not be completed cannot provide the service intended. Examples of assets impaired in this manner include those where:

- (a) Construction was stopped due to identification of an archaeological discovery or environmental condition, such as a nesting ground for a threatened or endangered species; or
- (b) Construction was stopped due to a decline in the economy.

The circumstances that led to the halting of construction will also be considered. If construction is deferred, that is, postponed to a specific future date, the project could still be treated as work-in-progress, and is not considered as halted.

(f) Evidence is Available from Internal Reporting that Indicates that the Service Performance of an Asset is, or will be, Significantly Worse than Expected.

IG7. Internal reports may indicate that an asset is not performing as expected, or its performance is deteriorating over time. For example, an internal health department report on operations of a rural clinic may indicate that an x-ray machine used by the clinic is impaired because the cost of maintaining the machine has significantly exceeded that originally budgeted.

Derecognition ([Issue 20](#))

Question

1. Does the IPSASB agree no additional guidance is necessary to support the application of IPSAS principles to derecognition of infrastructure assets?

Recommendation

2. The Task Force recommends no additional guidance should be developed to support the specific issue related to derecognition of infrastructure assets.

Background

3. Constituents highlighted that IPSAS 17, *Property, Plant, and Equipment* does not provide sufficient derecognition guidance for infrastructure assets that are made up of several parts that are constantly replaced.

Analysis

Understanding the issue

4. The Task Force understands the derecognition issue arises because parts of infrastructure assets are constantly replaced and there could be a lack of detailed accounting records to support the derecognition of the carrying amounts of the parts that are replaced.

What current IPSAS 17 guidance addresses derecognition?

5. The following authoritative derecognition guidance exists in IPSAS 17:
 - (a) IPSAS 17.24 states *parts of some items of property, plant, and equipment may require replacement at regular intervals. For example, a road may need resurfacing every few years, a furnace may require relining after a specified number of hours of use, or aircraft interiors such as seats and galleys may require replacement several times during the life of the airframe. Items of property, plant, and equipment may also be required to make a less frequently recurring replacement, such as replacing the interior walls of a building, or to make a non-recurring replacement. Under the recognition principle in paragraph 14¹⁵, an entity recognizes in the carrying amount of an item of property, plant, and equipment the cost of replacing part of such an item when that cost is incurred if the recognition criteria are met. The carrying amount of those parts that are replaced is derecognized;*
 - (b) IPSAS 17.82 states *the carrying amount of those parts of property, plant, and equipment that are replaced are derecognized on disposal; or when no future economic benefits or service potential is expected from its use or disposal; and*
 - (c) IPSAS 17.85 states *if an entity recognizes in the carrying amount of an item of property, plant, and equipment the cost of a replacement for part of the item, then it derecognizes the carrying amount of the replaced part regardless of whether the replaced part had been depreciated*

¹⁵ Paragraph 14 of IPSAS 17 states, *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.*

separately. If it is not practicable for an entity to determine the carrying amount of the replaced part, it may use the cost of the replacement as an indication of what the cost of the replaced part was at the time it was acquired or constructed.

Is Guidance Necessary?

6. The Task Force notes that additional derecognition guidance is unnecessary because:
 - (a) Sufficient authoritative guidance exists in IPSAS 17 (see paragraph 5); and
 - (b) The challenges identified by constituents when accounting for derecognition of parts of infrastructure assets appear administrative and related to record keeping challenges (see paragraph 4).
7. Therefore, Basis for Conclusions paragraphs (see BC1-BC2) should be developed for insertion into ED 78, (IPSAS 17 Update), *Property, Plant, and Equipment* to reflect the IPSASB decision to not add guidance on derecognition of infrastructure assets in [Appendix A](#).

Decision Required

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

Appendix A – Format of Guidance – Derecognition

- 1 Consistent with the analysis in [Agenda Item 9.2.13](#), the following table highlights the proposed text/guidance to be included in Exposure Draft (ED) 78, *Property, Plant, and Equipment*.

| Guidance Type | Format / [Analysis] | Guidance |
|-----------------------|--|--|
| Basis for Conclusions | Reflect IPSASB decisions [BCs should be developed to reflect all IPSAS decisions] | <p>Basis for Conclusions</p> <p><u>Derecognition</u></p> <p><u>Derecognition of infrastructure assets</u></p> <p>BC1. <u>Constituents highlighted that IPSAS 17, <i>Property, Plant, and Equipment</i> did not provide sufficient derecognition guidance. The IPSASB understood the derecognition issue arises because parts of infrastructure assets are constantly replaced and there could be a lack of detailed accounting records to support the derecognition of the carrying amounts of the parts that are replaced.</u></p> <p>BC2. <u>The IPSASB decided not to add additional derecognition guidance in ED 78, (IPSAS 17 Update), <i>Property, Plant, and Equipment</i> because sufficient authoritative derecognition guidance exists and the challenges identified by constituents when accounting for derecognition of parts of infrastructure assets appear administrative and related to record keeping.</u></p> |

Decision Required

- 2 Does the IPSASB agree with the Task Force recommendation?

Presentation (Display & Disclosure) Heritage and Infrastructure (Issue 21)

Question

1. Does the IPSASB agree with the recommended guidance to support the application of ED 78's principles on disclosures related to heritage assets?

Recommendation

2. The Cross-Cutting Task Force recommends the Implementation Guidance (IG) in [Appendix A](#), which has a question and answer for disclosures related to unrecognized heritage assets.

Background

3. **Heritage:** Responses to CP, *Heritage*, raised a range of different presentation issues, with many issues related to disclosures either to (i) replace heritage asset recognition, or (ii) provide a broader range of service-performance (heritage preservation) and forward-looking information than that on which the financial statements focus.
4. The IPSASB has previously decided that:
 - (a) Heritage nature is not a basis for non-recognition of PPE; and,
 - (b) The focus should be on information in the financial statements, rather than a broader set of non-financial, heritage-related information¹⁶.
5. **Infrastructure:** Stakeholders' comments on infrastructure issues highlighted that there is no specific standard for infrastructure asset disclosure, asset reporting of which has been mainly guided by the accounting principles of IPSAS 17. 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.

Analysis

6. Staff analyzed these issues in the context of:
 - (a) The agreed characteristics of heritage and infrastructure; and
 - (b) Existing authoritative guidance on presentation (display and disclosure) in IPSAS 1, *Presentation of Financial Statements*, and IPSAS 17.
7. With respect to heritage assets, measurement (and therefore recognition) of heritage assets may not be possible in some circumstances given their irreplaceability and very long lives. This introduces a need to provide guidance on disclosures related to unrecognized heritage assets. By contrast, the characteristics of infrastructure assets do not identify a need for additional guidance, given the extent of IPSAS guidance already available. Therefore, disclosures for infrastructure are not considered further in this agenda item.
8. Existing guidance, in IPSAS 1 and IPSAS 17, covers required disclosures and encouragements for reporting entities to disclose additional information. IPSAS 1 addresses presentation of information in financial statements, including note disclosures. IPSAS 1 conveys that entities need to consider

¹⁶ The IPSASB has issued three RPGs that provide guidance on a broader set of information, outside of the financial statements; RPG 1, *Reporting on the Long-Term Sustainability of an Entity's Finances*, RPG 2, *Financial Statement Discussion and Analysis*, and RPG 3, *Reporting Service Performance Information*.

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whether disclosures additional to those specifically required by an IPSAS should be made. However, it also emphasizes that disclosures cannot rectify inappropriate accounting policies. The relevant paragraphs are:

- (a) Paragraph 25 includes the statement that “Entities are encouraged to present additional information to assist users in assessing the performance of the entity, and its stewardship of assets, as well as making and evaluating decisions about the allocation of resources.”
 - (b) Paragraph 27 includes the statement that “The application of IPSASs, with additional disclosures when necessary, is presumed to result in financial statements that achieve a fair presentation. [emphasis added].”
 - (c) Paragraph 29 includes the statement that “In virtually all circumstances, a fair presentation is achieved by compliance with applicable IPSASs. A fair presentation also requires an entity:(c) To provide additional disclosures when compliance with the specific requirements in IPSASs is insufficient to enable users to understand the impact of particular transactions, other events, and conditions on the entity’s financial position and financial performance.
 - (d) However, paragraph 30 states that “Inappropriate accounting policies are not rectified either by disclosure of the accounting policies used, or by notes or explanatory material.”
9. IPSAS 17’s paragraphs 88 – 94 establish extensive disclosure requirements for recognized property, plant, and equipment. They note that IPSAS 3 requires disclosures on the nature and effect of change in an accounting estimate, while IPSASs 21 and 26 have further disclosures relating to impaired property, plant, and equipment. Paragraph 94 identifies further information (amounts) that users may find relevant to their needs and encourages (but does not require) entities to disclose those amounts. The list includes “(b) The gross carrying amount of any fully depreciated property, plant, and equipment that is still in use,” and (d) when the cost model is used, the fair value of property, plant, and equipment when this is materially different from the carrying amount.”

Task Force - Disclosures related to heritage assets

10. Based on this analysis the Task Force decided that, with respect to heritage-related disclosures:
- (a) No additional authoritative guidance is necessary:
 - (b) An additional non-authoritative IG is necessary—to be included in ED 78—to enhance and clarify existing principles for disclosures related to unrecognized heritage assets; and
 - (c) Guidance in the form of Illustrative Examples (IEs) is not necessary because an IG would better help constituents.
11. *Basis for Conclusions* paragraphs reflect the Task Force’s recommendation that non-authoritative guidance is needed.

Development of implementation guidance

12. The recommended IG:
- (a) Relates to the encouragement in IPSAS 17 for entities to disclose additional information when it is relevant to users’ needs.
 - (b) Begins with disclosure of information on why the reporting entity could not recognize the heritage asset(s), given that entities should recognize all heritage assets that meet IPSAS 17’s recognition criteria.

13. [Appendix A](#) has the proposed text for insertion into draft ED 78 (IPSAS 17 Update) as follows:

- (a) *Basis for Conclusions* - to reflect IPSASB decision to add non-authoritative guidance in the form of implementation guidance (see paragraphs BC1-BC2); and
- (b) *Implementation Guidance* – to augment the application of the authoritative principles on disclosures related to unrecognized heritage assets in ED 78 (see paragraphs IG1-IG3).

Decision Required

14. Does the IPSASB agree with the Task Force's recommendation?

Appendix A – Format of Guidance

- 1 Consistent with the analysis in Agenda Item 9.2.14, the following table highlights the proposed text/guidance to be included in Exposure Draft (ED) 78, *Property, Plant, and Equipment*¹⁷.

| Guidance Type | Format / [Analysis] | Guidance |
|-------------------------|-------------------------|--|
| Implementation Guidance | Question/ answer format | <p>Implementation Guidance</p> <p><u>Disclosures related to heritage assets that are not recognized because cannot be measured</u></p> <p><u>What information should be disclosed on heritage assets that the entity has decided cannot be recognized because cannot be measured?</u></p> <p>IG1. <u>For heritage assets that are not reported in the <i>Statement of Financial Position</i> a reporting entity is encouraged to disclose the following information in the notes:</u></p> <ul style="list-style-type: none"> (a) <u>The reasons for non-recognition along with any further information necessary to support the entity's conclusion that recognition was not possible;</u> (b) <u>The significance and nature of the unrecognized heritage asset(s); and</u> (c) <u>Information that is available to the entity and is helpful in assessing the value of those heritage assets that are not reported in the entity's <i>Statement of Financial Position</i>.</u> <p>IG2. <u>The disclosures relating to assets that are not reported in the <i>Statement of Financial Position</i> should aim to ensure that, when read in the context of information about recognized assets, the financial statements provide useful and relevant information about the entity's overall holding of heritage assets.</u></p> <p>IG3. <u>These disclosures may be presented in aggregate for groups or classes of heritage assets provided this aggregation does not obscure significant information.</u></p> <p>IG4. <u>Where one or more other documents, outside of the financial statements, have relevant information on the reporting entity's heritage assets, the entity is encouraged to provide sufficient information for users to find and read that other document(s).</u></p> |

¹⁷ New text/guidance that is proposed is underlined and deleted text is struck through.

| Guidance Type | Format / [Analysis] | Guidance |
|-----------------------|--------------------------|--|
| Basis for Conclusions | Reflect IPSASB decisions | <p>Basis for Conclusions</p> <p><u>Disclosures related to unrecognized heritage assets</u></p> <p>BC1. <u>The IPSASB considered the issues identified by constituents with respect to disclosures related to heritage and infrastructure assets.</u></p> <p>BC2. <u>The IPSASB decided that:</u></p> <ul style="list-style-type: none"> (a) <u>The issue that needs to be addressed is specific to heritage assets rather than property, plant, and equipment generally, and should therefore be addressed through an IG rather than revisions to the core text;</u> (b) <u>Additional guidance should be included in ED 78, (IPSAS 17 Update), <i>Property, Plant, and Equipment</i>, on disclosures related to heritage assets that are not recognized because they cannot be measured; and</u> (c) <u>No additional guidance for disclosures related to infrastructure assets should be included, because the existing guidance is sufficiently clear.</u> |

Decision Required

- 2 Does the IPSASB agree with the Task Force recommendation?

