

Meeting: International Public Sector Accounting Standards Board

Meeting Location: New York, USA

Meeting Date: March 10–13, 2020

Agenda Item 6

For:

Approval

Discussion

Information

INFRASTRUCTURE ASSETS

Project summary	The project objective is to research and identify issues stakeholders have when applying IPSAS 17, <i>Property, Plant, and Equipment</i> to infrastructure assets. Informed by this research the aim is to provide additional guidance on accounting for infrastructure assets.	
Meeting objectives Project management	Topic	Agenda Item
	Infrastructure Assets: Project Roadmap	6.1.1
	Instructions up to Previous Meeting	6.1.2
	Decisions up to Previous Meeting	6.1.3
	Guidance for Land under or over Infrastructure Assets	6.2.1
	Definition, characteristics and examples of Infrastructure Assets	6.2.2
	Depreciation versus Renewals Accounting	6.2.3
	Infrastructure Assets Spare Parts	6.2.4
	Costs to dismantle Infrastructure Assets	6.2.5
Other supporting items	IPSASB Approved Flowchart	6.3.1
	IPSASB Approved Infrastructure Assets Issues list	6.3.2

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	3. Approval of ED.
H1 2021	1. Review of responses to ED. 2. Discuss issues.
H2 2021	1. Approve revisions to IPSAS 17 (or new IPSAS).

INSTRUCTIONS UP TO PREVIOUS MEETING

Meeting	Instruction	Actioned
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>” 	Agenda Item 6.2.2 , Agenda Item 6.2.3 , Agenda Item 6.2.4 , Agenda Item 6.2.5 and Agenda Item 6.3.1
December 2019	Consider whether the guidance to separately account for land and buildings also applies to separate disclosure of land and infrastructure assets.	Agenda Item 6.2.1 and Appendix 6.2.1A
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 6.2.1 and Appendix 6.2.1B
December 2019	Align guidance on control for land and infrastructure assets with the Measurement and Heritage projects.	To be discussed in the future.
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.	Agenda Item 6.2.1 , Appendix 6.2.1A , Appendix 6.2.1B and Appendix 6.2.1C
September 2019	Amend the Flowchart as follows: <ul style="list-style-type: none"> Change the question in Decision 3 from “<i>Does the issue impair the ability of financial statements to provide useful information?</i>” to “<i>Is this issue related to general purpose financial statements?</i>”; Change the question in Decision 4 from “<i>Would additional non-authoritative guidance help constituents with the identified issue?</i>” to “<i>Is additional non-authoritative guidance necessary to enhance consistency of application?</i>”; Incorporate the development of the Basis for Conclusions in “No further guidance necessary” boxes; 	

Meeting	Instruction	Actioned
	<ul style="list-style-type: none"> 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 the future.
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 the future.
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.	
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
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 June 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 June 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 June 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 June 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

Proposed guidance for Land under or over Infrastructure Assets

Question

1. Whether the IPSASB agrees with the proposed guidance for:
 - (a) Separating land under or over infrastructure assets;
 - (b) Control of land under or over infrastructure assets; and
 - (c) Valuing land under or over infrastructure assets.

Background

2. At the December 2019 meeting, the IPSASB:
 - (a) Approved the Flowchart and the analysis of the infrastructure assets issues related to separating, control and valuing of land under or over infrastructure assets; and
 - (b) Reviewed the draft authoritative guidance for control and valuing land under or over infrastructure assets and non-authoritative guidance for separating land under or over infrastructure assets¹.
3. The IPSASB instructed staff to amend the proposed additional guidance to address the issues related to the separation, control and valuation of land under and/or over infrastructure assets.

Issue – [\(Issue #2a\(iii\)\)](#)

4. The draft guidance does not adequately address the issues related to separating, control and valuing land under or over infrastructure assets because the:
 - (a) Guidance to separately account for land and infrastructure assets did not articulate whether land and infrastructure assets should be disclosed separately;
 - (b) Guidance for determining control of land under or over infrastructure assets did not adequately address the notion of ‘beneficial ownership’ which is prevalent in the public sector. In certain jurisdictions, land that is legally owned by one party, usually the central government, is operated by another party that enjoys the benefits and service potential of the asset, usually local government authorities; and
 - (c) Guidance to value land under or over infrastructure assets did not fully address the approach to value land under or over infrastructure assets because it may be difficult to establish the fair value for these public sector assets because there are no market transactions for these assets.

