

Meeting: International Public Sector Accounting Standards Board

Meeting Location: Virtual Meeting

Meeting Date: June 23–26, 2020

Agenda Item 9

For:

Approval

Discussion

Information

INFRASTRUCTURE ASSETS

Project summary	The project objective is to research and identify issues stakeholders may have when applying IPSAS 17, <i>Property, Plant, and Equipment</i> to infrastructure assets. Informed by this research, the aim is to provide additional guidance on accounting for infrastructure assets.	
Meeting objectives Project management	Topic	Agenda Item
	Infrastructure Assets: Project Roadmap	9.1.1
	Instructions up to Previous Meeting	9.1.2
	Decisions up to Previous Meeting	9.1.3
Decisions required at this meeting	Overview of Infrastructure and Heritage Issues	9.2.1
	Characteristics of Infrastructure Assets	9.2.2
	Characteristics of Heritage Assets	9.2.3
	Location for Infrastructure and Heritage Characteristics Guidance	9.2.4

INFRASTRUCTURE ASSETS: PROJECT ROADMAP

Meeting	Completed Actions or Discussions / Planned Actions or Discussions:
September 2019	1. Discuss issues.
December 2019	1. Discuss issues.
March 2020	1. Discuss issues.
June 2020	1. Discuss issues. 2. Develop Exposure Draft (ED).
September 2020	1. Discuss issues. 2. Develop ED.
December 2020	1. Approval of ED.
H1 2021	1. Exposure Period
H2 2021	1. Review of responses to ED. 2. Discuss issues. 3. Approve revisions to IPSAS 17 (or new IPSAS).

INSTRUCTIONS UP TO PREVIOUS MEETING

Meeting	Instruction	Actioned
March 2020	Revise IPSAS 17 guidance on land under or over Infrastructure: <ul style="list-style-type: none"> • Since not all land has an unlimited useful life because climate change, for example, may result in land disappearing or being damaged. The IPSASB asked for guidance to be developed based on regular impairment reviews; • Consider the disclosure requirements in IPSAS 17 and how those relate to land (should there be additional requirements for land under or over Infrastructure?); • 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 • Consider the relationship with Leases guidance, when analyzing the issue of control of land under or over Infrastructure. 	To be discussed in September 2020
March 2020	Consider the appropriate location of revised guidance - possibly in the form of illustrative examples.	To be discussed in September 2020
March 2020	Revise the Basis for Conclusions paragraphs to clarify Infrastructure Assets are property, plant, and equipment and the characteristics capture the specific attributes that distinguish Infrastructure from general property, plant, and equipment, and give rise to particular accounting issues.	To be discussed in September 2020
March 2020	Remove the proposed additional characteristics of Infrastructure of 'long useful lives' and 'held for service delivery to the community at large' proposed by the Task Force because they do not capture the unique attributes of Infrastructure;	Agenda Item 9.2.2

Meeting	Instruction	Actioned
March 2020	<p>In further developing the characteristics of Infrastructure, consider the following:</p> <ul style="list-style-type: none"> • Existing financial reporting guidance of National Standard Setters, guidance included in the Government Finance Statistics Manual and the System of National Accounts and any other relevant literature; • Whether the only characteristic which makes Infrastructure unique is that they are a system or network, for example a road network; • Whether the guidance related to accounting for components requires any changes or clarifications for Infrastructure; and • Whether the current Infrastructure characteristics of specialization, immovability and constraints on disposal should be retained? 	Agenda Item 9.2.2
March 2020	Consider the appropriate location of the proposed guidance on characteristics and examples of Infrastructure in IPSAS 17, consistent with the guidance on Heritage characteristics and examples.	Agenda Item 9.2.4
March 2020	Update the examples of Infrastructure and link them to the revised characteristics.	To be discussed in in September 2020
March 2020	Consider the impact of the revised characteristics and examples of Infrastructure on the disclosure requirements in IPSAS 17.	To be discussed in in September 2020
March 2020	Based on IPSAS 41 'template' reconsider whether additional guidance proposed should be in the form of illustrative examples as they show the application of the principles better than implementation guidance.	To be discussed in in September 2020
March 2020	Revisit the characteristics of Infrastructure, as well as the examples, after analyzing the remaining Infrastructure issues.	Agenda Item 9.2.2
March 2020	Consider appointing further Task Force members to provide additional support to staff.	ED 76 Task Force developed to consider cross-cutting issues