Supporting Documents 1 – [draft] ED 78, *Property, Plant and Equipment*

1. IPSASB members, Technical Advisors, and Observers are asked to note the following when reviewing ED 78:
 - (a) Authoritative Text (Core Text, Application Guidance and Amendments to Other IPSAS):
 - (i) A significant portion of ED 78 is imported from IPSAS 17.
 - (ii) Changes made to IPSAS 17 **since July** are tracked and based on Board Decisions or Instructions to Staff provided in previous meetings.
 - a. Deleted IPSAS 17 paragraphs are noted in the “Notes” column. Deleted paragraphs are not tracked to enhance readability.
2. These components are formatted as follows for easier reference:

| Format | Format description |
|---------------|---|
| Text | Text imported from IPSAS 17, 2020 Handbook, is shaded grey |
| Track changes | Text changed resulting from <u>Board Decisions</u> or editorial updates <u>since July</u> is tracked |
| Placeholders | Placeholders have been inserted for issues discussed in July and issues to be discussed at the September IPSASB meeting |

| NOTES | DRAFT IPSAS XX, <i>Property, Plant, and Equipment</i> | IAS 16? |
|---|---|---------------------------|
| <p>Paragraph 1 is IPSAS 17.1</p> | <p>Objective</p> <p>1. The objective of this Standard is to prescribe the accounting treatment for property, plant, and equipment so that users of financial statements can discern information about an entity's investment in its property, plant, and equipment and the changes in such investment. The principal issues in accounting for property, plant, and equipment are (a) the recognition of the assets, (b) the determination of their carrying amounts, and (c) the depreciation charges and impairment losses to be recognized in relation to them.</p> | <p>IAS 16.1</p> |
| <p>Paragraph 2 is IPSAS 17.2 amended for IPSASB decision in December 2019 to remove the scope exclusion re heritage assets. This change was reviewed by Board in June 2020.</p> <p>IPSAS 17.3 and IPSAS 17.4 had been deleted.</p> <p>IPSAS 17.5 is moved to AG based on IPSASB instruction in June 2020.</p> | <p>Scope</p> <p>2. An entity that prepares and presents financial statements under the accrual basis of accounting shall apply this Standard in accounting for property, plant, and equipment, (see paragraphs AG1-AG7 in Appendix A of this Standard), except when another Standard requires or permits a different accounting treatment has been adopted in accordance with another IPSAS (see paragraphs AG1-AG7 in Appendix A of this Standard).</p> <p>(a) when a different accounting treatment has been adopted in accordance with another IPSAS; and</p> <p>(b) In respect of heritage assets. However, the disclosure requirements of paragraphs 88, 89, and 92 apply to those heritage assets that are recognized.</p> | <p>IAS 16.2 (amended)</p> |
| <p>Paragraphs 3 to 5 are IPSAS 17.6 to IPSAS 17.8, amended for IPSASB decisions in June 2020 on measurement models and for cross-references.</p> | <p>3. This Standard does not apply to:</p> <p>(a) Biological assets related to agricultural activity other than bearer plants (see IPSAS 27, <i>Agriculture</i>). This Standard applies to bearer plants but does not apply to the produce on bearer plants;</p> <p>(b) Mineral rights and mineral reserves such as oil, natural gas, and similar non-regenerative resources (see the relevant international or national accounting standard dealing with mineral rights, mineral reserves, and similar non-regenerative resources) ; and</p> <p>(c) Property, plant, and equipment classified as held for sale in accordance with [draft] IPSAS XX [ED79] <i>Non-current Assets Held for Sale and Discontinued Operations</i>;</p> <p>However, this Standard applies to property, plant, and equipment used to develop or maintain the assets described in 3(a) or 3(b).</p> | <p>IAS 16.3 (amended)</p> |

| NOTES | DRAFT IPSAS XX, <i>Property, Plant, and Equipment</i> | IAS 16? |
|---|---|---|
| <p>17 or ED 78. Deleted.</p> <p>Recoverable (service) amount is defined in IPSAS 21 and 26. Reference made to those definitions.</p> <p>Definition amended by IPSASB decision in June 2020 (Agenda Item 10.2.3).</p> <p>Reference to ED 78 definitions added by IPSASB decision in July 2020 (Agenda Item 2.2.2).</p> | <p>An impairment loss of a non-cash-generating asset is the amount by which the carrying amount of an asset exceeds its recoverable service amount.</p> <p><u>Property, plant, and equipment</u> are tangible items assets that:</p> <p>(a) Are held for use in the production or supply of goods or services, for rental to others, or for administrative purposes; and</p> <p>(b) Are expected to be used during more than one reporting period.</p> <p>Recoverable amount is the higher of a cash-generating asset's fair value less costs to sell and its value in use.</p> <p>Recoverable service amount is the higher of a non-cash-generating asset's fair value less costs to sell and its value in use.</p> <p>The <u>residual value</u> of an asset is the estimated amount that an entity would currently obtain from disposal of the asset, after deducting the estimated costs of disposal, if the asset were already of the age and in the condition expected at the end of its useful life.</p> <p><u>Useful life</u> is:</p> <p>(a) The period over which an asset is expected to be available for use by an entity; or</p> <p>(b) The number of production or similar units expected to be obtained from the asset by an entity.</p> <p>Terms defined in other IPSASs are used in this Standard with the same meaning as in those Standards, and are reproduced in the <i>Glossary of Defined Terms</i> published separately.</p> <p><u>The following terms are defined in [draft] IPSAS [X] (ED 77) and are used in this [draft] Standard with the same meaning as in [draft] IPSAS X (ED 77):</u></p> <p>(a) <u>Current cost;</u></p> <p>(b) <u>Entity-specific value;</u></p> <p>(c) <u>Historical cost;</u></p> <p>(d) <u>Value in Use;</u></p> <p>(e) <u>To be determined.</u></p> <p><u>The following terms are defined in IPSAS 21 and are used in this [draft] Standard with the same meaning as in IPSAS 21:</u></p> <p>(a) <u>Recoverable Service Amount.</u></p> <p><u>The following terms are defined in IPSAS 26 and are used in this [draft] Standard with the same meaning as in IPSAS 26:</u></p> <p>(a) <u>Recoverable Amount.</u></p> | <p>asset.</p> <p>Recoverable amount is not separately defined for CG asset vs non-CG asset.</p> |

| NOTES | DRAFT IPSAS XX, <i>Property, Plant, and Equipment</i> | IAS 16? |
|--|--|---------------------|
| | Recognition | |
| Paragraph 7 is IPSASB 17.14, amended by IPSASB decision to change reference to Fair Value to [Current Value] in June 2020 (Agenda Item 8.2.2). | 7. The cost of an item of property, plant, and equipment shall be recognized as an asset if, and only if: | IAS 16.7 |
| IPSAS 17.15 and IPSAS 17.16 had been deleted. | (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 [current value] of the item can be measured reliably². | |
| IPSAS 17.17 is moved to AG by IPSASB decision in July 2020 (Agenda Item 2.2.2). | 8. Items such as spare parts, stand-by equipment and servicing equipment are recognized in accordance with this IPSAS when they meet the definition of property, plant, and equipment. Otherwise, such items are classified as inventory. | IAS 16.8 |
| Paragraphs 8 to 9 are IPSAS 17.18 to IPSAS 17.19. | 9.8. This standard Standard does not prescribe the unit of measure for recognition, i.e., what constitutes an item of property, plant, and equipment. Thus, judgment is required in applying the recognition criteria to an entity's specific circumstances. It may be appropriate to aggregate individually insignificant items, such as library books, computer peripherals, and small items of equipment, and to apply the criteria to the aggregate value. | IAS 16.9 |
| IPSAS 17.20 is moved to AG. | 10.9. An entity evaluates under this recognition principle all its property, plant, and equipment costs at the time they are incurred. These costs include costs incurred initially to acquire or construct an item of property, plant, and equipment and costs incurred subsequently to add to, replace part of, or service it. | IAS 16.10 |
| Paragraph 11 is IPSAS 17.22. Text retained in core text by IPSASB decision in June 2020 (Agenda Item 8.2.2). | Initial Costs | IAS 16.11 |
| IPSAS 17.22, and IPSAS 17.23 to 25 are moved to AG. by IPSASB decision in June 2020 (Agenda Item 8.2.2). | 11.10. Items of property, plant, and equipment may be required for safety or environmental reasons. The acquisition of such property, plant, and equipment, although not directly increasing the future economic benefits or service potential of any particular existing item of property, plant, and equipment, may be necessary for an entity to obtain the future economic benefits or service potential from its other assets. Such items of property, plant, and equipment qualify for recognition as assets, because they enable an entity to derive future economic benefits or service potential from related assets in excess of what could be derived had those items not been acquired. For example, fire safety regulations may require a hospital to retro-fit new sprinkler systems. These enhancements are recognized as an asset because, without them, the entity is unable to operate the hospital in accordance with the regulations. However, the resulting carrying amount of such an asset and related assets is reviewed for impairment in accordance with IPSAS 21, <i>Impairment of Non-Cash-Generating Assets</i> <u>and</u> <u>IPSAS 26, <i>Impairment of Cash Generating Assets</i></u> . | |

² Information that is reliable is free from material error and bias, and can be depended on by users to faithfully represent that which it purports to represent or could reasonably be expected to represent. Paragraph BC16 of IPSAS 1 discusses the transitional approach to the explanation of reliability.

| NOTES | DRAFT IPSAS XX, <i>Property, Plant, and Equipment</i> | IAS 16? |
|--|---|-----------|
| Paragraphs 12, 13 and 15 are IPSAS 17.26, IPSAS 17.27 and IPSAS 17.29 amended by IPSASB decisions. IPSAS 17.28 is moved to AG Paragraph 11 was combined with following paragraph by IPSASB decision in July 2020 (Agenda Item 2.2.2). | Measurement at Recognition 42.11. An item of property, plant, and equipment that qualifies for recognition as an asset shall be measured at its cost, unless it is acquired through a non-exchange transaction. Property, plant and equipment acquired through a non-exchange transaction shall be measured at its [current value]. Where an asset is acquired through a non-exchange transaction at no or nominal cost, its cost shall be measured at its [current/fair value] as at the date of acquisition. | IAS 16.15 |
| Paragraph 14 has no equivalent in IPSAS 17. It was seen, amended by the IPSASB in June 2020 (Agenda Item 8.2.2). | 43.12. When measuring the item of property, plant, and equipment at recognition, an entity shall apply [draft] IPSAS [X], <i>Measurement</i> [ED 75]. | No |
| IPSAS 17.30 to IPSAS 17.31 are moved to IPSAS Measurement by IPSASB decision in June 2020 (Agenda Item 8.2.2). | 44.13. For the purposes of this Standard, the measurement at recognition of an item of property, plant, and equipment, acquired at no or nominal cost, at its fair [current value] consistent with the requirements of paragraph 13, does not constitute a revaluation. Accordingly, the revaluation requirements in paragraph 24, and the supporting Application Guidance, only apply where an entity elects to revalue an item of property, plant, and equipment in subsequent reporting periods. | No |
| | Elements of Cost | |
| Paragraph 14 is IPSAS 17.30. This paragraph was moved to ED, <i>Measurement</i> in June 2020. It has been moved back to ED 78 during the development of the historical cost appendix in ED, <i>Measurement</i> . See Agenda Item 7.2.15 for additional details. | 14. The cost of an item of property, plant, and equipment comprises: (a) Its purchase price, including import duties and non-refundable purchase taxes, after deducting trade discounts and rebates. (b) Any costs directly attributable to bringing the asset to the location and condition necessary for it to be capable of operating in the manner intended by management. (c) The initial estimate of the costs of dismantling and removing the item and restoring the site on which it is located, the obligation for which an entity incurs either when the item is acquired, or as a consequence of having used the item during a particular period for purposes other than to produce inventories during that period. | IAS 16.16 |
| Paragraph 15 is IPSAS 17.31. This paragraph was moved to ED, <i>Measurement</i> in June 2020. It has been moved back to ED 78 during the development of the historical cost appendix in ED, <i>Measurement</i> . See Agenda Item 7.2.15 for additional details. | 15. Examples of directly attributable costs are: (a) Costs of employee benefits (as defined in IPSAS 25, <i>Employee Benefits</i>) arising directly from the construction or acquisition of the item of property, plant, and equipment; (b) Costs of site preparation; (c) Initial delivery and handling costs; (d) Installation and assembly costs; (e) Costs of testing whether the asset is functioning properly, after deducting the net proceeds from selling any items produced while bringing the asset to that location and condition (such as samples produced when testing equipment); and | 17 |

| NOTES | DRAFT IPSAS XX, <i>Property, Plant, and Equipment</i> | IAS 16? |
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| | (f) <u>Professional fees.</u> | |
| Paragraphs 16 -is IPSAS 17.32 | 15.16. An entity applies IPSAS 12, <i>Inventories</i> , to the costs of obligations for dismantling, removing, and restoring the site on which an item is located that are incurred during a particular period as a consequence of having used the item to produce inventories during that period. The obligations for costs accounted for in accordance with IPSAS 12 and IPSAS 17 [this] Standard are recognized and measured in accordance with IPSAS 19, <i>Provisions, Contingent Liabilities and Contingent Assets</i> . | IAS 16.18 |
| IPSAS 17.33 is moved to AGs by IPSASB decision in July 2020 (Agenda Item 2.2.2) | 16. Examples of costs that are not costs of an item of property, plant, and equipment are: (a) Costs of opening a new facility; (b) Costs of introducing a new product or service (including costs of advertising and promotional activities); (c) Costs of conducting business in a new location or with a new class of customers (including costs of staff training); and Administration and other general overhead costs; and (d)(a) Costs of day-to-day servicing or repairs and maintenance. | IAS 16.19 |
| Paragraph 17 is IPSAS 17.34. This paragraph was moved to ED, <i>Measurement</i> in June 2020. It has been moved back to ED 78 during the development of the historical cost appendix in ED, <i>Measurement</i> . See Agenda Item 7.2.15 for additional details. | <u>17. Recognition of costs in the carrying amount of an item of property, plant, and equipment ceases when the item is in the location and condition necessary for it to be capable of operating in the manner intended by management. Therefore, costs incurred in using or redeploying an item are not included in the carrying amount of that item. For example, the following costs are not included in the carrying amount of an item of property, plant, and equipment:</u> <u>(a) Costs incurred while an item capable of operating in the manner intended by management has yet to be brought into use or is operated at less than full capacity;</u> <u>(b) Initial operating losses, such as those incurred while demand for the item's output builds up; and</u> <u>(c) Costs of relocating or reorganizing part or all of the entity's operations.</u> | IAS 16.20 |
| Paragraph 18 is IPSAS 17.35. This paragraph was moved to ED, <i>Measurement</i> in June 2020. It has been moved back to ED 78 during the development of the historical cost appendix in ED, <i>Measurement</i> . See Agenda Item 7.2.15 for additional details. | <u>18. Some operations occur in connection with the construction or development of an item of property, plant, and equipment, but are not necessary to bring the item to the location and condition necessary for it to be capable of operating in the manner intended by management. These incidental operations may occur before or during the construction or development activities. For example, revenue may be earned through using a building site as a car park until construction starts. Because incidental operations are not necessary to bring an item to the location and condition necessary for it to be capable of operating in the manner intended by management, the revenue and related expenses of incidental operations are recognized in surplus or deficit, and included in their respective classifications of revenue and expense.</u> | IAS 16.21 |
| IPSAS 17.36 and IPSAS 17.36A are moved to AG by IPSASB decision in June 2020 (Agenda Item 8.2.2). | | |