¹ In December 2019, the IPSASB agreed to develop authoritative guidance for control of land under or over infrastructure assets because paragraph 14 of IPSAS 17, *Property, Plant, and Equipment* only provides guidance on when to recognize an asset but does not provide control guidance. The IPSASB agreed to develop authoritative guidance for valuing land under or over infrastructure assets because whilst paragraph 74 of IPSAS 17, is explicit *that land and property, plant, and equipment are separable assets there is no sufficient guidance that land and infrastructure assets should be separately valued*. The IPSASB agreed to develop non-authoritative guidance for separating land under or over infrastructure assets to clarify the existing authoritative guidance in paragraphs 21 and 74 that land and infrastructure assets should be separately accounted for.

This issue is also prevalent in the public sector. As a result, jurisdictions have employed a range of measurement techniques to value such land under or over infrastructure assets.

Staff Analysis

Separating land under or over infrastructure assets

5. Staff noted the current authoritative IPSAS guidance is sufficient that land and buildings should be separately disclosed. Paragraph 88 of IPSAS 17, *Property, Plant, and Equipment* is explicit that *financial statements shall disclose each class of property, plant, and equipment that is recognized in the financial statements*. Paragraph 52 of IPSAS 17 states *that land and buildings are examples of separate classes of property, plant, and equipment*.
6. On balance, additional non-authoritative guidance may be necessary to enhance and clarify existing principles to disclose land and infrastructure assets separately because IPSAS 17 only provides guidance on separate disclosure of land and general property, plant, and equipment and does not provide specific guidance for separate disclosure of land and infrastructure assets which are prevalent in the public sector.
7. Staff has developed additional non-authoritative implementation guidance in [Appendix 6.2.1A](#) to clarify that guidance to separately disclose land and general property, plant, and equipment should also apply to separate disclosure of land and infrastructure assets.

Control of land under or over infrastructure assets

8. Staff noted the core authoritative text in paragraph 14 of IPSAS 17 indicates that *property, plant, and equipment is recognized when it is probable that the future economic benefits or service potential associated with the item will flow to the entity and the cost or fair value of the item can be measured reliably*. Therefore, IPSAS 17, only provides guidance on when to recognize an asset but does not provide guidance on what constitutes control of an asset.
9. On balance, additional authoritative guidance on control of general property, plant, and equipment may be necessary. Non-authoritative guidance is also necessary to highlight the application of control to land under or over infrastructure assets.
10. Staff has developed general authoritative application guidance on control and specific non-authoritative implementation guidance that highlights the application of control to infrastructure assets in [Appendix 6.2.1B](#). However, the proposed control guidance for land under or over infrastructure assets is not finalized and will need to be aligned with the Heritage project.

Valuing land under or over infrastructure assets

11. Staff noted the following current authoritative IPSAS guidance to valuing property, plant, and equipment is sufficient:
 - (a) Paragraphs 42-44 of IPSAS 17 are explicit *an item of property, plant, and equipment shall be carried on the cost model or revaluation model. An item of property, plant, and equipment on the revaluation model is measured at fair value*;
 - (b) Paragraphs 45-48 elaborates *fair value of property is market-based evidence determined by appraisal and the fair value of plant and equipment is market value determined by appraisal*.

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For many assets, the fair value is ascertained by reference to quoted prices in an active and liquid market (for example, current market prices can usually be obtained for land, non-specialized buildings and motor vehicles);

- (c) Paragraph 46 acknowledges *it may be difficult to establish the market value for some public sector assets because there are no market transactions for these assets. If there is no evidence available to determine the market value of an item of property, the fair value be established by reference to other items with similar characteristics (for example, the fair value of vacant government land that has been held for a long period during which time there have been few transactions may be estimated by reference to the market value of land with similar features and topography in a similar location for which market evidence is available). In the case of specialized buildings and other man-made structures, fair value may be estimated using depreciated replacement cost, or the restoration cost or service units approaches in terms of IPSAS 21, Impairment of Non-Cash-Generating Assets); and*
 - (d) Paragraph 48 elaborates the *depreciated replacement cost of an item of plant or equipment may be established by reference to the market buying price of components used to produce the asset or the indexed price for the same or a similar asset based on a price for a previous period. When the indexed price method is used, judgment is required to determine whether production technology has changed significantly over the period, and whether the capacity of the reference asset is the same as that of the asset being valued.*
12. On balance, additional non-authoritative guidance may be necessary to enhance and clarify existing principles to valuing land and infrastructure because IPSAS 17 only provides guidance on valuing land and general property, plant, and equipment and does not provide specific guidance for valuing land under or over infrastructure assets when it is difficult to establish fair value.
13. Staff has developed additional non-authoritative implementation guidance in [Appendix 6.2.1C](#) to clarify the guidance to valuing land under or over infrastructure assets. The IPSASB should note that staff thinks the general idea of including non-authoritative guidance on valuing land under or over infrastructure assets in IPSAS 17 is appropriate. However, the proposed guidance for valuing land under or over infrastructure assets is not finalized and will need to be aligned with the Measurement project.