Meeting	Instruction	Actioned
March 2020	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.	To be discussed in September 2020
March 2020	Draft Basis for Conclusions paragraphs for IPSASB review at the June meeting to indicate that no additional guidance is necessary for treatment of Infrastructure spare parts because sufficient authoritative guidance exists and it is therefore not a specific Infrastructure issue but rather a generic issue.	Paragraphs BC28-BC29 of ED 76 (IPSAS 17 Update), <i>Property, Plant, and Equipment</i>
March 2020	Draft Basis for Conclusions paragraphs for sign-off at the June meeting to indicate that no additional guidance is necessary for treatment of costs to dismantle Infrastructure because sufficient authoritative guidance exists in IPSAS 17 and IPSAS 19, <i>Provisions, Contingent Liabilities and Contingent Assets</i> and that this is not a specific Infrastructure issue but rather a generic issue.	Paragraphs BC36-BC37 of ED 76 (IPSAS 17 Update), <i>Property, Plant, and Equipment</i>
December 2019	Amend the Flowchart as follows: <ul style="list-style-type: none"> • Change the question in Decision 2 from “<i>Is there sufficient IPSAS guidance that already addresses this issue in the public sector?</i>” to “<i>Is there sufficient authoritative IPSAS guidance that already addresses this issue in the public sector?</i>” 	
December 2019	Consider whether the guidance to separately account for land and buildings also applies to separate disclosure of land and infrastructure assets.	To be discussed in September 2020
December 2019	Prepare guidance on control for land and infrastructure assets to address these issues: <ul style="list-style-type: none"> • Is control lost when land and infrastructure assets owned by central government is operated by different parties such as local government? • Is control lost when land and infrastructure assets owned by central government is operated by a different party for long periods (99-year term)? and • At what point is control lost/gained when land and infrastructure assets are transferred to another level of government? 	Agenda Item 10.2.3

Meeting	Instruction	Actioned
December 2019	Align guidance on control for land and infrastructure assets with the Measurement and Heritage projects.	Agenda Item 10.2.3
December 2019	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.	To be discussed in September 2020
September 2019	Amend the Flowchart as follows: <ul style="list-style-type: none"> • Change the question in Decision 3 from “Does the issue impair the ability of financial statements to provide useful information?” to “Is this issue related to general purpose financial statements?”; • Change the question in Decision 4 from “Would additional non-authoritative guidance help constituents with the identified issue?” to “Is additional non-authoritative guidance necessary to enhance consistency of application?”; • Incorporate the development of the Basis for Conclusions in “No further guidance necessary” boxes; • Add Decision 5 which evaluates whether the issue identified is relevant to other projects; and • Specify the type of guidance to be developed as either authoritative or non-authoritative. 	
September 2019	Reperform the analysis of the issue of accounting for land under or over infrastructure assets using the amended Flowchart (this comprise of separating, control and valuing land under or over infrastructure assets).	
September 2019	Reperform the analysis of the following issues presented using the amended Flowchart: <ul style="list-style-type: none"> • Application of control requirements to complex infrastructure assets; and • Disclosure requirements of infrastructure assets. 	To be discussed in September 2020
September 2019	Where appropriate, prepare draft guidance for the issues analyzed for the IPSASB’s consideration at the December 2019 meeting.	
September 2019	Consider the optimal location of additional guidance in its development. These discussions should be coordinated with the Measurement and Heritage projects and the revision/re-presentation of Study 14 material.	To be discussed in September 2020
June 2019	Develop a list of generic issues for review at the September 2019 meeting, consolidating issues raised at the 2016 and 2017 Public Sector Standard Setters’ Forums.	

Meeting	Instruction	Actioned
June 2019	Develop a proposed plan for addressing the issues in accordance with the project roadmap.	
December 2017	Continue research – Project put on hold December 2017.	
September 2017	Undertake research on existing practices and guidance to identify issues.	
September 2015 – December 2015	Project await start. First discussion in September 2017.	
June 2015	Revise project brief	

DECISIONS UP TO PREVIOUS MEETING

Meeting	Decision	BC Reference
March 2020	The IPSASB decided that land under or over Infrastructure is not a specific Infrastructure issue but rather a generic issue.	To be finalized in September 2020 as BC paragraphs have not yet been prepared.
March 2020	The IPSASB decided that the issue of control of land under or over Infrastructure is a cross-cutting issue that impacts the Heritage Assets and Measurement projects and future projects such as Natural Resources.	To be finalized in September 2020 as BC paragraphs have not yet been prepared.
March 2020	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.	To be finalized in September 2020 as BC paragraphs have not yet been prepared.
March 2020	The IPSASB decided that a separate definition for Infrastructure was not necessary.	To be finalized in September 2020 as BC paragraphs have not yet been prepared.
March 2020	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.	To be finalized in September 2020 as BC paragraphs have not yet been prepared.
March 2020	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.	Paragraphs BC28-BC29 of ED 76 (IPSAS 17 Update), <i>Property, Plant, and Equipment</i> .
March 2020	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.	Paragraphs BC36-BC37 of ED 76 (IPSAS 17 Update), <i>Property, Plant, and Equipment</i> .

December 2019	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.	To be finalized in September 2020 as BC paragraphs have not yet been prepared.
September 2019	The IPSASB decided to approve the comprehensive list and categorization of the issues identified by stakeholders for accounting for infrastructure assets.	To be finalized in September 2020 as BC paragraphs have not yet been prepared.
September 2019	The IPSASB decided to approve the Flowchart approach because it is helpful to analyze infrastructure assets issues, but that the Flowchart should be amended to reflect IPSASB input.	To be finalized in September 2020 as BC paragraphs have not yet been prepared.
June 2019	The IPSASB decided to approve the revised project brief after staff had made a number of amendments identified by the IPSASB.	To be finalized in September 2020 as BC paragraphs have not yet been prepared.
September 2015 – March 2019	No decisions were made.	Not Applicable
June 2015	Approved the initial 'Infrastructure Assets' project brief.	Not Applicable

Overview of Q2 2020 Infrastructure and Heritage Issues

Question

1. To summarize the issues addressed during Q2 2020 across the Infrastructure Assets and Heritage Assets projects.

Background

2. In March 2020 the Board agreed to implement a coordinated approach to develop EDs for:
 - (a) Measurement;
 - (b) Property, Plant and Equipment (Updated IPSAS 17); and
 - (c) Conceptual Framework – Limited-Scope Update.
3. The Board instructed staff to coordinate the development of the related EDs and manage cross-cutting issues.