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| | <u>Measurement of Cost</u> | |
| <p>Paragraph 18 is IPSAS 17.37.</p> <p><i>This paragraph was moved to ED, Measurement in June 2020. It has been moved back to ED 78 during the development of the historical cost appendix in ED, Measurement. See Agenda Item 7.2.15 for additional details.</i></p> | <p><u>19. The cost of an item of property, plant, and equipment is the cash price equivalent or, for an item referred to in paragraph 11, its [current value] at the recognition date. If payment is deferred beyond normal credit terms, the difference between the cash price equivalent and the total payment is recognized as interest over the period of credit, unless such interest is recognized in the carrying amount of the item in accordance with the allowed alternative treatment in IPSAS 5.</u></p> | IAS 16.23 |
| <p>Paragraph 20 is IPSAS 17.38.</p> <p><i>This paragraph was moved to ED, Measurement in June 2020. It has been moved back to ED 78 during the development of the historical cost appendix in ED, Measurement. See Agenda Item 7.2.15 for additional details.</i></p> | <p><u>20. One or more items of property, plant, and equipment may be acquired in exchange for a non-monetary asset or assets, or a combination of monetary and non-monetary assets. The following discussion refers simply to an exchange of one non-monetary asset for another, but it also applies to all exchanges described in the preceding sentence. The cost of such an item of property, plant, and equipment is measured at fair value unless (a) the exchange transaction lacks commercial substance, or (b) the [current value] of neither the asset received nor the asset given up is reliably measurable. The acquired item is measured in this way even if an entity cannot immediately derecognize the asset given up. If the acquired item is not measured at [current value], its cost is measured at the carrying amount of the asset given up.</u></p> | IAS 16.24 |
| <p>Paragraph 21 is IPSAS 17.39.</p> <p><i>This paragraph was moved to ED, Measurement in June 2020. It has been moved back to ED 78 during the development of the historical cost appendix in ED, Measurement. See Agenda Item 7.2.15 for additional details.</i></p> | <p><u>21. An entity determines whether an exchange transaction has commercial substance by considering the extent to which its future cash flows or service potential is expected to change as a result of the transaction. An exchange transaction has commercial substance if:</u></p> <ul style="list-style-type: none"> <u>(a) The configuration (risk, timing, and amount) of the cash flows or service potential of the asset received differs from the configuration of the cash flows or service potential of the asset transferred; or</u> <u>(b) The entity-specific value of the portion of the entity's operations affected by the transaction changes as a result of the exchange; and</u> <u>(c) The difference in (a) or (b) is significant relative to the [current value] of the assets exchanged.</u> <p><u>For the purpose of determining whether an exchange transaction has commercial substance, the entity-specific value of the portion of the entity's operations affected by the transaction shall reflect post-tax cash flows, if tax applies. The result of these analyses may be clear without an entity having to perform detailed calculations.</u></p> | IAS 16.25 |
| <p>Paragraph 22 is IPSAS 17.40.</p> <p><i>This paragraph was moved to ED,</i></p> | <p><u>22. The [current value] of an asset for which comparable market transactions do not exist is reliably measurable if (a) the variability in the range of reasonable [current value] estimates is not</u></p> | IAS 16.26 |

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| <p>Measurement in June 2020. It has been moved back to ED 78 during the development of the historical cost appendix in ED, Measurement. See Agenda Item 7.2.15 for additional details.</p> | <p><u>significant for that asset, or (b) the probabilities of the various estimates within the range can be reasonably assessed and used in estimating [current value]. If an entity is able to determine reliably the [current value] of either the asset received or the asset given up, then the [current value] of the asset given up is used to measure the cost of the asset received unless the [current value] of the asset received is more clearly evident.</u></p> | <p>IAS 16?</p> |
| <p>Paragraph 23 is IPSAS 17.41.</p> <p>This paragraph was moved to ED, Measurement in June 2020. It has been moved back to ED 78 during the development of the historical cost appendix in ED, Measurement. See Agenda Item 7.2.15 for additional details.</p> | <p><u>23. The cost of an item of property, plant, and equipment held by a lessee under a finance lease is determined in accordance with [draft] ED, Leases.</u></p> | <p>Based on IAS 16.28</p> |
| <p>There is no equivalent in IPSAS 17. Paragraph 24 is derived from IPSAS 17.42.</p> | <p>Measurement after <u>Initial</u> Recognition</p> <p>Classification Measurement Model</p> <p><u>17.24. An entity shall choose either the historical cost model in paragraph 19 or the current value model in paragraph 20 as its accounting policy and shall apply that policy to an entire class of property, plant and equipment.</u> <u>An entity shall select the appropriate Measurement Model and associated Measurement Basis to measure all items of property, plant, and equipment after recognition.</u></p> <p><u>An entity shall apply this accounting policy to an entire class of property, plant, and equipment.</u></p> | <p>IAS 16.29 (amended)</p> <p>No</p> |
| <p>Paragraph 18-19 were deleted as they expanded on an accounting policy choice that did not require further explanation. BC35–BC36 were drafted to reflect the IPSASB decision in July 2020 (Agenda Item 2.2.2).</p> | <p><u>18. In selecting the accounting policy choice to measure the class of property, plant, and equipment, an entity considers how it would reflect the cost of the services:</u></p> <p><u>(a) Applying [current value] presents the cost of service information in terms of how much it would cost to provide the services at the measurement date (i.e., depreciation is calculated based on the value of the asset if it were acquired at the measurement date); or</u></p> <p><u>(b)(a) Applying historical cost presents the cost of service information in terms of how much the entity paid to provide the service (i.e., depreciation is calculated based on the value of the asset when it was acquired).</u></p> <p><u>When property, plant, and equipment is held to support the provision of services, or an entity's operating capacity, the cost incurred to provide those services can be a relevant metric. The cost incurred to provide those services is reflected in the depreciation of the property, plant, and equipment, which under the historical cost basis is based on the price paid for the asset.</u></p> | <p>No</p> <p>No</p> |
| <p>There is no equivalent in IPSAS 17 to paragraph 25. This paragraph was</p> | <p><u>19.25. When measuring the item of property, plant, and equipment after recognition, an entity shall apply [draft] IPSAS [X], Measurement [ED 77].</u></p> | <p>No</p> |

| NOTES | DRAFT IPSAS XX, <i>Property, Plant, and Equipment</i> | IAS 16? |
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| added by March 2020 Decision. | | |
| | Historical Cost Model | |
| Paragraphs 23 and 24 are IPSAS 17.43 and IPSAS 17.44 | 20-26. After recognition as an asset , an item of property, plant, and equipment shall be carried at its historical cost, less any accumulated depreciation and any accumulated impairment losses. | IAS 16.30 |
| IPSAS 17.45 to IPSAS 17.48 are moved to IPSAS Measurement by IPSASB decision in June 2020 (Agenda Item 8.2.2).. | Revaluation Current Value Model 24-27. After recognition as an asset , an item of property, plant, and equipment whose fair [current value] value can be measured reliably shall be carried at a revalued amount, being its fair [current value] at the date of the revaluation, less any subsequent accumulated depreciation, and subsequent accumulated impairment losses. Revaluations shall be made with sufficient regularity to ensure that the carrying amount does not differ materially from that which would be determined using fair [current value] at the reporting date. The accounting treatment for revaluations is set out in paragraphs 31-33. | IAS 16.31 (amended to add last two sentences) |
| Paragraph 25 and 26 are IPSAS 17.49 and 17.50. They are retained in core text by IPSASB decision in June 2020 (Agenda Item 8.2.2). | 22-28. The frequency of revaluations depends upon the changes in the fair [current values] of the items of property, plant, and equipment being revalued. When the fair [current value] of a revalued asset differs materially from its carrying amount, a further revaluation is necessary. Some items of property, plant, and equipment experience significant and volatile changes in fair [current value], thus necessitating annual revaluation. Such frequent revaluations are unnecessary for items of property, plant, and equipment with only insignificant changes in fair [current value]. Instead, it may be necessary to revalue the item only every three or five years. | IAS 16.34 |
| | 23-29. When an item of property, plant, and equipment is revalued, the carrying amount of that asset is adjusted to the revalued amount. At the date of the revaluation, the asset is treated in one of the following ways: (a) The gross carrying amount is adjusted in a manner that is consistent with the revaluation of the carrying amount of the asset. For example, the gross carrying amount may be restated by reference to observable market data or it may be restated proportionately to the change in the carrying amount. The accumulated depreciation at the date of the revaluation is adjusted to equal the difference between the gross carrying amount and the carrying amount of the asset after taking into account accumulated impairment losses; or (b) The accumulated depreciation is eliminated against the gross carrying amount of the asset. The amount of the adjustment of accumulated depreciation forms part of the increase or decrease in carrying amount that is accounted for in accordance with paragraphs 31 and 32. | IAS 16.35 |
| Paragraphs 27-30 are IPSAS 17.51-53. | 24-30. If an item of property, plant and equipment is revalued, the entire class of property, plant, and equipment to which that asset belongs shall be revalued. | IAS 16.36 |
| | 25-31. Impairment losses and reversals of impairment losses of an asset under IPSAS 21, <i>Impairment of Non-Cash Generating</i> | No |

| NOTES | DRAFT IPSAS XX, <i>Property, Plant, and Equipment</i> | IAS 16? |
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| | Assets, and IPSAS 26, <i>Impairment of Cash-Generating Assets</i> , do not necessarily give rise to the need to revalue the class of assets to which that asset, or group of assets, belongs. | |
| <p>Paragraphs 29-30 (IPSAS 17.52-53) are retained in core text by IPSASB decision in June 2020 (Agenda Item 8.2.2).</p> <p>Paragraph 27(n) was added by IPSASB decision in July 2020 (Agenda Item 2.2.2)</p> | <p>26-32. A class of property, plant, and equipment is a grouping of assets of a similar nature or function in an entity's operations. The following are examples of separate classes:</p> <ul style="list-style-type: none"> (a) Land; (b) Operational buildings; (c) Roads; (d) Machinery; (e) Electricity transmission networks; (f) Ships; (g) Aircraft; (h) Weapons systems; (i) Motor vehicles; (j) Furniture and fixtures; (k) Office equipment; (l) Oil rigs; and (m) Bearer plants; <u>(n) Heritage collections; and</u> <u>(o) Infrastructure items.-</u> <p><u>When grouping property, plant and equipment into classes, an entity may identify items with similar nature, but held for different functions, or vice versa. For example, while various parcels of land have similar nature, some maybe held for agricultural purposes and others for commercial purposes. This may result in the entity identifying two classes of land and may which to present information using historical cost for one class and [current value] for the other.</u></p> | IAS 16.37 |
| | <p>27-33. The items within a class of property, plant, and equipment are revalued simultaneously in order to avoid selective revaluation of assets and the reporting of amounts in the financial statements that are a mixture of costs and values as at different dates. However, a class of assets may be revalued on a rolling basis provided revaluation of the class of assets is completed within a short period and provided the revaluations are kept up to date.</p> | IAS 16.38 |
| Paragraphs 31 to 35 are IPSAS 17.54 to IPSAS 17.58 | <p>28-34. If the carrying amount of a class of assets is increased as a result of a revaluation, the increase shall be credited directly to revaluation surplus. However, the increase shall be recognized in surplus or deficit to the extent that it reverses a revaluation decrease of the same class of assets previously recognized in surplus or deficit.</p> | IAS 16.39 (amended) |
| | <p>29-35. If the carrying amount of a class of assets is decreased as a result of a revaluation, the decrease shall be recognized in surplus or deficit. However, the decrease shall be debited directly to revaluation surplus to the extent of any credit balance existing in the revaluation surplus in respect of that</p> | IAS 16.40 (amended) |

| NOTES | DRAFT IPSAS XX, <i>Property, Plant, and Equipment</i> class of assets. | IAS 16? |
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| | 30.36. Revaluation increases and decreases relating to individual assets within a class of property, plant, and equipment must be offset against one another within that class but must not be offset in respect of assets in different classes. | No |
| | 34.37. Some or all of the revaluation surplus included in net assets/equity in respect of property, plant, and equipment may be transferred directly to accumulated surpluses or deficits when the assets are derecognized. This may involve transferring some or the whole of the surplus when the assets within the class of property, plant, and equipment to which the surplus relates are retired or disposed of. However, some of the surplus may be transferred as the assets are used by the entity. In such a case, the amount of the surplus transferred would be the difference between depreciation, based on the revalued carrying amount of the assets and depreciation, based on the assets' original cost. Transfers from revaluation surplus to accumulated surpluses or deficits are not made through surplus or deficit. | IAS 16.41 (amended) |
| | 32.38. Guidance on the effects on taxes on surpluses, if any, resulting from the revaluation of property, plant, and equipment can be found in the relevant international or national accounting standard dealing with income taxes. | IAS 16.42 (amended) |
| | Depreciation | |
| Paragraph 36 is IPSAS 17.59. IPSAS 17.60 is moved to AG. | 33.39. Each part of an item of property, plant, and equipment with a cost or value that is significant in relation to the total cost or value of the item shall be depreciated separately. | IAS 16.43 |
| Paragraphs 37 to 41 are IPSAS 17.61 to IPSAS 17.65. | 34.40. A significant part of an item of property, plant, and equipment may have a useful life and a depreciation method that are the same as the useful life and the depreciation method of another significant part of that same item. Such parts may be grouped in determining the depreciation charge. | IAS 16.45 |
| | 35.41. To the extent that an entity depreciates separately some parts of an item of property, plant, and equipment, it also depreciates separately the remainder of the item. The remainder consists of the parts of the item that are individually not significant. If an entity has varying expectations for these parts, approximation techniques may be necessary to depreciate the remainder in a manner that faithfully represents the consumption pattern and/or useful life of its parts. | IAS 16.46 |
| | 36.42. An entity may choose to depreciate separately the parts of an item that do not have a cost that is significant in relation to the total cost of the item. | IAS 16.47 |
| | 37.43. The depreciation charge for each period shall be recognized in surplus or deficit, unless it is included in the carrying amount of another asset. | IAS 16.48 |
| | 38.44. The depreciation charge for a period is usually recognized in surplus or deficit. However, sometimes, the future economic benefits or service potential embodied in an asset is absorbed in producing other assets. In this case, the depreciation charge constitutes part of the cost of the other asset, and is included in its carrying amount. For example, the depreciation of manufacturing plant and equipment is included in the costs of conversion of | IAS 16.49 |

| NOTES | DRAFT IPSAS XX, <i>Property, Plant, and Equipment</i> | IAS 16? |
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| | inventories (see IPSAS 12). Similarly, depreciation of property, plant, and equipment used for development activities may be included in the cost of an intangible asset recognized in accordance with IPSAS 31, <i>Intangible Assets</i> . | |
| | <i>Depreciable Amount and Depreciation Period</i> | |
| Paragraphs 42 to 44 are IPSAS 17.66 to IPSAS 17.68. | 39.45. The depreciable amount of an asset shall be allocated on a systematic basis over its useful life. | IAS 16.50 |
| | 40.46. The residual value and the useful life of an asset shall be reviewed at least at each annual reporting date and, if expectations differ from previous estimates, the change(s) shall be accounted for as a change in an accounting estimate in accordance with IPSAS 3, <i>Accounting Policies, Changes in Accounting Estimates and Errors</i> . | IAS 16.51 |
| IPSAS 17.69 to 73 are moved to AG | 44.47. Depreciation is recognized even if the fair value [current value] of the asset exceeds its carrying amount, as long as the asset's residual value does not exceed its carrying amount. Repair and maintenance of an asset does not negate the need to depreciate it. Conversely, some assets may be poorly maintained or maintenance may be deferred indefinitely because of budgetary constraints. Where asset management policies exacerbate the wear and tear of an asset, its useful life should be reassessed and adjusted accordingly. | IAS 16.52 (amended to add last two sentences) |
| Paragraphs 45 to 46 are IPSAS 17.74 and IPSAS 17.75. | 42.48. Land and buildings are separable assets and are accounted for separately, even when they are acquired together. With some exceptions, such as quarries and sites used for landfill, land has is likely to have an unlimited-indefinite useful life and therefore is not depreciated. Buildings generally have a limited-finite 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. | IAS 16.58 |
| <u>Placeholder: See 9.2.8</u> | Placeholder: Finite and indefinite useful lives | |
| <u>Placeholder: See 9.2.8</u> | Placeholder: Annual impairment tests for assets with indefinite useful lives | |
| | 43.49. If the cost carrying amount of land includes the cost of site dismantlement, removal, and restoration, that portion of the land asset is depreciated over the period of benefits or service potential obtained by incurring those costs. In some cases, the land itself may have a limited useful life, in which case it is depreciated in a manner that reflects the benefits or service potential to be derived from it. | IAS 16.59 (amended) |
| | <i>Depreciation Method</i> | |
| Paragraphs 50 and 51 are IPSAS 17.76 and IPSAS 17.77. They are retained in core text by IPSASB decision in June 2020 (Agenda Item 8.2.2). | 44.50. The depreciation method shall reflect the pattern in which the asset's future economic benefits or service potential is expected to be consumed by the entity. | IAS 16.60 |