Decisions required

14. Does the IPSASB agree with the guidance recommended by staff?

Appendix 6.2.1A: Additional Guidance - Separating Land under or over Infrastructure Assets

Proposed guidance

1. The proposed IPSAS guidance available to address the issue of separating land under or over infrastructure assets is in the table below.
2. New text is underlined and deleted text is struck through.

Proposed Guidance (New text is underlined and deleted text is struck through)				
Core Text	Application Guidance	Implementation Guidance	Illustrative Examples	Basis for Conclusions
<p>IPSAS 17.21 explains infrastructure assets meet the definition of property, plant, and equipment and should be accounted for in accordance with this Standard (IPSAS 17).</p> <p>IPSAS 17.74, states land and buildings are separable assets and accounted for separately, even when they are acquired together. With some exceptions, such as quarries and sites used for landfill, land has an unlimited useful life and therefore is not depreciated. Buildings have a limited useful life and therefore are depreciable assets. An increase in the value of the land on which a building stands does not affect the determination of the depreciable amount of the building.</p> <p>IPSAS 17.88 states that financial statements shall disclose each class of</p>	<p>None</p>	<p><i>This guidance accompanies, but is not part of, IPSAS 17</i></p> <p><u>Infrastructure Assets</u></p> <p><u>Is land accounted for separately from infrastructure assets?</u></p> <p><u>IG5. Yes. Similar to land and buildings, land and infrastructure assets are separable assets and are accounted for separately.</u></p> <p><u>IG6. Land is often integral to the infrastructure asset, but it is separately accounted for because it has an unlimited useful life, whereas components of infrastructure assets have limited useful lives and therefore are depreciable assets. The value of land that has infrastructure assets over or under it, does not affect the depreciable amounts of the components of the infrastructure assets.</u></p>	<p>None</p>	<p><i>This Basis for Conclusions accompanies, but is not part of, IPSAS 17</i></p> <p><u>Infrastructure Assets</u></p> <p><u>Introduction</u></p> <p><u>BC15. Stakeholders identified issues when applying IPSAS 17, Property, Plant, and Equipment, to account for infrastructure assets. The IPSASB analyzed the issues identified by stakeholders when accounting for infrastructure assets and developed guidance in IPSAS 17 to address those issues.</u></p> <p><u>Separating land under or over infrastructure assets</u></p> <p><u>BC16. The IPSASB acknowledged that the current principle in IPSAS 17 on accounting for land and</u></p>

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Proposed Guidance (New text is underlined and deleted text is struck through)				
Core Text	Application Guidance	Implementation Guidance	Illustrative Examples	Basis for Conclusions
<p>property, plant, and equipment that is recognized in the financial statements.</p> <p>IPSAS 17.52 states that land and buildings are examples of separate classes of property, plant, and equipment.</p>		<p><u>Is land separately disclosed from infrastructure assets?</u></p> <p><u>IG7. Yes. Similar to land and buildings, land and infrastructure assets should be disclosed separately because land and infrastructure assets are examples of separate classes of property, plant, and equipment.</u></p>		<p><u>buildings may be inconsistently applied when accounting for land under or over infrastructure assets even though IPSAS 17 is clear that buildings and infrastructure assets are property, plant, and equipment. Stakeholders questioned whether land under or over infrastructure assets should be treated as a single asset.</u></p> <p><u>BC17. The IPSASB agreed to add implementation guidance (paragraphs IG5-IG7) to clarify that land under or over infrastructure assets are separable assets and should be accounted and disclosed for separately.</u></p>

Decisions required

3. Does the IPSASB agree with the guidance recommended by staff?

Appendix 6.2.1B: Additional Guidance – Control of Land under or over Infrastructure Assets

Proposed guidance

1. The proposed IPSAS guidance available to address the issue of control of land under or over infrastructure assets is in the table below.
2. New text is underlined and deleted text is struck through.