Analysis

4. The following table summarizes where issues addressed in Q2 2020 related to the Heritage and Infrastructure projects are in the suite of agenda papers.

Issues Paper	Theme of Paper	Agenda Paper
Characteristics of Infrastructure Assets Staff presenter – Amon Dhliwayo	Definition	Agenda Item 9.2.2
Characteristics of Heritage Assets Staff presenter – Gwenda Jensen		Agenda Item 9.2.3
Location of Infrastructure and Heritage Assets Guidance Staff presenter – Eileen Zhou		Agenda Item 9.2.4
IPSAS 17’s Heritage Scope Exclusion Staff presenter – Gwenda Jensen	Scope	Agenda Item 10.2.2
Cross-Cutting Issue - Control Staff presenter – Amon Dhliwayo	Control	Agenda Item 10.2.3

Characteristics of Infrastructure Assets

Question

1. Does the IPSASB agree with the characteristics of infrastructure assets proposed?

Recommendation

2. The Cross-Cutting Task Force recommends including infrastructure assets characteristics that:
 - (a) Distinguish infrastructure assets from general property, plant, and equipment; and
 - (b) Present complexities in the application and implementation of existing principles in IPSAS 17, *Property, Plant and Equipment*.

Background

3. In March 2020, the IPSASB decided a separate definition was not necessary for infrastructure assets because they are a subset of property, plant, and equipment. The principles of accounting for general property, plant, and equipment should be also be applied when accounting for infrastructure assets.
4. However, the IPSASB agreed it was important to develop the characteristics of infrastructure assets that have specific attributes that distinguish them from general property, plant, and equipment, and present complexities in the application and implementation of existing principles.

Analysis

Characteristics of Infrastructure Assets in IPSAS 17

5. Paragraph 21 of IPSAS 17 states that *some assets are commonly described as infrastructure assets. While there is no universally accepted definition of infrastructure assets, these assets usually display some or all of the following characteristics:*
 - (a) *They are part of a system or network;*
 - (b) *They are specialized in nature and do not have alternative uses;*
 - (c) *They are immovable; and*
 - (d) *They may be subject to constraints on disposal.*

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. Examples of infrastructure assets include road networks, sewer systems, water and power supply systems, and communication networks.

6. When developing characteristics of infrastructure assets, Staff followed this process:
 - (a) **Understand Infrastructure Assets.** Obtained an understanding of the descriptions that capture the complexity of infrastructure assets in various literature and compared the descriptions to existing IPSAS 17 characteristics (see paragraphs 7-8);
 - (b) **Descriptions of Infrastructure Assets.** Based on the understanding of the general characteristics of infrastructure assets, characteristics were developed which distinguish infrastructure assets from general property, plant, and equipment (see paragraphs 7-8); and

- (c) **Characteristics that Present Complexities in Application and Implementation.** Staff reviewed the list of characteristics developed and recommended only characteristics that create complexities in the application and implementation of existing principles should be included in the accounting standard (see paragraphs 9-10). Characteristics present complexities in the application and implementation of existing principles if they result in the development of additional authoritative and/or non-authoritative guidance.

Descriptions of Infrastructure Assets

7. Staff analyzed the broad definitions/descriptions of infrastructure assets in the financial reporting guidance of National Standard Setters, Government Finance Statistics Manual and other relevant literature and noted that infrastructure assets are described or characterized as¹:
- (a) **Networks or systems.** A network is a group of assets that provide a particular service. An example of a network of infrastructure assets is a Water and Sewer system which is composed of dams, pipelines, tunnels, canals, reservoirs, tanks, wells and pumps;
 - (b) **Subsystems or components (part of a system).** A subsystem of a network is composed of all assets that make up a similar portion or segment of a network of assets. These components are an integral part of a total system, that is, if the component was removed, the system would not achieve its service potential objective. For example, pavement, formation, curbs and channels, footpaths, bridges, signal and lighting, highways, motorways, urban roads and rural roads could each be considered a subsystem or component of a Road system or network;
 - (c) **Having long useful lives.** The network can be said to have a long useful life even though the lives of individual components may be finite. It may be difficult to define the useful life of infrastructure assets that are networks or systems because they are usually:
 - (i) Maintained at a certain level of service potential by the continuing replacement and refurbishment of its components. For example, a road system could be operational while components of the system may need to be replaced and fixed; and
 - (ii) Preserved for a greater number of years than general property, plant, and equipment if a regular maintenance program is consistently applied. The value of the network, in theory, would remain constant since it would be expected to be maintained at a defined level of service capacity;
 - (d) **Immovable or stationary.** When infrastructure assets are installed or developed, the intention is not to eventually remove or reuse the item for another purpose. If they are removed it may be costly to do so. For example, once a road is placed, there is no expectation it will be moved to another location to provide transportation services;
 - (e) **Specialized in nature.** Infrastructure assets usually have no alternative uses. For example, a road network is developed only to provide transportation services; and
 - (f) **Constraints on disposal.** There is usually no market for these items of infrastructure because the assets have a greater value for use than sale. For example, most road networks have little

¹ See [Appendix A](#) for the detailed descriptions of Infrastructure Assets.

value outside of the transportation services they provide. They cannot be sold because they cannot be made to be profitable without a means to collect revenues for use.