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| <p>NOTES</p> <p>IPSAS 17.78 and IPSAS 17.78A are moved to AG</p> | <p>DRAFT IPSAS XX, <i>Property, Plant, and Equipment</i></p> <p>45-51. The depreciation method applied to an asset shall be reviewed at least at each annual reporting date and, if there has been a significant change in the expected pattern of the consumption of the future economic benefits or service potential embodied in the asset, the method shall be changed to reflect the changed pattern. Such a change shall be accounted for as a change in an accounting estimate in accordance with IPSAS 3.</p> | <p><i>IAS 16?</i></p> <p><i>IAS 16.61</i></p> |
| | <p>Impairment</p> | |
| <p>Paragraphs 52 to 54 are IPSAS 17.79 to IPSAS 17.81, amended as shown</p> | <p>46-52. To determine whether an item of property, plant, and equipment is impaired, an entity applies IPSAS 21 or IPSAS 26, Impairment of Cash-Generating Assets, as appropriate. These Standards explain how an entity reviews the carrying amount of its assets, how it determines the recoverable service amount or recoverable amount of an asset, and when it recognizes, or reverses the recognition of, an impairment loss.</p> | <p><i>IAS 16.63</i></p> <p><i>IAS 16.64 has been deleted.</i></p> |
| | <p>Compensation for Impairment</p> | |
| | <p>47-53. Compensation from third parties for items of property, plant, and equipment that were impaired, lost, or given up shall be included in surplus or deficit when the compensation becomes receivable.</p> | <p><i>IAS 16.65</i></p> |
| | <p>48-54. Impairments or losses of items of property, plant, and equipment, related claims for or payments of compensation from third parties, and any subsequent purchase or construction of replacement assets are separate economic events and are accounted for separately as follows:</p> <ul style="list-style-type: none"> (a) Impairments of items of property, plant, and equipment are recognized in accordance with IPSAS 21 or IPSAS 26, as appropriate; (b) Derecognition of items of property, plant, and equipment retired or disposed of is determined in accordance with this Standard; (c) Compensation from third parties for items of property, plant, and equipment that were impaired, lost, or given up is included in determining surplus or deficit when it becomes receivable; and (d) The cost of items of property, plant, and equipment restored, purchased, or constructed as replacement is determined in accordance with this Standard. | <p><i>IAS 16.66</i></p> |
| <p>Paragraphs 55 to 61 are IPSAS 17.82 to IPSAS 17.87</p> <p>Paragraph 52 was</p> | <p>Derecognition</p> <p>49-55. The carrying amount of an item of property, plant, and equipment shall be derecognized:</p> <ul style="list-style-type: none"> (a) On disposal; or (b) When no future economic benefits or service potential is expected from its use or disposal. <p>50-56. The gain or loss arising from the derecognition of an item of property, plant, and equipment shall be included in surplus or deficit when the item is derecognized (unless IPSAS 13 requires otherwise on a sale and leaseback).</p> | <p><i>IAS 16.67</i></p> <p><i>IAS 16.68 (excluding last sentence on gains)</i></p> |

| NOTES | DRAFT IPSAS XX, <i>Property, Plant, and Equipment</i> | IAS 16? |
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| <p><i>amended to add reference to ED 79 by IPSASB decision in July 2020 (Agenda Item 2.2.2)</i></p> | <p>54-57. However, an entity that, in the course of its ordinary activities, routinely sells items of property, plant and equipment that it has held for rental to others shall transfer such assets to inventories at their carrying amount when they cease to be rented and become held for sale. The proceeds from the sale of such assets shall be recognized as revenue in accordance with IPSAS 9, <i>Revenue from Exchange Transactions</i>. <i>[PLACEHOLDER – UPDATE FOR NEW REVENUE EDs]</i>. [draft] IPSAS [X] (ED 79) does not apply when assets are held for sale in the ordinary course of business are transferred to inventories.</p> | <p>IAS 16? <i>IAS 16.68A (amended)</i></p> |
| | <p>52-58. The disposal of an item of property, plant and equipment may occur in a variety of ways (e.g., by sale, by entering into a finance lease or by donation). In determining the date of disposal of an item, an entity applies the criteria in IPSAS 9 <i>[PLACEHOLDER – UPDATE FOR NEW REVENUE EDs]</i> for recognizing revenue from the sale of goods. IPSAS 13 applies to disposal by a sale and leaseback.</p> | <p>IAS 16.69</p> |
| | <p>53-59. If, under the recognition principle in paragraph 7, an entity recognizes in the carrying amount of an item of property, plant, and equipment the cost of a replacement for part of the item, then it derecognizes the carrying amount of the replaced part regardless of whether the replaced part had been depreciated separately. If it is not practicable for an entity to determine the carrying amount of the replaced part, it may use the cost of the replacement as an indication of what the cost of the replaced part was at the time it was acquired or constructed.</p> | <p>IAS 16.70</p> |
| | <p>54-60. The gain or loss arising from the derecognition of an item of property, plant, and equipment shall be determined as the difference between the net disposal proceeds, if any, and the carrying amount of the item.</p> | <p>IAS 16.71</p> |
| | <p>55-61. The consideration receivable on disposal of an item of property, plant, and equipment is recognized initially at its fair value [current value]. If payment for the item is deferred, the consideration received is recognized initially at the cash price equivalent. The difference between the nominal amount of the consideration and the cash price equivalent is recognized as interest revenue in accordance with IPSAS 9, reflecting the effective yield on the receivable.</p> | <p>IAS 16.72 <i>(amended)</i></p> |
| <p><i>Paragraphs 62 to 68 are IPSAS 17.88 to IPSAS 17.94 amended for cross references and with a new subheading by March 2020 IPSASB instruction.</i></p> <p><i>Paragraph 57(e)(ii) was amended to add reference to ED 79 by IPSASB decision in July 2020 (Agenda Item 2.2.2)</i></p> | <p>Disclosure</p> <p>General Disclosure for Property, Plant, and Equipment</p> <p>56-62. The financial statements shall disclose, for each class of property, plant, and equipment recognized in the financial statements:</p> <ul style="list-style-type: none"> (a) The measurement bases used for determining the gross carrying amount; (b) The depreciation methods used; (c) The useful lives or the depreciation rates used; (d) The gross carrying amount and the accumulated depreciation (aggregated with accumulated impairment losses) at the beginning and end of the period; and (e) A reconciliation of the carrying amount at the beginning | <p>IAS 16.73</p> |

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| | <p>and end of the period showing:</p> <ul style="list-style-type: none"> (i) Additions; (ii) <u>Assets classified as held for sale or included in a disposal group classified as held for sale in accordance with [draft] IPSAS [X] (ED 79) and other disposals;</u> (iii) Acquisitions through public sector combinations; (iv) Increases or decreases resulting from revaluations under paragraphs 24, 31, and 32 and from impairment losses (if any) recognized or reversed directly in net assets/equity in accordance with IPSAS 21 or IPSAS 26, as appropriate; (v) Impairment losses recognized in surplus or deficit in accordance with IPSAS 21 or IPSAS 26, as appropriate; (vi) Impairment losses reversed in surplus or deficit in accordance with IPSAS 21 or IPSAS 26, as appropriate; (vii) Depreciation; (viii) The net exchange differences arising on the translation of the financial statements from the functional currency into a different presentation currency, including the translation of a foreign operation into the presentation currency of the reporting entity; and (ix) Other changes. | |
| | <p><u>57.63.</u> The financial statements shall also disclose for each class of property, plant, and equipment recognized in the financial statements:</p> <ul style="list-style-type: none"> (a) The existence and amounts of restrictions on title, and property, plant, and equipment pledged as securities for liabilities; (b) The amount of expenditures recognized in the carrying amount of an item of property, plant, and equipment in the course of its construction; (c) The amount of contractual commitments for the acquisition of property, plant, and equipment; and (d) If it is not disclosed separately on the face of the statement of financial performance, the amount of compensation from third parties for items of property, plant, and equipment that were impaired, lost or given up that is included in surplus or deficit. | IAS 16.74 (amended) |
| | <p><u>58.64.</u> Selection of the depreciation method and the estimation of the useful life of the assets are matters of judgment. Therefore, disclosure of the methods adopted and the estimated useful lives or depreciation rates provides users of financial statements with information that allows them to review the policies selected by management, and enables comparisons to be made with other entities. For similar reasons, it is necessary to disclose:</p> <ul style="list-style-type: none"> (a) Depreciation, whether recognized in surplus or deficit or as a part of the cost of other assets, during a period; and | IAS 16.75 |

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| | (b) Accumulated depreciation at the end of the period. | |
| | 59-65. In accordance with IPSAS 3, an entity discloses the nature and effect of a change in an accounting estimate that has an effect in the current period or is expected to have an effect in subsequent periods. For property, plant, and equipment, such disclosure may arise from changes in estimates with respect to: <ul style="list-style-type: none"> (a) Residual values; (b) The estimated costs of dismantling, removing, or restoring items of property, plant and equipment; (c) Useful lives; and (d) Depreciation methods. | IAS 16.76 |
| | 60-66. If a class of property, plant, and equipment is stated at revalued amounts, the following shall be disclosed: <ul style="list-style-type: none"> (a) The effective date of the revaluation; (b) Whether an independent valuer was involved; (c) The methods and significant assumptions applied in estimating the assets' fair [current values]; (d) The extent to which the assets' fair [current values] were determined directly by reference to observable prices in an active market or recent market transactions on arm's length terms, or were estimated using other valuation measurement techniques; (e) The revaluation surplus, indicating the change for the period and any restrictions on the distribution of the balance to shareholders or other equity holders owners; (f) The sum of all revaluation surpluses for individual items of property, plant, and equipment within that class; and (g) The sum of all revaluation deficits for individual items of property, plant, and equipment within that class. | IAS 16.77 (amended) |
| | 64-67. In accordance with IPSAS 21 and IPSAS 26, an entity discloses information on impaired property, plant, and equipment in addition to the information required by paragraph 56(e)(iv)–(vi). | IAS 16.78 |
| | 62-68. Users of financial statements may also find the following information relevant to their needs: <ul style="list-style-type: none"> (a) The carrying amount of temporarily idle property, plant, and equipment; (b) The gross carrying amount of any fully depreciated property, plant, and equipment that is still in use; (c) The carrying amount of property, plant, and equipment retired from active use and not classified as held for sale in accordance with [draft] IPSAS [X] (ED 79); and (d) When the historical cost model is used, the fair [current] value of property, plant, and equipment when this is materially different from the carrying amount. <p>Therefore, entities are encouraged to disclose these amounts.</p> | IAS 16.79 |
| | Transitional Provisions | |
| Paragraphs 71 and 72 are IPSAS 17.105 and IPSAS 17.106A | 63-69. For entities that have previously applied IPSAS 17 (2001), the requirements of paragraphs 38XX–40 XX regarding the initial measurement of an item of property, plant, and equipment | |

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| <p>respectively.</p> <p>IPSAS 17.95 to IPSAS 17.104 and IPSAS 17.106 had been deleted in IPSAS.</p> | <p>acquired in an exchange of assets transaction shall be applied prospectively only to future transactions.</p> | |
| | <p>64.70. Paragraph 5026 was amended by Improvements to IPSASs 2014 issued in January 2015. An entity shall apply those amendments to all revaluations recognized in annual periods beginning on or after the date of initial application of that amendment and in the immediately preceding annual period.</p> | |
| | <p>Effective Date</p> | |
| <p>Paragraph 73 is IPSAS 17.107, modified for simplicity of ED78 documentation.</p> <p>IPSAS 17.107A to IPSAS 17.107P are deleted.</p> | <p>65.71. An entity shall apply this Standard for annual financial statements covering periods beginning on or after January 1, 2008 MM DD, YYYY. Earlier application is encouraged. If an entity applies this Standard for a period beginning before January 1, 2008 MM DD, YYYY, it shall disclose that fact.</p> | |
| <p>Paragraph 74 is IPSAS 17.108.</p> | <p>66.72. When an entity adopts the accrual basis IPSASs of accounting as defined in IPSAS 33, <i>First-time Adoption of Accrual Basis International Public Sector Accounting Standards (IPSASs)</i> for financial reporting purposes subsequent to this effective date, this Standard applies to the entity's annual financial statements covering periods beginning on or after the date of adoption of IPSASs.</p> | |
| | <p>Withdrawal of IPSAS 17 (2001200X)</p> | |
| <p>Paragraph 73 is IPSAS 17.109.</p> | <p>67.73. This Standard supersedes IPSAS 17, <i>Property, Plant, and Equipment</i>, issued in 2001200X.</p> | |
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| <p>Paragraph AG1 is IPSAS 17.5, amended for decision by the IPSASB in December 2019 and as instructed by in June 2020.</p> | <p style="text-align: right;">Appendix A</p> <p>Application Guidance</p> <p><i>This Appendix is an integral part of IPSAS XX</i></p> <p>Scope</p> <p>AG1. This Standard applies to all property, plant, and equipment including:</p> <ul style="list-style-type: none"> (a) Heritage; (b) Infrastructure; and (c) Service concession arrangement property, plant, and equipment after initial recognition and measurement in accordance with IPSAS 32, <i>Service Concession Arrangements: Grantor</i>; and (d) Weapons systems. | <p>No</p> |
| <p>Paragraphs AG2 and AG3 are IPSAS 17.10 amended for IPSASB instructions in June 2020 (Agenda Item 9.2.3)</p> | <p>Heritage assets</p> <p>AG2. Some property, plant, and equipment are described as heritage assets because of their rarity and/or significance in relation, but not limited, to their archeological, architectural, agricultural, artistic, cultural, environmental, historical, natural, scientific, or technological significance features. Entities usually intend to hold heritage assets for long periods and preserve them for the benefit of present and future generations. Examples of heritage assets include historic buildings and, monuments, archeological sites, museum collections, conservation areas, and nature reserves, and works of art. Certain characteristics, including the following, are often displayed by heritage assets (although these characteristics are not exclusive to such assets):</p> <ul style="list-style-type: none"> (a) Their value in cultural, environmental, educational, and historical terms is unlikely to be fully reflected in a financial value based purely on a market price; (b) Legal and/or statutory obligations may impose prohibitions or severe restrictions on disposal by sale; (c) They are often irreplaceable and their value may increase over time, even if their physical condition deteriorates; and (d) It may be difficult to estimate their useful lives, which in some cases could be several hundred years. <p>Public sector entities may have large holdings of heritage assets that have been acquired over many years and by various means, including purchase, donation, bequest, and sequestration. These assets are rarely held for their ability to generate cash inflows, and there may be legal or social obstacles to using them for such purposes.</p> <p>AG3. Heritage assets <u>typically have the following distinguishing</u> often display the characteristics of:</p> <ul style="list-style-type: none"> (a) They h<u>Having</u> restrictions on their use; (b) Being viewed as<u>They are</u> irreplaceable; and (a)(c) Being expected to<u>They</u> have long and sometimes unspecified indefinite useful lives. <p>Infrastructure assets</p> | <p>No</p> <p>No</p> |