Proposed Guidance (New text is underlined and deleted text is struck through)				
Core Text	Application Guidance	Implementation Guidance	IEs	Basis for Conclusions
<p>Recognition</p> <p>IPSAS 17.14 states the cost of an item of property, plant, and equipment shall be recognized as an asset if, and only if:</p> <p>(a) It is probable that future economic benefits or service potential associated with the item will flow to the entity; and</p> <p>(b) The cost or fair value of the item can be measured reliably.</p>	<p><i>This Appendix is an integral part of IPSAS 17</i></p> <p>Recognition (paragraphs 14-25)</p> <p>Control of an asset</p> <p><u>AG1. An asset is recognized in the financial statements when it is controlled by an entity.</u></p> <p><u>AG2. Since property, plant, and equipment is a type of an asset, it should only be recognized when it is controlled by an entity.</u></p> <p><u>AG3. Control of an asset entails the ability of the entity to use the asset (or direct other parties on its use) so as to derive the benefit of the service potential or economic benefits embodied in the asset in the achievement of</u></p>	<p><i>This guidance accompanies, but is not part of, IPSAS 17</i></p> <p>Infrastructure Assets</p> <p>Assessment of control of land under or over infrastructure assets</p> <p><u>IG9. In the public sector, it may be challenging to identify the entity that controls the land under or over infrastructure assets because:</u></p> <ul style="list-style-type: none"> • <u>An entity may be the legal owner of land under or over infrastructure assets that is operated by another party; and</u> • <u>Land under or over infrastructure assets may be transferred to another level of government. It may</u> 	<p>None</p>	<p><i>This Basis for Conclusions accompanies, but is not part of, IPSAS 17</i></p> <p>Infrastructure Assets</p> <p>Control of land under or over infrastructure assets</p> <p><u>BC18. The IPSASB acknowledged that the current principle in IPSAS 17 on determining control for property, plant, and equipment did not adequately address the concept of control and the notion of 'beneficial ownership' which is prevalent in the public sector. In certain jurisdictions, land under or over infrastructure assets that is legally owned by one party, usually the central government is operated by another party that enjoys the economic benefits and service potential of the asset, usually local government, authorities.</u></p>

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Proposed Guidance (New text is underlined and deleted text is struck through)				
Core Text	Application Guidance	Implementation Guidance	IEs	Basis for Conclusions
	<p><u>its service delivery or other objectives.</u></p> <p>AG4. <u>Control of an asset is evident when an entity has the ability (either through legal ownership and/or other rights) to direct the use of and obtain substantially all of the remaining service potential or economic benefits from the asset.</u></p> <p>AG5. <u>Legal ownership is one method of demonstrating control of an asset. However, rights to service potential or the ability to generate future economic benefits may exist without legal ownership of an asset. Therefore, an entity considers the substance and legal form of an arrangement in determining whether it controls an asset.</u></p> <p>AG6. <u>Rights may also be conferred through a lease or service concession arrangement. In these instances, control is determined using the</u></p>	<p><u>be necessary to determine the point when control is lost by the transferor and gained by the transferee.</u></p> <p>IG10. <u>Control of land under or over infrastructure assets is evidenced by the following criteria:</u></p> <ul style="list-style-type: none"> • <u>Ability of the entity to use the land or direct other parties on its use so as to derive service potential or economic benefits;</u> • <u>Legal ownership;</u> • <u>The means to ensure that the resource is used to achieve its objectives; and</u> • <u>Access to the land, or the ability to deny or restrict access to the land.</u> <p>IG11. <u>If an entity has legal ownership and has not granted the right to direct access to and restrict or deny access of others to the land to another entity, the legal owner controls the land as it retains the right to direct</u></p>		<p>BC19. <u>The IPSASB agreed to add general application guidance on control of an asset (paragraphs AG1-AG6) and implementation guidance (paragraphs IG9-IG17) to highlight the application of control to land under over infrastructure assets.</u></p>

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Proposed Guidance (New text is underlined and deleted text is struck through)				
Core Text	Application Guidance	Implementation Guidance	IEs	Basis for Conclusions
	<p><u>relevant standards, that are, IPSAS 13, Leases or IPSAS 32, Service Concession Arrangements Grantor where appropriate.</u></p>	<p><u>access to land, and to restrict or deny the access of others to the land.</u></p> <p><u>IG12. If one entity has the right to direct access to, and restrict or deny the access of others to land while another entity is the legal owner of the land, substance over form determines that the land is controlled by the entity that has the right to direct access to land, and to restrict or deny the access of others to the land.</u></p> <p><u>IG13. An entity may be granted a right to use the land for a period of time. Control of the land will be demonstrated if the entity has rights to the land that enable it to direct access to the land, or to restrict or deny the access of others to land. For the entity to demonstrate control, the right to use the land needs to be for an unlimited period of time and have other rights to direct access to the land, or to restrict</u></p>		