8. Staff noted that except for the descriptions of “networks or systems²” and “long useful lives”, the abovementioned descriptions are somewhat captured in the existing characteristics of infrastructure assets in IPSAS 17.

Characteristics that present complexity in application and implementation

9. Staff analyzed the characteristics to determine if they present complexities when applying and implementing the existing principles in IPSAS 17. Focusing on these complexities allows for:
 - (a) A more concise list of characteristics;
 - (b) A purpose for the inclusion of each characteristic; and
 - (c) An outline of where additional authoritative and/or non-authoritative guidance will be required to support constituents in accounting for specific characteristics of infrastructure assets that present complexities when implementing and applying the existing guidance in IPSAS 17.
10. Three characteristics of infrastructure assets, “networks or systems”, “long useful lives”, and “immovability” present complexities when applying and implementing the existing guidance in IPSAS 17. The characteristics, including the accounting complexities and additional accounting guidance proposed to address these complexities are identified in [Table 1](#) below.

Table 1

Unique Characteristics	Complexities in Implementation and Application
<p>Networks or Systems</p>	<p><u>Include “Networks or Systems” as a characteristic in the Standard</u></p> <p>Networks or systems presents complexities in the implementation and application of existing IPSAS 17 principles because of:</p> <ul style="list-style-type: none"> - Componentization. Infrastructure assets are characterized as a <u>single asset</u> comprising of different components. IPSAS 17 requires components be accounted for as separate assets, because they have different useful lives and significant costs. <p>Non-authoritative guidance in the form of an Illustrative Example (IE) is needed to clarify that a component approach should also be followed when accounting for infrastructure assets that are networks. For example, a road system consists of components such as pavement, formation, curbs and channels, footpaths, bridges, signal and lighting, highways, motorways, urban roads and rural roads that need to be accounted for separately.</p>

² IPSAS 17.21(a) states infrastructure assets are part of a system or network. However, infrastructure assets could also be described as a whole network or system.

Unique Characteristics	Complexities in Implementation and Application
<p>Networks or Systems (continued)</p>	<ul style="list-style-type: none"> - Impairment. Impairment of networks could be complex. For example, if a portion/component of an infrastructure asset is impaired, should the whole infrastructure asset be impaired especially if the whole network is functioning? Non-authoritative guidance in the form of Implementation Guidance (IG) is needed to clarify how impairment is determined for the network when a component of a network is not functioning. - Subsequent Costs. When the components of an item of property, plant and equipment are accounted for separately, decisions in relation to treatment of subsequent expenditure (capitalize or expense) can be made for each component. If components are not accounted for separately, it may not be possible to justify the capitalization of subsequent expenditure and subsequent expenditure may need to be expensed. Suppose that all the components of a Water and Sewer system are being depreciated over its overall expected useful life of the whole system of 50 years. Inherent in that assessment of the overall useful life is the knowledge that the system's Water Pump has a useful life of 15 years. When the water pump is replaced at the end of the first 15 years, it does not result in an increase in the previously assessed economic benefits or service potential embodied in the Water and Sewer system as a whole because it was already assumed that the network would be in good working order for 50 years. In this case the expenditure would be expensed. However, if the water pump was accounted for as a separate component of the network, it could be depreciated over 15 years and the subsequent expenditure capitalized (and depreciated over the next 15 years). Non-authoritative guidance in the form of an Implementation Guidance (IG) is needed to clarify the treatment of subsequent expenditure incurred for a network or system.
<p>Subsystems or Components</p>	<p><u>Do not include "Subsystems or Components" as a characteristic in the Standard</u></p> <p>The characteristic of subsystems or components should not be included in the Standard because the characteristic is already included in the network or system characteristic above.</p>
<p>Long useful lives</p>	<p><u>Include "Long useful lives" as a characteristic in the Standard</u></p> <p>The characteristic of a network or system having a long useful life presents complexities in the implementation and application of existing IPSAS 17 principles because infrastructure assets are made up of several components. As a whole, infrastructure assets have long useful lives, but each component has finite useful lives. Non-authoritative guidance in the form of Implementation Guidance (IG) is needed to elaborate whilst infrastructure assets as a whole may have a long useful life, its components have finite useful lives. In that case, the components can be depreciated separately.</p>