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| <p>Paragraphs AG4-AG5 is IPSAS 17.21 amended for IPSASB decisions and instructions in March and June 2020 (Agenda Item 9.2.2)</p> | <p>AG4. Some property, plant, and equipment assets are commonly described as infrastructure assets because they <u>comprise a number of assets</u> are a group or component of assets that make up a networks or systems that are immovable or costly to move; do not have alternative uses; and serve the community at large. These components are an integral part of a total network; that is, if the component is removed, the system may not achieve its service potential objective. The network or system are immovable, costly to move, usually available to the not moved easily, and usually do not have a market. Entities Generally, the usually intend to hold infrastructure assets for have long periods of timelives because they <u>number of assets that make up these networks or systems</u> are <u>continually usually</u> maintained <u>at a certain level</u> to provide ongoing service potential by the continuing replacement, and refurbishment of its their components. If a number of T these components are an integral part of a total network or system; that is, if the component assets is were removed, the <u>network or</u> system may not achieve its service potential objective. Infrastructure assets are a subset of property, plant, and equipment and display the following characteristics:</p> <p>AG5. They are networks or systems; and</p> <p>AG6. They have long useful lives.</p> <p>AG7. <u>AG4.</u></p> | <p>No</p> |
| <p>Paragraph AG5 is IPSAS 17.21 amended for IPSASB decisions and instructions in March and June 2020 (Agenda Item 9.2.2)</p> | <p>AG5. Infrastructure assets <u>typically have</u> are a subset of property, plant, and equipment and display the following <u>distinguishing</u> characteristics:</p> <p>(a) They are networks or systems; and</p> <p>(b) They have long useful lives.</p> | |
| <p>Paragraphs AG6(a)-(c) are IPSAS 17.21 amended for IPSASB decisions and instructions in March and June 2020 (Agenda Item 9.2.2)</p> | <p>AG6. Although ownership of infrastructure assets is not confined to entities in the public sector, significant infrastructure assets are frequently found in the public sector. Infrastructure assets meet the definition of property, plant, and equipment and should be accounted for in accordance with this Standard. Some Examples of infrastructure assets include road networks, sewer systems, water and power supply systems, and communication networks.:</p> <p>(a) Electricity Power systems, which <u>may</u> comprise <u>components assets</u> such as power generating plants, substations, switchyards, transmission line towers, distribution system equipment, energy control centers, communication systems and equipment, emergency power backup equipment, emergency operations centers and service and maintenance facilities;</p> <p>(b) Road networks, which <u>may</u> comprise <u>components assets</u> such as pavements, formation, curbs and channels, footpaths, bridges, signal and lighting, highways, motorways, urban roads and rural roads; and</p> <p>(a)(c) <u>(c)</u> Water systems, which <u>may</u> comprise <u>components assets</u> such as dams, pipelines, tunnels, canals, terminal reservoirs, tanks, wells, pumps and treatment plants.</p> | <p>No</p> |
| | <p>Weapons systems</p> | |
| <p>Paragraph AG7 is</p> | <p>AG8. <u>AG7.</u> Weapons systems will normally meet the definition</p> | <p>No</p> |

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| IPSAS 17.20. | of property, plant, and equipment, and should be recognized as an asset in accordance with this Standard. Weapons systems include vehicles and other equipment, such as warships, submarines, military aircraft, tanks, missile carriers and launchers that are used continuously in the provision of defense services, even if their peacetime use is simply to provide deterrence. Some single-use items, such as certain types of ballistic missiles, may provide an ongoing service of deterrence against aggressors and, therefore, can be classified as weapons systems. | |
| Paragraphs AG8(a)-(c) are amended here for IPSASB instructions in June 2020 (Agenda Item 10.2.3). | <p>Definitions</p> <p>Property, Plant, and Equipment</p> <p>AG9AG8. In the public sector, there may be uncertainty whether certain items of property, plant, and equipment meets the definition of an asset. An item of property, plant and equipment meets the definition of an asset if it satisfies all the following characteristics:</p> <p>(a) Resource. A resource provides benefits to an entity in the form of service potential or the ability to generate economic benefits. The service potential or ability to generate economic benefits can arise directly from the resource itself or from the rights to use the resource (see paragraphs AG10-AG12);</p> <p>(a)(b) Control. An entity must have control of the resource (see paragraphs AG13-AG15); and</p> <p>(b)(c) Past Event. The definition of an asset requires that a resource that an entity presently controls must have arisen from a past transaction or other past event. Past events that could indicate that an entity controls an asset include purchase from an external party, receipt through a transaction at no or nominal cost such as donation, passing of legislation and construction or development.</p> | No |
| Paragraph AG9 is new to reflect IPSASB instructions in June 2020. | AG10 AG9. An item of property, plant, and equipment is recognized as an asset when it meets the definition of an asset and satisfies the recognition criteria. To satisfy the recognition criteria, it should be probable that future economic benefits or service potential associated with the item will flow to the entity, and the cost or [current value] of the item can be measured reliably. | No |
| Paragraphs AG10 - AG12 are new paragraphs to reflect IPSASB instructions in June 2020. | <p><i>Resource</i></p> <p>AG10. In the public sector there may be uncertainty as to whether items of property, plant, and equipment are resources because it may appear that they do not <u>provide benefits to the reporting entity in the form of service potential and/or economic benefits</u>. For example, an entity may hold heritage items for the purposes of providing access to the public to view heritage items, and some may view this as providing</p> | No |

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| | <p>services to the public rather than contributing to the reporting entity's achievement of its objectives.</p> <p>AG11. A resource is an item with service potential or the ability to generate economic benefits. Economic benefits reflect the ability of an asset to generate net cash inflows. Most public sector entities hold assets primarily to deliver services rather than generate economic benefits. Service potential is the capacity of an asset to provide services that contribute to achieving an entity's service delivery and other objectives without necessarily generating net cash inflows.</p> <p>AG12. Items that a reporting entity uses to deliver services to the public will be resources from the reporting entity's perspective, when those services contribute to achieving the entity's service delivery and other objectives. For example heritage items that are used purely for the benefit of the public (sometimes described as "for heritage purposes") can have service potential and be resources because the entity has the objective of making heritage accessible to the public. Similarly, infrastructure assets that are used to deliver public services (e.g. road networks or water systems) will be resources to an entity that holds them if <u>those services contribute to achieving the entity's service delivery and other objectives.</u></p> | |
| | <i>Control of an Asset</i> | |
| <p>Paragraphs AG13 – AG15 are amended here for IPSASB instructions in June 2020 (Agenda Item 10.2.3).</p> | <p>AG13. An entity controls the resource if it has the ability to use the resource or direct other parties on its use or prevent other parties from using the resource so as to derive service potential or economic benefits embodied in the resource in the achievement of its service delivery or other objectives.</p> | No |
| | <p>AG14. In assessing whether it presently controls a resource, an entity assesses whether one or more of the following indicators of control exists:</p> <ul style="list-style-type: none"> (a) Legal ownership; (b) Access to the resource, or the ability to deny or restrict others to access the resource; (c) The means to ensure that the resource is used to achieve its objectives; or (d) The existence of enforceable right to service potential or the ability to generate economic benefits arising from the resource. <p>An entity is more likely to demonstrate control if it satisfies most of these indicators.</p> | No |
| | <p>AG14.<u>AG15.</u> No one indicator is more important than another indicator. Legal ownership is only one indicator of demonstrating control of a resource. An entity may demonstrate that it controls the resource even when there is no legal ownership because it has the ability to direct the use of the resource and obtain the economic benefits of the service potential that may flow from it. Conversely, an entity may have legal ownership but no rights to service potential or ability to generate future economic benefits. In such circumstances an entity considers substance over form in</p> | No |

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| | determining whether it controls an asset. | |
| | Recognition | |
| IPSAS 17.17 is moved to AG by IPSASB decision in July 2020 (Agenda Item 2.2.2). | <u>AG16.</u> Items such as spare parts, stand-by equipment and servicing equipment are recognized in accordance with this IPSAS when they meet the definition of property, plant, and equipment. Otherwise, such items are classified as inventory. | <u>IAS 16.8</u> |
| | <u>Subsequent Costs</u> | |
| Paragraphs AG16 to AG18 are IPSAS 17.23 to IPSAS 17.25. This tentative move from core text to AG is based on the IPSASB discussion in June 2020 (Agenda Item 8.2.2). | <u>AG15-AG17.</u> Under the recognition principle in paragraph 7, an entity does not recognize in the carrying amount of an item of property, plant, and equipment the costs of the day-to-day servicing of the item. Rather, these costs are recognized in surplus or deficit as incurred. Costs of day-to-day servicing are primarily the costs of labor and consumables, and may include the cost of small parts. The purpose of these expenditures is often described as for the “repairs and maintenance” of the item of property, plant, and equipment. | IAS 16.12 |
| | <u>AG16-AG18.</u> Parts of some items of property, plant, and equipment may require replacement at regular intervals. For example, a road may need resurfacing every few years, a furnace may require relining after a specified number of hours of use, or aircraft interiors such as seats and galleys may require replacement several times during the life of the airframe. Items of property, plant, and equipment may also be required to make a less frequently recurring replacement, such as replacing the interior walls of a building, or to make a non-recurring replacement. Under the recognition principle in paragraph 7, an entity recognizes in the carrying amount of an item of property, plant, and equipment the cost of replacing part of such an item when that cost is incurred if the recognition criteria are met. The carrying amount of those parts that are replaced is derecognized in accordance with the derecognition provisions of this Standard (see paragraphs 5254–5860). | IAS 16.13 |
| | <u>AG17-AG19.</u> A condition of continuing to operate an item of property, plant, and equipment (for example, an aircraft) may be performing regular major inspections for faults regardless of whether parts of the item are replaced. When each major inspection is performed, its cost is recognized in the carrying amount of the item of property, plant, and equipment as a replacement if the recognition criteria are satisfied. Any remaining carrying amount of the cost of previous inspection (as distinct from physical parts) is derecognized. This occurs regardless of whether the cost of the previous inspection was identified in the transaction in which the item was acquired or constructed. If necessary, the estimated cost of a future similar inspection may be used as an indication of what the cost of the existing inspection component was when the item was acquired or constructed. | IAS 16.14 |
| | Measurement at Recognition Elements of cost | |

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| <p>Paragraph AG19 is IPSAS 17.33. This move from core text to AG by the IPSASB in July 2020 (Agenda Item 2.2.2).</p> <p>Paragraph AG19(e) is taken from IPSAS 17.23.</p> | <p><u>AG20. Examples of costs that are not costs of an item of property, plant, and equipment are:</u></p> <p>(a) <u>Costs of opening a new facility;</u> (b) <u>Costs of introducing a new product or service (including costs of advertising and promotional activities);</u> (c) <u>Costs of conducting business in a new location or with a new class of customers (including costs of staff training);</u> (d) <u>Administration and other general overhead costs; and</u> (e) <u>Costs of day-to-day servicing or repairs and maintenance.</u></p> | <p><u>IAS 16.19</u></p> |
| <p>Paragraphs AG19 and AG20 are IPSAS 17.36 and IPSAS 17.36A. This move from core text to AG by the IPSASB in June 2020 (Agenda Item 8.2.2).</p> | <p><u>AG18-AG21.</u> The cost of a self-constructed asset is determined using the same principles as for an acquired asset. If an entity makes similar assets for sale in the normal course of operations, the cost of the asset is usually the same as the cost of constructing an asset for sale (see IPSAS 12). Therefore, any internal surpluses are eliminated in arriving at such costs. Similarly, the cost of abnormal amounts of wasted material, labor, or other resources incurred in self-constructing an asset is not included in the cost of the asset. IPSAS 5, <i>Borrowing Costs</i>, establishes criteria for the recognition of interest as a component of the carrying amount of a self-constructed item of property, plant, and equipment.</p> | <p>IAS 16.22</p> |
| | <p><u>AG19-AG22.</u> Bearer plants are accounted for in the same way as self-constructed items of property, plant, and equipment before they are in the location and condition necessary to be capable of operating in the manner intended by management. Consequently, references to 'construction' in this Standard should be read as covering activities that are necessary to cultivate bearer plants before they are in the location and condition necessary to be capable of operating in the manner intended by management.</p> | <p>IAS 16.22A</p> |
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| | Depreciation | |
| <p>Paragraph AG21 is IPSAS 17.60. This <u>tentative</u> move from core text to AG is based on the IPSASB discussion in June 2020</p> | <p><u>AG20-AG23.</u> An entity allocates the amount initially recognized in respect of an item of property, plant, and equipment to its significant parts and depreciates separately each such part. For example, in most cases, it would be required to depreciate separately the pavements, formation, curbs and channels, footpaths, bridges, and lighting within a road system. Similarly, it may be appropriate to depreciate separately the airframe and engines of an aircraft, whether owned or subject to a finance lease. If an entity acquires property, plant and equipment subject to an operating lease in which it is the lessor, it may also be appropriate to depreciate separately amounts reflected in the cost of that item that are attributable to favorable or unfavorable lease terms relative to market terms.</p> | <p>IAS 16.44</p> |
| <p>Paragraphs AG22 and AG23 are new paragraphs to reflect IPSASB instructions in March 2020.</p> | <p><u>AG21-AG24.</u> An entity that controls land that is being consumed as a result of, for example, mining or quarrying activities will need to consider the period over which benefits or service potential are expected to be derived from carrying out those activities and the effect of carrying out those activities on the</p> | <p>No</p> |

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| | <p>value of the land to determine the appropriate depreciable period and amount.</p> <p>AG22-AG25. Where land is being lost or displaced as a result of, for example, coast line erosion, the entity will need to apply IPSAS 21 or IPSAS 26 to measure any immediate impairment loss. Depending on the factors associated with the loss or displacement of land, an entity may need to consider the appropriateness of depreciating the land in future reporting periods, and will continue to assess for impairment in accordance with the requirements of this Standard.</p> | <p></p> <p>No</p> |
| <p>Paragraphs AG24 to AG28 are IPSAS 17.69 to IPSAS 17.73. This tentative move from core text to AG is based on the IPSASB discussion in June 2020 (Agenda Item 8.2.2).</p> <p>Paragraph AG27 was amended to add reference to ED 79 by IPSASB decision in July 2020 (Agenda Item 2.2.2)</p> | <p>Depreciable Amount and Depreciation Period</p> | |
| | <p>AG23-AG26. The depreciable amount of an asset is determined after deducting its residual value. In practice, the residual value of an asset is often insignificant, and therefore immaterial in the calculation of the depreciable amount.</p> | <p>IAS 16.53</p> |
| | <p>AG24-AG27. The residual value of an asset may increase to an amount equal to or greater than the asset's carrying amount. If it does, the asset's depreciation charge is zero unless and until its residual value subsequently decreases to an amount below the asset's carrying amount.</p> | <p>IAS 16.54</p> |
| | <p>AG25-AG28. Depreciation of an asset begins when it is available for use, i.e., when it is in the location and condition necessary for it to be capable of operating in the manner intended by management. Depreciation of an asset ceases at the earlier of the date that the asset is classified as held for sale (or included in a disposal group that is classified as held for sale) in accordance with [draft] IPSAS [X] (ED 79) and the date that when the asset is derecognized. Therefore, depreciation does not cease when the asset becomes idle or is retired from active use and held for disposal unless the asset is fully depreciated. However, under usage methods of depreciation, the depreciation charge can be zero while there is no production.</p> | <p>IAS 16.55</p> |
| | <p>AG26-AG29. The future economic benefits or service potential embodied in an item of property, plant, and equipment are consumed by the entity principally through the use of the asset. However, other factors such as technical or commercial obsolescence and wear and tear while an asset remains idle often result in the diminution of the economic benefits or service potential that might have been obtained from the asset. Consequently, all the following factors are considered in determining the useful life of an asset:</p> <ul style="list-style-type: none"> (a) Expected usage of the asset. Usage is assessed by reference to the asset's expected capacity or physical output. (b) Expected physical wear and tear, which depends on operational factors such as the number of shifts for which the asset is to be used and the repair and maintenance program, and the care and maintenance of the asset while idle. (c) Technical or commercial obsolescence arising from changes or improvements in production, or from a change in the market demand for the product or service output of the asset. Expected future | <p>IAS 16.56</p> |

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| | <p>reductions in the selling price of an item that was produced using an asset could indicate the expectation of technical or commercial obsolescence of the asset, which, in turn, might reflect a reduction of the future economic benefits or service potential embodied in the asset.</p> <p>(d) Legal or similar limits on the use of the asset, such as the expiry dates of related leases.</p> <p>AG30. The useful life of an asset is defined in terms of the asset's expected utility to the entity. The asset management policy of an entity may involve the disposal of assets after a specified time, or after consumption of a specified proportion of the future economic benefits or service potential embodied in the asset. Therefore, the useful life of an asset may be shorter than its economic life. The estimation of the useful life of the asset is a matter of judgment based on the experience of the entity with similar assets.</p> | IAS 16.57 |
| | Depreciation Method | |
| <p>Paragraphs AG29 and AG30 are IPSAS 17.78 and IPSAS 17.78A. This tentative move from core text to AG is based on the IPSASB discussion in June 2020 (Agenda Item 8.2.2).</p> | <p>AG27-AG31. A variety of depreciation methods can be used to allocate the depreciable amount of an asset on a systematic basis over its useful life. These methods include the straight-line method, the diminishing balance method, and the units of production method. Straight-line depreciation results in a constant charge over the useful life if the asset's residual value does not change. The diminishing balance method results in a decreasing charge over the useful life. The units of production method results in a charge based on the expected use or output. The entity selects the method that most closely reflects the expected pattern of consumption of the future economic benefits or service potential embodied in the asset. That method is applied consistently from period to period unless there is a change in the expected pattern of consumption of those future economic benefits or service potential.</p> | IAS 16.62 |
| | <p>AG28-AG32. A depreciation method that is based on revenue that is generated by an activity that includes the use of an asset is not appropriate. The revenue generated by an activity that includes the use of an asset generally reflects factors other than the consumption of the economic benefits or service potential of the asset. For example, revenue is affected by other inputs and processes, selling activities and changes in sales volumes and prices. The price component of revenue may be affected by inflation, which has no bearing upon the way in which an asset is consumed.</p> | IAS 16.62A |
| <p><u>New heading</u></p> | <p><u>Depreciation – Useful life of an asset</u></p> | |
| <p><u>Paragraphs AG24 is IPSAS 17.72 with revisions to align with IPSAS 31.89</u></p> | <p><u>AG18. The future economic benefits or service potential embodied in an item of property, plant, and equipment are consumed by the entity principally through the use of the asset. However, other factors such as technical or commercial obsolescence and wear and tear while an asset remains idle often result in the diminution of the economic benefits or service potential that might have been obtained from the asset. Consequently, all the following factors are</u></p> | <p><u>IAS 16.56</u></p> |

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| | <p><u>considered in determining the useful life of an asset:</u></p> <ul style="list-style-type: none"> <u>(a) Expected usage of the asset. Usage is assessed by reference to the asset's expected capacity or physical output.</u> <u>(b) Expected physical wear and tear, which depends on operational factors such as the number of shifts for which the asset is to be used and the repair and maintenance program, and the care and maintenance of the asset while idle.</u> <u>(c) The level of maintenance expenditure required to obtain the expected future economic benefits or service potential from the asset and the entity's ability and intention to reach such a level.</u> <u>(d) Technical or commercial obsolescence arising from changes or improvements in production, or from a change in the market demand for the product or service output of the asset. Expected future reductions in the selling price of an item that was produced using an asset could indicate the expectation of technical or commercial obsolescence of the asset, which, in turn, might reflect a reduction of the future economic benefits or service potential embodied in the asset.</u> <u>(e) The period of control over the asset and legal or similar limits on the use of the asset, such as the expiry dates of related leases.</u> <u>(f) Typical product life cycles for the asset and public information on estimates of useful lives of similar assets that are used in a similar way;</u> <u>(g) The stability of the industry in which the asset operates and changes in the market demand for the products or services output from the asset;</u> <u>(h) Expected actions by competitors or potential competitors.</u> <u>(i) Whether the useful life of the asset is dependent on the useful life of other assets of the entity.</u> | |
| <p><u>Paragraphs AG25 is IPSAS 17.73</u></p> | <p><u>AG19. The useful life of an asset is defined in terms of the asset's expected utility to the entity. The asset management policy of an entity may involve the disposal of assets after a specified time, or after consumption of a specified proportion of the future economic benefits or service potential embodied in the asset. Therefore, the useful life of an asset may be shorter than its economic life. The estimation of the useful life of the asset is a matter of judgment based on the experience of the entity with similar assets.</u></p> | <p><u>IAS 16.57</u></p> |
| <p><u>IPSAS 31.94 revised to refer to property, plant and equipment.</u></p> | <p><u>AG20. There may be economic, political, social, and legal factors influencing the useful life of a property, plant and equipment asset. Economic, political, or social factors determine the period over which future economic benefits or service potential will be received by the entity. Legal factors may restrict the period over which the entity controls access to such economic benefits or service potential. The useful life is the shorter of the periods determined by these factors.</u></p> | |

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| <u>IPSAS 31.91 revised to refer to property, plant and equipment.</u> | <u><i>Finite and Indefinite Useful Lives</i></u> <u>AG21. Given the history of rapid changes in technology, computers and many other property, plant and equipment assets are susceptible to technological obsolescence. Therefore, it will often be the case that their useful life is short. Expected future reductions in the selling price of an item that was produced using a property, plant and equipment asset could indicate the expectation of technological or commercial obsolescence of the asset, which, in turn, might reflect a reduction of the future economic benefits or service potential embodied in the asset.</u> | |
| <u>New – example of a non-land asset with an indefinite useful life</u> | <u>AG22. The useful lives of non-land property, plant and equipment assets, including buildings, are generally finite. However, there are circumstances in which a non-land property, plant and equipment asset could have an indefinite useful life. For example, a heritage painting or sculpture held in a protective environment that is carefully controlled to preserve the asset, could be considered to have an indefinite useful life, so long as those conditions continue to apply.</u> | |
| <u>IPSAS 17.74 sentence and new – sentence on land having a definite useful life</u> | <u>AG18. With some exceptions, such as quarries and sites used for landfill, land has an indefinite useful life and therefore is not depreciated³. Another example of land with a finite useful life is when land is being encroached by rising sea levels with the result that the entity expects that, within a finite period of time, the land will no longer be useable due either to a severe and continual risk of regular flooding or actual submersion beneath the water.</u> | |
| | | |
| | Disclosure Infrastructure Assets | |
| | <i>Characteristics of Infrastructure Assets</i> | |
| <i>Paragraph AG31 may be added to reflect the IPSASB instruction in June 2020 (Agenda Item 9.2.2)</i> | <u>AG29-AG33.</u> PLACEHOLDER - to consider whether the characteristics of infrastructure assets of “networks or systems” and “long useful lives” included in the Standard might lead to additional presentation and disclosure requirements for infrastructure assets. | No |
| | <i>Land under or over Infrastructure Assets</i> | |
| <i>Paragraph AG32 may be added to reflect the IPSASB instruction in June 2020 (Agenda Item 9.2.2)</i> | AG34. PLACEHOLDER to consider impact of the issue of land under or over infrastructure assets on the presentation and disclosure requirements of infrastructure assets. | No |

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| | <p>Basis for Conclusions</p> <p><i>This Basis for Conclusions accompanies, but is not part of, [draft] IPSAS XX (ED 78).</i></p> | |
| | <p>Revision of IPSAS 17: Heritage, Infrastructure and Measurement Projects, 202X</p> <p><i>The IPSASB's Heritage, Infrastructure, and Measurement Projects</i></p> | |
| | <p>BC1. <u>The IPSASB undertook its Heritage, Infrastructure Assets, and Measurement projects from 2015 to 202X. It issued two consultation papers (CPs) (for Heritage and Measurement) and consulted with constituents on infrastructure-related issues through regional roundtables and national standard setter fora. The conclusions below reflect the IPSASB's consideration of CP respondents' views and constituents' concerns.</u></p> | |
| | <p><u>Heritage and Infrastructure</u></p> | |
| | <p>BC2. <u>After considering CP responses and constituents' views the IPSASB concluded that additional guidance should be provided in IPSAS 17 to better support its application to property, plant, and equipment that are heritage and/or infrastructure. Additional guidance will relate to the characteristics that (a) distinguish heritage and infrastructure from other property, plant and equipment, and (b) present complexities in the application and implementation of IPSAS 17's principles. For heritage, the IPSASB concluded—based on its analysis of CP responses—that measurement is the main difficulty for which guidance should be developed. For infrastructure, the IPSASB concluded the main concern raised by constituents was whether infrastructure is property, plant, and equipment or if they are distinct from property, plant, and equipment. As such, the IPSASB concluded in June 2020 that this guidance for characteristics should be located in Application Guidance as the intended guidance would expand and clarify on generic principles that already exist in the core text and do not illustrate new standalone accounting principles. The guidance should follow a standardized format by first describing the asset type, followed by the list of specific characteristics that give rise to accounting challenges. The IPSASB also acknowledged that additional non-authoritative guidance may also be added to illustrate principles with examples or provide practical implementation considerations.</u></p> | |
| | <p>BC3. <u>With respect to heritage items that qualify as assets, the IPSASB concluded that IPSAS 17's existing authoritative guidance should apply to heritagesuch items, on the basis that:</u></p> <p>(a) <u>Recognition of heritage assets will increase the transparency of heritage-related financial information so that users are better able to hold entities accountable for their heritage-related decisions, particularly those that support heritage preservation.</u></p> <p>(b) <u>Their heritage nature does not prevent heritage items being assets for financial reporting purposes.</u></p> | |

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| | <p>(c) Many heritage items are assets and should be recognized in the statement of financial position when they meet the- <i>Conceptual Framework for General Purpose Financial Reporting by Public Sector Entities (the Conceptual Framework)</i> Conceptual Framework's recognition criteria.</p> <p>(d) Since the heritage nature of an item is not, by itself, a reason for special financial reporting requirements a separate, heritage focused IPSAS is unnecessary.</p> <p>(e) Where heritage items are within the scope of an IPSAS, that Standard should apply.</p> | |
| <i>Placeholder: See 9.2.12</i> | <i>Placeholder: See 9.2.12, Recommendation that no guidance needed on impairment of heritage assets</i> | |
| <i>Placeholder: See 9.2.12.</i> | <p>BC4. With respect to infrastructure assets, on the basis that IPSAS 17 already has sufficient guidance, the IPSASB concluded that no additional guidance is needed to address:</p> <p>(a) A definition of infrastructure assets (see paragraphs);</p> <p>(b) Infrastructure assets spare parts (see paragraphs);</p> <p>(c) Costs to dismantle infrastructure assets (see paragraphs). and</p> <p>(d) [PLACEHOLDER PARAGRAPHS FOR ADDITIONAL ISSUES THAT MAY BE FOUND TO NOT REQUIRE ADDITIONAL GUIDANCE. <i>See 9.2.12, Recommendation that no guidance needed on impairment of infrastructure</i>]</p> <p>The IPSASB included its rationale for not adding guidance to address the abovementioned issues in the Basis for Conclusions to inform stakeholders and constituents that the IPSASB had considered these issues.</p> | |
| | <p>BC5. On the basis that this is needed to enhance the consistency of reporting entities' application of IPSAS 17, the IPSASB concluded that additional non-authoritative guidance should be added to address:</p> <p>(a) Separating land under or over infrastructure assets (see paragraphs <i>IE/IGXX- IE/IGXX</i>) [PLACEHOLDER];</p> <p>(b) Depreciation (see paragraphs <i>IE/IGXX- IE/IGXX</i>[PLACEHOLDER]);</p> <p>(c) Deferred maintenance (see paragraphs <i>IE/IGXX- IE/IGXX</i>[PLACEHOLDER]);</p> <p>(d) Renewals accounting (see paragraphs <i>IE/IGXX- IE/IGXX</i>[PLACEHOLDER], and</p> <p>(e) Componentization (see paragraphs <i>IE/IGXX- IE/IGXX</i> [PLACEHOLDER]).</p> | |
| | <p>BC6. On the basis that IPSAS 17 does not adequately address the relevant principles, the IPSASB decided to add authoritative guidance on:</p> <p>(a) Characteristics of infrastructure assets (see paragraphs AG4-AG6, <i>IE/IGXX- IE/IGXX</i> [PLACEHOLDER and <i>BC15-BC26</i>); and</p> <p>(b) Control (see paragraphs 6, AG8-AG15, <i>IE/IGXX- IE/IGXX</i>[PLACEHOLDER] and <i>BC31-BC41</i>).</p> | |
| <i>Paragraph BC7 was deleted to eliminate duplication of BC6</i> | On the basis that IPSAS 17 does not adequately address the relevant principles, the IPSASB decided to add | |