Unique Characteristics	Complexities in Implementation and Application
<p>Immovable</p>	<p><u>Include “Immovability” as a characteristic in the Standard</u></p> <p>The characteristic of immovability presents complexities in the application and implementation of existing IPSAS 17 principles because the characteristic is highly correlated to the characteristic of constrain on disposal as it may be costly to remove such immovable items.</p> <p>These complexities impact the measurement of these networks and entities may need to consider whether these constrains on disposal affect the value of the infrastructure assets.</p> <p>Non-authoritative guidance in the form of an Implementation Guidance (IG) is needed to elaborate the measurement of infrastructure assets that are immovable.</p>
<p>Constraint on disposal</p>	<p><u>Do not include “Constraint on disposal” as a characteristic in the Standard</u></p> <p>The characteristic of constraint on disposal has not been included in the Standard because the characteristic is linked to the immovability characteristic above.</p>
<p>Specialization</p>	<p><u>Do not include “Specialization” as a characteristic</u></p> <p>This characteristic does not really present complexities in the application and implementation of existing IPSAS 17 principles. This characteristic also impacts general property, plant, and equipment. They are buildings that are specialized and the IPSAS 17 principles are usually easy to apply when accounting for specialized buildings.</p>

Decisions Required

- Does the IPSASB agree with the Cross-Cutting Task Force recommendation?

Appendix A: Detailed Descriptions of Infrastructure Assets

1. The detailed descriptions of infrastructure assets are in the table below.

Source of Literature	Infrastructure Assets Description
CICA 2002, Study Group, <i>Accounting for Infrastructure in the Public Sector</i>	"Infrastructure" are those systems used for utility operations including water and sewer systems, hydro-electric systems and telecommunications; roads including highways, other roadways, bridges and traffic control; transportation including transit systems, airports, seaports, tunnels and seaways; and flood control including dams, canals, locks and drainage.

Source of Literature	Infrastructure Assets Description
<i>FRS 102, The Financial Reporting Standard applicable in the UK and Republic of Ireland</i>	Infrastructure for public services, such as roads, bridges, tunnels, prisons, hospitals, airports, water distribution facilities, energy supply and telecommunications networks.

Source of Literature	Infrastructure Assets Description
Government Finance Statistics Manual	Immovable non-financial assets that generally do not have alternative uses and whose benefits accrue to the community at large.

Source of Literature	Infrastructure Assets Description
<p>Government Accounting Standards Board Statement (GASB) 34, <i>Basic Financial Statements—and Management’s Discussion and Analysis—for State and Local Governments</i></p>	<p>Capital assets include infrastructure, defined as long-lived capital assets that normally are stationary in nature and normally can be preserved for a significantly greater number of years than most capital assets. Examples given include roads, bridges, tunnels, drainage systems, water and sewer systems, dams, and lighting systems.</p> <p>Infrastructure assets are networks and sub-systems. A network of assets is a group of assets that provide a particular type of service for a government. An example of a network of infrastructure assets would be a dam composed of a concrete dam, a concrete spillway, and a series of locks. A subsystem of a network of assets is composed of all assets that make up a similar portion or segment of a network of assets. Interstate highways, state highways, and rural roads would each be considered a subsystem of the network of all of the roads of a government.</p> <p>Buildings, except those that are an ancillary part of a network of infrastructure assets, should not be considered infrastructure assets for purposes of GASB 34. Examples of buildings that may be an ancillary part of a network or subsystem include road maintenance structures such as shops and garages associated with a highway system and water pumping buildings associated with water systems.</p>
<p>IFAC Study 5, <i>Definition and Recognition of Assets</i></p>	<p>Infrastructure assets are long-life major physical assets (such as roads, bridges, communication networks), and major civil engineering works (such as sea-defenses, etc.). Implied in many definitions of the term is the idea of a network. For example, a length of road derives its service potential and future economic benefits from being part of a roading system.</p>
<p>IFAC Study 11, <i>Government Financial Reporting, Accounting Issues and Practices</i></p>	<p>The term infrastructure assets is sometimes used to describe Road networks, including bridges, kerbs, channels and footpaths; Sewer systems; Water supply systems; Drainage systems; Landfill sites; Flood control works; Power supply systems, Communication networks and Recreation reserves.</p> <p>Implicit in many definitions of the term is the idea of a network.</p>

Source of Literature	Infrastructure Assets Description
The UK Water Services Regulation Authority (Ofwat) Regulatory Accounting Guidelines	Infrastructure assets are mainly underground systems of mains and sewers, impounding and pumped raw storage reservoirs, dams, sludge pipelines and sea outfalls.
The International Infrastructure Financial Management Manual (IIFM 2020)	Infrastructure are classed as items of property, plant, and equipment. Infrastructure assets are typically, large interconnected portfolios of composite assets. Components of these assets may be separately maintained and renewed or replaced individually to sustain the required level of service from the assets. The component is the unit of account for recognition of infrastructure assets. It may be advantageous to componentize assets beyond the level required by accounting standards to suit asset management planning information needs.
The International Infrastructure Management Manual (IIMM 2015)	Stationary systems forming a network or a portfolio of assets serving communities, where the system as a whole is intended to be maintained over a long period at least at a particular level of service potential by the continuing replacement (if/as necessary) and refurbishment of its components. The network may include normally recognized ordinary assets as components.
The Australian Infrastructure Financial Management Manual (AIFMM 2015)	Stationary systems that contribute to meeting the need for access to major economic and social facilities and services, e.g., roads, drainage, footpaths and cycleways. These are typically large, interconnected networks or portfolios of composite assets. The components of these assets may be separately maintained, renewed or replaced individually so that the required level and standard of service from the network of assets is continuously sustained. Generally, the components and hence the assets have long lives. They are fixed in place and are often have no separate market value.

Decisions Required

2. No decision required. For illustration purposes only?

Characteristics of Heritage Assets

Question

1. Does the IPSASB agree with the proposed characteristics of heritage assets?

Recommendation

2. The Cross-Cutting Task Force recommends including heritage characteristics that:
 - (a) Distinguish heritage assets from general property, plant, and equipment; and
 - (b) Present complexities in the application and implementation of existing principles in IPSAS 17, *Property, Plant and Equipment*.

Background

3. In March 2020, the IPSASB decided that a separate definition was not necessary for heritage assets, because they are a subset of property, plant, and equipment. The principles of accounting for general property, plant, and equipment should also be applied when accounting for heritage assets.
4. The IPSASB agreed it was important to develop characteristics of heritage assets, applying the same approach as that used for infrastructure assets. The heritage asset characteristics are specific attributes that distinguish them from general property, plant, and equipment and present complexities in the application and implementation of IPSAS 17's existing principles.

Analysis

5. When developing characteristics of heritage assets, staff followed this process:
 - (a) **Consultation Paper:** Considered the description and characteristics of heritage assets that the IPSASB approved for its Heritage Consultation Paper³ (Heritage CP);
 - (b) **IPSAS 17 comparison:** Critically compared IPSAS 17's description and characteristics to those in the Heritage CP to exclude wording that (i) does not distinguish heritage assets from general property, plant, and equipment, or (ii) relates to possible consequences of characteristics rather than the characteristics themselves; and,
 - (c) **Complexities:** Focused the characteristics on those with the potential to present complexities in the application and implementation of existing principles in IPSAS 17.

Heritage CP's Description and Characteristics of Heritage Assets

6. The Heritage CP's description and characteristics of heritage assets are as follows:

Heritage items are items that are intended to be held indefinitely and preserved for the benefit of present and future generations 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 features.

Characteristics of heritage items include that:

³ The description and characteristics in CP, *Financial Reporting for Heritage in the Public Sector*, reflect the IPSASB's consideration of heritage descriptions and characteristics in UNESCO heritage requirements, National Standard Setters' financial reporting requirements, IFRS, and statistical guidelines (EPSAS, SNA, and GFSM 2014).

- (a) They are often irreplaceable;
- (b) There are often ethical, legal, and/or statutory restrictions or prohibitions that restrict or prevent sale, transfer or destruction by the holder or owner; and
- (c) They are expected to have a long, possibly indefinite, useful life due to increasing rarity and/or significance.

Characteristics of Heritage Assets in IPSAS 17

7. Paragraphs 10 -11 of IPSAS 17 state that:

- 10 *Some assets are described as heritage assets because of their cultural, environmental, or historical significance. Examples of heritage assets include historical buildings and monuments, archaeological sites, 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):*
- (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.*

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.

11. *Some heritage assets have future economic benefits or service potential other than their heritage value, for example, an historic building being used for office accommodation. In these cases, they may be recognized and measured on the same basis as other items of property, plant, and equipment. For other heritage assets, their future economic benefit or service potential is limited to their heritage characteristics, for example, monuments and ruins. The existence of both future economic benefits and service potential can affect the choice of measurement base.*

Comparison of Description and Characteristics in the Heritage CP and in IPSAS 17

8. The CP's description and characteristics and those in IPSAS 17 have a significant amount of agreement. However, the CP description adds that heritage items are "intended to be held indefinitely and preserved for the benefit of present and future generations," which IPSAS 17's description does not include. Staff view is that this wording is important to convey the generally accepted meaning of heritage and should, therefore, be retained. However, the word "indefinitely" has been replaced with "for long periods," since there are limits to entities' ability to commit their action far into the future.
9. The Heritage CP's list of characteristics does not include value-related aspects, while IPSAS 17 does. (IPSAS 17 states that "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." and "their value may increase over time, even if their physical condition deteriorates.") Staff view is that these value-related

aspects do not relate to heritage characteristics but to views about possible accounting consequences of heritage characteristics. These phrases should not, therefore, be retained.

10. The Heritage CP's characteristics do not include IPSAS 17's references to:
 - (a) Large holdings...acquired over many years and by various means, including purchase, donation, bequest, and sequestration; and
 - (b) 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.
11. Staff view is that many other non-heritage property, plant, and equipment assets share these characteristics, which are not distinctive to heritage. On that basis, they should not be retained. Staff view is that the paragraph that begins "*Some heritage assets have future economic benefits or service potential other than their heritage value*" should also not be retained, because this paragraph does not address a characteristic of heritage assets.

Interim Description and Characteristics of Heritage Assets

12. As a result of this comparison and analysis staff developed the heritage assets description and characteristics below. Staff then analyzed the characteristics in terms of whether they presented complexities in the application and implementation of existing principles in IPSAS 17.