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| <p><i>by IPSASB decision in July 2020 (Agenda Item 2.2.2)</i></p> | <p><u>authoritative guidance on:</u></p> <p><u>(a) Characteristics of infrastructure assets (see paragraphs AG4-AG6, IE/IGXX- IE/IGXX and BC15-BC26); and</u></p> <p><u>(b) Control (see paragraphs AG8-AG15, IE/IGXX- IE/IGXX and BCXX-BCXX).</u></p> | |
| | <p><u>Measurement</u></p> | |
| | <p>BC7. <u>The Basis for Conclusions in IPSAS XX, Measurement has a comprehensive discussion of the IPSASB's conclusions arising from its Measurement project, and explain the basis for the following revisions to IPSAS 17:</u></p> <p><u>(a) Generic measurement requirements have been removed and relocated to IPSAS XX, Measurement, and</u></p> <p><u>(b) References to fair value have been replaced with [current costvalue model].</u></p> | |
| | <p><u>Scope</u></p> | |
| | <p><u>Remove the Heritage Scope Exclusion Paragraphs</u></p> | |
| | <p><u>BC3-BC8.</u> <u>As explained in BC3, the IPSASB concluded that IPSAS 17 should fully apply to heritage items that are property, plant, and equipment. Therefore, IPSAS 17's scope exclusion for heritage assets and related paragraphs have been deleted.</u></p> | |
| | <p><u>Move List to Application Guidance</u></p> | |
| | <p><u>BC4-BC9.</u> <u>In reaching its decision on heritage assets, the IPSASB noted that the list of different types of property, plant, and equipment included in IPSAS 17's section on scope is more in the nature of application guidance than that of principles to include in core text. On this basis the IPSASB decided that the list and related descriptions should be moved to application guidance.</u></p> | |
| | | |
| | <p><u>Definition of Property, Plant and Equipment</u></p> | |
| | <p><u>Removal of the term 'tangible items'</u></p> | |
| | <p><u>BC5-BC10.</u> <u>The definition of property, plant, and equipment in IPSAS 17 referred to 'tangible items' with no reference to an asset. A consequence is that, if property, plant, and equipment is not a resource, or not controlled or does not result from a past event, it is not an asset.</u></p> | |
| | <p>BC11. <u>However, this was not clear in IPSAS 17 and caused confusion in practice because they are instances when it is uncertain that an item is a resource and when it is uncertain that an item is controlled by an entity. Strictly applying the old definition of property, plant, and equipment in IPSAS 17 could lead one to recognize an item that did not meet the definition of an asset in <u>The Conceptual Framework for General Purpose Financial Reporting by Public Sector Entities</u> (the Conceptual Framework) or IPSAS 1, <u>Presentation of Financial Statements</u>.</u></p> | |
| | <p>BC12. <u>To address the uncertainty of a resource and the</u></p> | |

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| | <p><u>uncertainty of control, the IPSASB:</u></p> <ul style="list-style-type: none"> (a) <u>Replaced the term “tangible items” with “tangible assets,” in IPSAS 17’s definition of property, plant, and equipment; and</u> (b) <u>Added guidance on resource and control in the form of:</u> <ul style="list-style-type: none"> i. <u>Application guidance (see paragraphs AG8-AG15) to address the lack of IPSAS guidance on resource and control;</u> ii. <u>[Placeholder] Illustrative examples (see paragraphs IEXX-IEXX); and</u> iii. <u>[Placeholder] Implementation guidance (see paragraphs IGXX-IGXX).</u> | |
| | <u><i>Uncertainty of Resource and Control</i></u> | |
| | <p>BC13. <u>In determining whether an element should be recognized there are two types of uncertainty that need to be considered. The first is existence uncertainty—whether the definition of an element has been satisfied. The second is measurement uncertainty—whether the element can be measured in a manner that achieves the qualitative characteristics. Measurement uncertainty is considered if it is determined that the definition of an element has been met..</u></p> | |
| | <p>BC14. <u>The IPSASB acknowledged there are instances where there is uncertainty about the existence of an asset. The uncertainty about the existence of an asset relates to certain characteristics of an asset – in particular whether an item such as a heritage item is a resource and whether an entity controls the asset.</u></p> | |
| | <p>BC15. <u>An asset is defined in IPSAS 1 and the Conceptual Framework with minor differences. The Conceptual Framework includes service potential or the ability to generate economic benefits as part of description of resource rather than as part of the definition of an asset. However, both definitions contain three common components: resource(s), control and past event.</u></p> | |
| | <p>BC16. <u>Whilst, the Conceptual Framework and IPSAS 1 define an asset and whilst, the Conceptual Framework provides guidance for control and resource, the Conceptual Framework does not establish or override the authoritative requirements in IPSAS 17.</u></p> | |
| | <p>BC17. <u>If the item does not meet the asset definition in IPSAS 1 or the Conceptual Framework, then the recognition criteria would not be applied. IPSAS 17 only provided guidance on when to recognize an asset but did not provide guidance on what constitutes control of an asset and did not provide guidance on what constitutes a resource.</u></p> | |
| | <p>BC18. <u>As a result of the lack of guidance on control and what constitutes a resource in IPSAS 17, the IPSASB acknowledged that there is a risk of diversity in practice as stakeholders are uncertain how to identify the reporting entity that controls an asset and whether heritage item is a resource. The IPSASB agreed to include authoritative guidance on control and resource relating to property, plant and equipment.</u></p> | |

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| | <p>BC19. <u>The IPSASB decided to add authoritative guidance on control of property, plant, and equipment including heritage assets and infrastructure assets and add authoritative guidance on resource (see paragraphs AG8-AG15) because:</u></p> <ul style="list-style-type: none"> (a) <u>The guidance on control and resource in the Conceptual Framework does not establish or override the authoritative requirements in IPSAS 17;</u> (b) <u>IPSAS 1 provides general concepts as it only defines an asset; and</u> (c) <u>IPSAS 31, <i>Intangible Assets</i> includes authoritative control guidance. A similar approach when drafting additional guidance in IPSAS 17 enhances consistency.</u> | |
| | <p>BC20. <u>The IPSASB also added non-authoritative guidance in the form of Illustrative Examples to further illustrate the general principles for resource and control with case facts developed from practical examples (see paragraphs IEXX-IEXX).</u></p> | |
| <p>Paragraphs BC23-BC25; IG1-IG4; and IE1-IE5 are added to reflect the IPSASB decision at the July 2020 meeting to add guidance on control of land under or over infrastructure assets (Agenda Item 2.2.3).</p> | <p><u><i>Assessment of Control</i></u></p> <p>BC21. <u>Constituents identified several issues that present complexities when applying control principles in this standard to account for heritage assets and infrastructure assets.</u></p> | |
| | <p>BC22. <u>The IPSASB acknowledged that there are instances where there is uncertainty about the entity that controls property, plant, and equipment.</u></p> | |
| <p><u>Placeholder: Control over heritage items; See 9.2.3</u></p> | <p>BC23. <u>The IPSASB developed implementation guidance and/or illustrative examples to clarify how the principles in this standard should be applied to the following issues:</u></p> <ul style="list-style-type: none"> (a) <u>[Placeholder: Control over heritage items]...;</u> (b) <u>Control of land under or over property, plant, and equipment (see paragraphs IG1-IG4 and IE1-IE5);</u> (c) <u>...;</u> | |
| | <p><u><i>Definition, Description and Characteristics of Heritage and Infrastructure Assets</i></u></p> | |
| | <p>BC6-BC24. <u>The IPSASB decided neither heritage nor infrastructure assets need to be defined, because they are subsets of property, plant, and equipment and IPSAS 17 principles on other property, plant, and equipment also apply to heritage and infrastructure. Based on CP Heritage responses and based on comments from constituents related to 'infrastructure, the IPSAS concluded that IPSAS 17 should include application guidance to help entities identify their heritage assets (see paragraphs AG2-AG3) and infrastructure assets (see paragraphs AG4-AG6).</u></p> | |
| | <p>BC25. <u>The IPSASB decided that the characteristics should be those that distinguish heritage and infrastructure assets from other property, plant, and equipment, while also presenting complexities in the application and</u></p> | |

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| | <p><u>implementation of IPSAS 17's principles. On this basis, the IPSASB decided:</u></p> <p><u>(a) Infrastructure assets, are characterized as "networks or systems" that have "long useful lives."</u></p> <p><u>(b) Heritage assets are characterized as "restrictions", "irreplaceable", and "long and sometimes unspecified useful lives."</u></p> | |
| | <p>BC7-BC26. <u>For infrastructure assets the IPSASB also decided to update the examples of infrastructure assets and include the various components that make up these "networks or systems" to link these examples to the revised characteristics of infrastructure assets of "networks or systems" and "long useful lives."</u></p> | |
| | <p>Recognition</p> <p><i><u>Heritage assets: The operational/non-operational distinction</u></i></p> | |
| | <p>BC8-BC27. <u>The IPSASB considered whether only those heritage assets that are used for non-heritage purposes should be recognized. Some national jurisdictions use the term "operational" to describe heritage assets that are used for non-heritage purposes. Those jurisdictions only require recognition of operational heritage assets, while non-operational heritage assets are not recognized. Non-operational heritage assets include, for example, museum collections held purely for public appreciation.</u></p> | |
| | <p>BC9-BC28. <u>The IPSASB decided that the distinction between operational and non-operational heritage assets is not helpful for identifying whether heritage items are assets and should be recognized. Both operational and non-operational heritage items can be assets, since both can meet the <i>Conceptual Framework's</i> definition of an asset (resource, control, past event). The IPSASB noted that how an entity uses its heritage assets will have implications for their measurement, including (for example) assessments of useful lives for depreciation. Heritage assets that are used purely for heritage purposes (e.g. a heritage painting on display in a museum) may have less daily wear and tear and longer useful lives compared to heritage assets used for other, non-heritage purposes.</u></p> | |
| | <p><i><u>Infrastructure Assets Spare Parts</u></i></p> | |
| | <p>BC29. <u>Constituents commented that there are challenges in assessing whether spare parts required to maintain or repair infrastructure assets should be included as part of the asset itself, or, whether these spare parts comprise inventory as they are consumed in the rendering of services. Their view was that IPSAS 17 does not provide sufficient guidance on whether spare parts are items of property, plant, and equipment or inventory. IPSAS 17 applies to spare parts that are within its scope, while IPSAS 12, <i>Inventories</i>, should be applied to spare parts that are inventory.</u></p> | |
| | <p>BC30. <u>The IPSASB noted the issue for infrastructure assets spare parts is not a specific infrastructure assets issue but rather a generic issue. The IPSASB decided that no additional guidance is necessary because there is sufficient</u></p> | |

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| | <u>authoritative guidance on how to account for spare parts in IPSAS 12 and IPSAS 17.</u> | |
| | <u>Accounting for Land Under or Over infrastructure Assets</u> | |
| | <u>BC10-BC31.</u> The IPSASB agreed that land under or over infrastructure assets is not a specific infrastructure assets issue but rather a generic issue. | |
| | <u>BC11-BC32.</u> [Placeholder: - Clarify the separation for land under or over infrastructure assets. (See agenda item X.X)] | |
| <u>Placeholder: See 9.2.5</u> | <u>[PLACEHOLDER: Capitalization thresholds]</u> | <u>No</u> |
| <u>Placeholder: See 9.2.4</u> | <u>[PLACEHOLDER: Treatment of subsequent expenditure on unrecognized assets]]</u> | <u>No</u> |
| | <u>Measurement</u> | |
| <u>Placeholder: See 9.2.6.</u> | <u>[PLACEHOLDER: Current value measurement bases and techniques]</u> | |
| | <u>Measurement after Initial Recognition</u> | |
| <u>BC35 is added to explain the accounting policy choice for measurement of PP&E (see agenda item 9.2.2).</u> | <u>BC33.</u> The Board considered whether additional guidance was necessary to assist in making the accounting policy choice of measuring classes of property, plant, and equipment after initial recognition either on a current value or historical cost basis. | |
| <u>BC36 is added to explain the accounting policy choice for measurement of PP&E (see agenda item 9.2.2).</u> | <u>BC34.</u> The Board concluded no additional guidance was needed. Management should continue to apply its judgement in choosing an accounting policy that results in information that: <ul style="list-style-type: none"> <u>a. Is relevant to the accountability and decision-making needs of users,</u> <u>b. Faithfully represents the financial position, financial performance, and cash flows of the entity,</u> <u>c. Meets the qualitative characteristics of understandability, timeliness, comparability, and verifiability; and</u> <u>d. Considers of the constraints on information included in general purpose financial reports and the balance between the qualitative characteristics.</u> | |
| | <u>Costs to dismantle Infrastructure Assets</u> | |
| | <u>BC42-BC35.</u> The IPSASB considered the issue raised by stakeholders that IPSAS provided insufficient guidance for accounting for costs to dismantle infrastructure assets. Stakeholders are of the opinion that there is a need to highlight the impact of the future environmental or decommissioning costs on the value of acquired property, plant, and equipment, including infrastructure assets. | |
| | <u>BC43-BC36.</u> The IPSASB decided that this issue is not specific to infrastructure assets issue, and no additional guidance is necessary, because sufficient authoritative guidance exists in IPSAS 17 and IPSAS 19, <i>Provisions, Contingent Liabilities and Contingent Assets</i> . IPSAS 17 is clear that | |