Some assets are described as heritage assets because of their rarity and/or significance in relation, but not limited, to their archaeological, architectural, agricultural, artistic, cultural, environmental, historical, natural, scientific, or technological 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, monuments, museum collections, conservation areas, nature reserves, and works of art.

Certain characteristics, including the following, are often displayed by heritage assets:

- (a) *There are often ethical, legal, and/or statutory restrictions or prohibitions that restrict or prevent sale, transfer or destruction by the holder or owner;*
- (b) *They are sometimes irreplaceable; and*
- (c) *They are expected to have a long, possibly indefinite, useful life due to increasing rarity and/or significance.*

Characteristics that present complexities

13. Staff and the Cross-cutting Task Force analyzed the three characteristics above to determine if they present complexities in the application and implementation of existing principles in IPSAS 17. Focusing on those characteristics that present complexities in the application and implementation of IPSAS 17 principles allows for:
 - (a) A more concise list of characteristics;
 - (b) A purpose for the inclusion of each characteristic; and
 - (c) An outline of where additional non-authoritative guidance will be required.
14. This analysis led to the view that all three characteristics of heritage assets present complexities in the application and implementation of existing principles in IPSAS 17. Heritage asset characteristics are discussed in [Table 2](#) below.

Table 2 Heritage Asset Characteristics that Present Complexities in Application and Implementation

Characteristic	Complexities in Application and Implementation
<u>Restrictions</u>	<p><u>Include as a characteristic</u></p> <p>The characteristic of restrictions has been addressed in IPSAS 17. IPSAS 17.89 includes a requirement to disclose restrictions. Its IE1 illustrates notes disclosures on restrictions, including an example of a restriction relevant to heritage assets; “Five hundred hectares of land (carried at 62,500 currency units) is designated as national interest land and may not be sold without the approval of the legislature.”</p> <p>However, stakeholders have raised the existence of restrictions in the context of control, indicating that this has complexities for which guidance is needed. The guidance would address whether items of property, plant and equipment are controlled given the different types of restrictions on their use that commonly apply to heritage assets⁴.</p>
<u>Irreplaceable</u>	<p><u>Include as a characteristic</u></p> <p>Many heritage assets that are viewed as irreplaceable because they have unique features, can be replaced from the entity’s perspective either using similar assets or through repair/reconstruction. Therefore, the inability to replace a heritage asset does not prevent use of the concept of replacement when applying IPSAS 17’s principles. However, stakeholders raised concerns about the meaning of heritage asset replacement and its implications for use of replacement cost. They argued that the inability to replace unique features of a heritage asset affected the ability to value the asset at replacement cost. Therefore, although the characteristic of being “irreplaceable” does not prevent application of IPSAS 17’s authoritative text, this characteristic raises complexities for which non-authoritative guidance appears to be needed.</p>
<u>Indefinite useful lives</u>	<p><u>Include as a characteristic</u></p> <p>Generally non-land property, plant, and equipment assets have finite useful lives. However, an entity may take steps to preserve and maintain its heritage assets such that they will have very long lives. This characteristic presents complexities for which additional guidance is needed in IPSAS 17⁵.</p>

15. From the table above, the three characteristics of “restrictions,” “irreplaceability,” and “indefinite useful life” are characteristics that lead to a need for additional guidance in IPSAS 17.

⁴ In March 2020, the IPSASB instructed staff to develop authoritative guidance and non-authoritative guidance on existence of control for heritage and infrastructure assets that are items of property, plant and equipment

⁵ In March 2020, the IPSASB instructed staff to develop authoritative guidance to address property, plant and equipment assets that have indefinite useful lives. The IPSASB also stated that assets with indefinite useful lives would need to be reviewed annually for impairment. The text is expected to apply generally to property, plant, and equipment including but not restricted to heritage assets.

Proposed Description and Characteristics of Heritage Assets

16. The Cross-cutting Task Force proposes the following description and characteristics for heritage assets:

Some assets 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 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, monuments, museum collections, conservation areas, nature reserves, and works of art.

Heritage assets often display the characteristics of (a) having restrictions on their use; (b) being viewed as irreplaceable; and (c) being expected to have a long, possibly indefinite, useful life due to their increasing rarity and/or significance.

Decisions Required

17. Does the IPSASB agree with the Cross-Cutting Task Force's recommendation?

Location of Infrastructure and Heritage Assets Characteristics Guidance

Question

1. Does the IPSASB agree with the proposed location for the characteristics guidance resulting from the Infrastructure and Heritage projects?

Recommendation

2. Staff recommends:
 - (a) Characteristics guidance for Infrastructure assets and Heritage assets be located in Application Guidance.
 - (b) A location assessment is performed in this manner consistently for issues going forward.

Background

3. In March 2020, the IPSASB decided a separate definition was not necessary for Infrastructure or Heritage assets because they are a subset of property, plant, and equipment (“PP&E”). However, the IPSASB agreed it was important to develop the characteristics of Infrastructure and Heritage assets to help distinguish them from general PP&E. The IPSASB instructed Staff to consider whether guidance on characteristics should be in core text or other authoritative guidance.
4. Staff have identified the characteristics of Infrastructure and Heritage assets respectively (see [Agenda Item 9.2.2](#) and [Agenda Item 9.2.3](#)).
5. Staff also considered the IPSASB’s instruction to apply the format of IPSAS 41 in developing guidance for ED76, as there is a clear distinction between each guidance type:

Guidance Type	Format of guidance
Core Text	Generic principles (not specific to a transaction)
Application Guidance	Expand principles (generally with reference to transactions to clarify)
Basis for Conclusions	Reflect IPSASB decisions
Illustrative Examples	Illustrate principles, generally individual principles, with case facts developed from practical examples
Implementation Guidance	Question / answer format

See *Agenda Item 8.2.3* for more details.

Analysis

6. Infrastructure and Heritage assets that meet the definition of PP&E should be accounted for by applying IPSAS 17 requirements. As such, Infrastructure and Heritage assets are specific types under the PP&E definition.
7. Providing characteristics for Infrastructure and Heritage assets clarifies the existing definition and supports accounting for a specific type of transaction.
8. When guidance expands on an existing principle, it is included as Application Guidance. This is consistent with the format developed in IPSAS 41, *Financial Instruments*. When guidance was developed for concessionary loans, Staff concluded it should be included as Application Guidance because:

- (a) Concessionary loans are a type of financial instruments (i.e., sufficient guidance exists in the core text); and
- (b) They are specific to the public sector (i.e., there is no specific guidance in the core text).

Similar to the characteristics of Infrastructure and Heritage assets, the guidance on concessionary loans expanded on existing principles in the core text. The guidance in the core text of IPSAS 17 is sufficient for, but not specific to, accounting for Infrastructure and Heritage assets.

- 9. Constituents noted complexities in the application and implementation of existing principles for Infrastructure and Heritage assets. Characteristics would expand and clarify the following:
 - (a) **Scope:** IPSAS 17 provides a description of PP&E assets. Adding characteristics for Infrastructure and Heritage assets illustrate how the definition of PP&E applies. Guidance specific to individual PP&E asset types would not be appropriate in the core text for scope as they do not illustrate a standalone accounting principle.
 - (b) **Recognition:** In general, characteristics assist users in recognizing assets under IPSAS 17. There is sufficient authoritative text on the recognition of PP&E to enable users to identify and recognize Infrastructure and Heritage assets as PP&E. Proposed characteristics guidance would expand on elements of the existing recognition principle to address identified complexities. As such, additional guidance in the core text for recognition would not be appropriate.
 - (c) **Measurement:** Characteristics unique to Infrastructure or Heritage assets create complexities in determining initial and subsequent measurement of such assets. Additional guidance would expand on existing guidance around general measurement, depreciation, impairment, and treatment of subsequent cost principles of PP&E. These accounting principles are not unique to Infrastructure or Heritage assets, so additional guidance in core text would not be appropriate.
- 10. Other reasons include:
 - (a) **Maintain consistency with other IPSAS** – Exclusion of characteristics guidance from core text would support the wholistic approach to IPSAS of focusing on generic principles within core text, and the Board-approved format in IPSAS 41. Furthermore, explicitly describing types of PP&E assets would be inconsistent with the approach taken in other IPSAS. For example, types of Financial Instruments, such as loans, are not separately defined or described in the core text of IPSAS 41. It also calls to attention why other PP&E asset types are not also separately described.
 - (b) **Characteristics are indicative** – Characteristics are intended to be indicative rather than prescriptive. Furthermore, while the characteristics identified in [Agenda Item 9.2.2](#) and [Agenda Item 9.2.3](#) are typically associated with Infrastructure and Heritage assets, there are also shared characteristics with other PP&E.
 - (c) **Enable application without exceptions** – removal of the Infrastructure- and Heritage-specific characteristics from the core text would allow for the principles in the core text to be applied, without exception, to all PP&E asset subsets.
- 11. Based on this analysis, Staff recommend characteristic guidance be included as Application Guidance, as the current and proposed characteristics guidance is intended to clarify and expand on

existing principles. This guidance addresses complexities posed in the application and implementation of key principles. Additional non-authoritative guidance may also be added, if deemed necessary within the projects, to illustrate principles with examples or provide practical implementation considerations.

12. Staff acknowledges that location analysis should be reassessed for other types of guidance identified as the projects progress.

Decision Required

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

Appendix B – Proposed Location of Characteristics Guidance

1. Staff recommends guidance on the location of characteristics be included in ED 76 as follows:

Guidance Type	Proposed guidance
Core Text	None [1]
Application Guidance	Characteristics of Infrastructure Assets Characteristics of Heritage Assets
Basis for Conclusions	None [2]
Illustrative Examples	None [3]
Implementation Guidance	None [3]

[1] – Core principles relating to scope, definition, etc. of PP&E assets are applicable to Infrastructure and Heritage assets.

[2] – Basis for Conclusions will be drafted as necessary to reflect IPSASB’s decisions on the characteristics and locations.

[3] – Illustrative Examples and/or Implementation Guidance will be developed as necessary to clarify IPSAS 17 principles. Such guidance would address issues that present complexities in application and implementation of existing principles that may be linked to the characteristics.