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| | <p><u>the cost of an item of property, plant, and equipment includes the initial estimate of the costs of dismantling and removing the item and restoring the site on which it is located, the obligation for which an entity incurs either when the item is acquired, or as a consequence of having used the item during a particular period for purposes other than to produce inventories during that period. IPSAS 19 elaborates that, a public sector entity would recognize a provision for the decommissioning costs to the extent that the public sector entity is obliged to rectify damage already caused.</u></p> | |
| | <p><u>Depreciation</u> <u>Depreciation: Useful lives</u></p> | |
| | <p>BC14.<u>BC37.</u> The IPSASB considers that land has an unlimited<u>indefinite</u> useful life and is therefore not depreciated except in cases where land is being consumed as a result of depletion (such as mines and quarries or landfill sites), when land will be depreciated in accordance with paragraph 41; or (b) Where land is being lost or displaced as a result of natural phenomena such as climate change (for example, rock or soil erosion, or desertification), an entity will apply IPSAS 21 or IPSAS 26.</p> | |
| | <p>BC15.<u>BC38.</u> The IPSASB considered Heritage CP respondents' views on depreciation of heritage assets. It noted that some respondents argued against depreciation <i>per se</i>, while others stated that application of depreciation to heritage assets is difficult. They stated that additional guidance is needed on (a) how to estimate heritage assets' useful lives, and (b) identification of heritage assets for which there is no depreciation expense.</p> | |
| | <p>BC16.<u>BC39.</u> On the basis that many heritage assets are used up over time, as they deliver services and/or economic benefits, the IPSASB concluded that heritage assets can be depreciable assets. However, the IPSASB further concluded that heritage assets may have very long and even indefinite useful lives, due to factors such as their nature and/or the circumstances in which they are held. On this basis the IPSASB decided that IPSAS 17's coverage of useful lives should be revised to apply to situations where non-land property, plant, and equipment assets have finite useful lives.</p> | |
| <p><u>New</u></p> | <p><u>Depreciation of heritage assets</u> <u>BC37. Responses to the Heritage CP showed support from stakeholders for applying the same depreciation requirements to heritages asset as those applied to other types of PP&E. Where respondents raised issues with that approach, some argued against depreciation <i>per se</i>, while others stated that guidance is needed because depreciation is difficult to apply to heritage assets. Respondents stated that guidance is needed on how to estimate heritage assets' useful lives and identification of heritage assets for which there is no depreciation expense. The IPSASB decided that heritage assets generally are depreciable assets. Some heritage assets</u></p> | |

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| | <u>may have unlimited indefinite useful lives, due to their nature and/or the circumstances in which they are held, in which case depreciation will be zero.</u> | |
| <u>New</u> | <u>BC38. The IPSASB considered that most non-land PP&E have finite useful lives. On this basis the IPSASB decided to include a rebuttable presumption that non-land PP&E has a finite useful life, so that an entity must have evidence to rebut that presumption before it can treat non-land PP&E as having an indefinite useful life.</u> | |
| <u>Placeholder: See 9.2.8</u> | <u>BC39 To support entities' assessments of whether a heritage asset has a finite or indefinite useful life the IPSASB decided to add non-authoritative Implementation Guidance in ED 78, (IPSAS 17 Update), <i>Property, Plant, and Equipment</i> (see paragraphs IGX-IGX).</u> | |
| <u>New</u> | <p><u>Finite and indefinite useful lives</u></p> <p><u>BC38BC40. When considering accounting for land under or over infrastructure the IPSASB noted that there are circumstances when land does not have an indefinite useful life. For example, rising sea levels mean that there is coastal land that will be unusable within the foreseeable future. The IPSASB decided that IPSAS 17's discussion of useful lives should be revised to better address situations where land has a finite useful life and should be depreciated. The IPSASB decided that the revised core text and related application guidance should also provide guidance to address situations where non-land property, plant and equipment assets (e.g. heritage assets) could have indefinite useful lives and should not, therefore be depreciated.</u></p> | |
| <u>Placeholder: See 9.2.8</u> | <u>[Placeholder: Annual impairment tests for non-land property, plant, and equipment with indefinite useful lives]</u> | |
| | <p><u><i>Renewals Accounting</i></u></p> <p><u>BC47BC40. [Placeholder - for renewals accounting (See Agenda Item X.X)]</u></p> | |
| | <u>Liabilities for future preservation/ maintenance of heritage and infrastructure assets</u> | |
| | <u>BC48BC41. The IPSASB considered whether an entity's intention to preserve and/or maintain heritage and infrastructure assets could give rise to liabilities. For a liability to exist the entity must have an unavoidable obligation (i.e. little or no realistic alternative to avoid). An obligation must be to an external party. An entity cannot be obligated to itself.</u> | |
| | <u>BC49BC42. While acknowledging that entities who hold heritage and infrastructure assets often intend to preserve and/or maintain them and there may be expectations on the entity to do so, the IPSASB concluded that neither intentions nor expectations are sufficient to establish a present obligation. Therefore, unless arrangements are in place that create an obligation to an external party for the entity to preserve and/or maintain heritage and</u> | |

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| | <u>infrastructure assets, no liability exists arising from the entity's plan and/or intention to do so.</u> | |
| | <u>Impairment of Heritage Assets</u> | |
| | BC20-BC43. <u>The IPSASB considered situations in which heritage assets have been impaired, noting that heritage assets can suffer from events such as fires, earthquakes, and floods. On this basis the IPSASB concluded that IPSAS impairment requirements should apply to heritage assets.</u> | |
| | BC21-BC44. <u>[Placeholder - for BCs to explain IPSASB's future decisions on impairment of heritage and infrastructure assets, which need to address (a) whether revisions or additional guidance could be needed in IPSAS to apply impairment to heritage assets, and (b) impairment of components of a network or systems (infrastructure issue).</u> | |
| | <u>Presentation – Display and Disclosure</u> | |
| | <u>Heritage: Focus on information in the financial statements</u> | |
| | BC22-BC45. <u>The IPSASB noted that some jurisdictions disclose supplementary information about heritage assets as a substitute for recognising heritage assets in the financial statements. Supplementary disclosures may include qualitative information that is not commonly included in the financial statements. This type of information could be useful for broader accountability purposes such as reporting on an entity's heritage-related service performance.</u> | |
| | BC23-BC46. <u>The IPSASB concluded that it would focus on guidance related to the financial statements on the basis that the Recommended Practice Guidelines (RPGs) provide sufficient guidance for reporting supplementary information about heritage assets outside of the financial statements. The RPGs allow entities to align heritage-related supplementary information to the specific information needs arising from their heritage holdings, heritage-related objectives, and national or local context.</u> | |
| | <u>Heritage and Infrastructure</u> | |
| | BC47. <u>[Placeholder - for BCs to explain future decisions on presentation, including whether there is a need for additional (a) authoritative guidance, or (b) non-authoritative guidance.]</u> | |

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| | Implementation Guidance <i>This guidance accompanies, but is not part of, [draft] IPSAS XX (ED 78)</i> | |
| | Assessment of Control <i>Control of land under or over Property, Plant, and Equipment</i> | |
| <u>Paragraphs BC23-BC25; IG1-IG4; and IE1-IE5 are added to reflect the IPSASB decision at the July 2020 meeting to add guidance on control of land under or over infrastructure assets (Agenda Item 2.2.3).</u> | Property, plant, and equipment can be built on land that is fundamental to the operation of the item, but is owned by another entity. For example, State or Municipal Governments may construct road networks on land that is owned by another level of government. Should the entity that controls the property, plant, and equipment also recognize the land? | |
| | <u>IG1. When assessing whether land under or over an item of property, plant, and equipment is recognized by an entity, the same criteria are applied as when determining whether the item of property, plant, and equipment is recognized by the entity.</u> | |
| | <u>IG2. The entity assesses whether it presently controls the land. Indicators of control include:</u> <u>(a) Legal ownership;</u> <u>(b) Access to the resource, or the ability to deny or restrict others to access the resource;</u> <u>(c) The means to ensure that the resource is used to achieve its objectives; or</u> <u>(d) The existence of enforceable right to service potential or the ability to generate economic benefits arising from the resource.</u> | |
| | <u>IG3. Where an item of property, plant, and equipment is built on land owned by another level of government, legal ownership of that land will not be present for the entity constructing the property, plant, and equipment. However, legal ownership is only one indicator of demonstrating control of a resource. An entity may demonstrate that it controls the resource even when there is no legal ownership because it has the ability to direct the use of the resource and obtain the economic benefits or service potential that may flow from it.</u> | |
| | <u>IG4. When assessing whether land, owned by another level of government, under an item of property, plant, and equipment is controlled by the entity, the entity considers the rights it has to continue to operate the item. If the ongoing operation of the item is dependent on the other level of government continuing to grant the entity access to the land, it is unlikely the entity controls the land.</u> | |
| <u>Placeholder: IG on control over heritage items: See 9.2.3</u> | [PLACEHOLDER: Control over items in a heritage collection] | |
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| | Implementation Guidance to clarify the complexities presented by the “networks or systems” characteristic | |

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| | <u>Infrastructure Assets</u> | |
| | <u>Component Approach</u> | |
| Paragraphs IG1-IG3 may be added to reflect the IPSASB instruction in June 2020 (Agenda Item 9.2.2) | IG1-IG5. [PLACEHOLDER - Following the Cascading table (IPSAS 41, Financial Instruments format), draft non-authoritative guidance in the form of Illustrative Examples (IEs) or Implementation Guidance (IGs) to clarify the complexities presented by the “networks or systems” and “long useful lives” characteristics. The non-authoritative guidance should also link to the authoritative guidance drafted.] | No |
| | <u>Impairment</u> | |
| | IG2-IG6. [PLACEHOLDER - Following the Cascading table (IPSAS 41, Financial Instruments format), draft non-authoritative guidance in the form of Illustrative Examples (IEs) or Implementation Guidance (IGs) to clarify the complexities presented by the “networks or systems” and “long useful lives” characteristics. The non-authoritative guidance should also link to the authoritative guidance drafted.] | |
| | <u>Subsequent Costs</u> | |
| | IG3-IG7. [PLACEHOLDER - Following the Cascading table (IPSAS 41, Financial Instruments format), draft non-authoritative guidance in the form of Illustrative Examples (IEs) or Implementation Guidance (IGs) to clarify the complexities presented by the “networks or systems” and “long useful lives” characteristics. The non-authoritative guidance should also link to the authoritative guidance drafted.] | |
| <u>Placeholder: See 9.2.4</u> | <u>Placeholder: Treatment of subsequent expenditure on unrecognized assets (IG)</u> | |
| <u>Placeholder: See 9.2.5</u> | <u>Placeholder: Capitalization threshold for costs (IG)</u> | |
| | | |
| | <u>Implementation Guidance to clarify the complexities presented by the “long useful lives” characteristic</u> | |
| | <u>Infrastructure Assets</u> | |
| <u>Placeholder: See 9.2.6.</u> | <u>Placeholder: Current value measurement of heritage assets (IG)</u> | |
| <u>Placeholder: See 9.2.8.</u> | <u>Placeholder: Heritage assets’ useful lives</u> | |
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| | <p>Illustrative Examples</p> <p><i>This guidance accompanies, but is not part of, [draft] IPSAS XX (ED 78)</i></p> | |
| <p><u>Paragraphs BC23-BC25; IG1-IG4; and IE1-IE5 are added to reflect the IPSASB decision at the July 2020 meeting to add guidance on control of land under or over infrastructure assets (Agenda Item 2.2.3).</u></p> | <p><u>Assessment of Control</u></p> <p><u>Control of land under or over Property, Plant, and Equipment</u></p> <p><u>Example 1-Case A (see paragraphs IE1-IE3) illustrates the principle to identify the reporting entity that controls the land under a road network where an entity has legal ownership of the land and the right to direct access to land and to restrict or deny access of others to land.</u></p> | |
| | <p><u>IE1. Provincial (State) Government enters into a long-term binding arrangement with the National Government to construct a road that passes through a National Park. The land is legally owned by the National Government and it has the title deeds of the land. The Provincial Government constructs a 200 miles road which connects two of its largest cities, City X and City Y. The road carries buses, cars and goods vehicles between these cities and has significantly shortened travel time between the cities.</u></p> | |
| | <p><u>IE2. The Provincial Government concludes that the National Government controls the land, because the National Government:</u></p> <ul style="list-style-type: none"> <u>(a) Legally owns the land;</u> <u>(b) Retains all the rights to the land as it can cancel the binding arrangement at any point in time; and</u> <u>(c) Retains the ability to generate economic benefits arising from selling the land. The National Government has the right to sell the land at any time and can decide to whom the land can be sold, and at what price.</u> | |
| | <p><u>IE3. While the province has the ability to ensure that the land immediately below the road is used to achieve its objectives, i.e., the national government is not receiving any service potential or economic benefit from the land while the road is in use, the entity concludes this is insufficient to support it controls the land as other indicators support control being retained by the national government.</u></p> | |
| | <p><u>Example 1-Case B (see paragraphs IE4-IE5) illustrates the principle to identify the reporting entity that controls the land under a road network where an entity</u></p> | |
| | <p><u>IE4. The facts and circumstances remain the same except the land is transferred to the Provincial Government and the latter has unlimited and unrestricted use of the land and does not legally own the land.</u></p> | |
| | <p><u>IE5. Even though, the Provincial Government does not legally own the land, the provincial government concludes it controls the land because it:</u></p> <ul style="list-style-type: none"> <u>(a) Has the right to direct access to the land and to restrict or deny access of others to land because it has</u> | |

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| | <p><u>unlimited and unrestricted use of the land. The Provincial Government can decide how the land will be used;</u></p> <p><u>(b) Has the ability to generate benefits in the form of economic benefits or service potential from the use of the land; and</u></p> <p><u>(c) Ensures the land is used to achieve the Provincial Governments' service potential objective whereby the land will allow the Provincial Government to build a road that will transport vehicles and goods between the two cities.</u></p> | |
| | <p>Illustrative Example to clarify the complexities presented by the “networks or systems” characteristic of Infrastructure Assets</p> <p>Infrastructure Assets</p> <p><i>Component Approach</i></p> | |
| Paragraphs IE1-IE3 may be added to reflect the IPSASB instruction in June 2020 (Agenda Item 9.2.2) | <p>IE1-IE6. [PLACEHOLDER - Following the Cascading table (IPSAS 41, <i>Financial Instruments</i> format), draft non-authoritative guidance in the form of Illustrative Examples (IEs) or Implementation Guidance (IGs) to clarify the complexities presented by the “networks or systems” and “long useful lives” characteristics. The non-authoritative guidance should also link to the authoritative guidance drafted]</p> | No |
| | <i>Impairment</i> | |
| | <p>IE7. [PLACEHOLDER - Following the Cascading table (IPSAS 41, <i>Financial Instruments</i> format), draft non-authoritative guidance in the form of Illustrative Examples (IEs) or Implementation Guidance (IGs) to clarify the complexities presented by the “networks or systems” and “long useful lives” characteristics. The non-authoritative guidance should also link to the authoritative guidance drafted]</p> | |
| | <i>Subsequent Costs</i> | |
| | <p>IE8. [PLACEHOLDER - Following the Cascading table (IPSAS 41, <i>Financial Instruments</i> format), draft non-authoritative guidance in the form of Illustrative Examples (IEs) or Implementation Guidance (IGs) to clarify the complexities presented by the “networks or systems” and “long useful lives” characteristics. The non-authoritative guidance should also link to the authoritative guidance drafted]</p> | |
| | <p>Illustrative Example to clarify the complexities presented by the “long useful lives” characteristic</p> <p>Infrastructure Assets</p> | |
| | IE2-IE9. | |
| | IE3-IE10. | |
| | IE4-IE11. | |
| | IE5-IE12. | |
| | | |