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Proposed Guidance (New text is underlined and deleted text is struck through)				
Core Text	Application Guidance	Implementation Guidance	IEs	Basis for Conclusions
		<p><u>or deny the access of others to the land.</u></p> <p><u>IG14. With regard to land, an entity's present ability to direct the use thereof may be limited to part of and not all of its useful life. For example, an entity may have a right to use land for 50 years and not be able to demonstrate that it controls the land because the remaining service potential or economic benefits of land is unlimited.</u></p> <p><u>IG15. The right to use land to generate service potential or economic benefits is insufficient on its own to demonstrate control. The entity must be able to restrict or deny access to land which includes the ability to dispose of the land.</u></p> <p><u>IG16. Where the legal owner transfers land, the entity that controls the land is one that has direct access and can restrict or deny access of others to that land.</u></p>		

Proposed Guidance (New text is underlined and deleted text is struck through)				
Core Text	Application Guidance	Implementation Guidance	IEs	Basis for Conclusions
		<p><u>IG17. If the entity concludes that it does not control land after applying the criteria in paragraph IG10, and the land is currently recognized as an asset in its statement of financial position, the land is derecognized as an asset from the statement of financial position in accordance with the relevant IPSAS.</u></p>		

Decisions required

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

Appendix 6.2.1C: Additional Guidance – Valuing Land under or over Infrastructure Assets

Proposed guidance

1. The proposed IPSAS guidance available to address the issue of valuing land under or over infrastructure assets is in the table below².
2. New text is underlined and deleted text is struck through.

Proposed Guidance (New text is underlined and deleted text is struck through)				
Core Text	Application Guidance	Implementation Guidance	Illustrative Examples	Basis for Conclusions
<p>Measurement</p> <p>IPSAS 17.74, states that an increase in the value of the land on which a building stands does not affect the determination of the depreciable amount of the building.</p> <p>IPSAS 17.42 states that an entity shall choose either the cost model or the revaluation model and apply either model to the entire class of property, plant and equipment.</p> <p>On the cost model, an item of property, plant, and equipment is carried at cost, less any</p>	<p><i>This Appendix is an integral part of IPSAS 17</i></p> <p><u>Measurement (see paragraphs 42 - 81)</u></p> <p><u>Valuing land under or over infrastructure assets</u></p> <p><u>AG7. The value of an infrastructure asset may increase as a result of construction or development of the infrastructure asset.</u></p> <p><u>AG8. An increase in the value of the building or any structure does not affect the value of the land it stands on because land and any buildings or structures should be accounted for separately.</u></p>	<p><i>This guidance accompanies, but is not part of, IPSAS 17</i></p> <p><u>Infrastructure Assets</u></p> <p><u>Does the increase in the value of the infrastructure assets affect the value of the land that the infrastructure stands on?</u></p> <p><u>IG19. No. Similar to buildings, an increase in the value of the land on which an infrastructure asset stands does not affect the determination of the depreciable amount of that infrastructure asset.</u></p>	<p>None</p>	<p><i>This Basis for Conclusions accompanies, but is not part of, IPSAS 17</i></p> <p><u>Infrastructure Assets</u></p> <p><u>Valuing land under or over infrastructure assets</u></p> <p><u>BC20. The IPSASB acknowledged that the current principle in IPSAS 17 on valuing land under or over infrastructure assets did not adequately address the valuation</u></p>

² Staff has developed authoritative application and non-authoritative implementation guidance to clarify the guidance to valuing land under or over infrastructure assets. However, the draft guidance is not final as it will need to be aligned to the Measurement project.

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<p>accumulated depreciation and any accumulated impairment losses.</p> <p>On the revaluation model, an item of property, plant, and equipment is carried at a revalued amount, being its fair value at the date of the revaluation, less any subsequent accumulated depreciation, and subsequent accumulated impairment losses.</p> <p>IPSAS 17.45 states that the fair value of items of property is market-based evidence determined by appraisal. The fair value of items of plant and equipment is market value determined by appraisal. The appraisal is undertaken by a member of the valuation profession. For many assets, the fair value is ascertained by reference to quoted prices in an active and liquid market (for example, current market prices can usually be obtained for land, non-specialized buildings and motor vehicles).</p> <p>IPSAS 17.46 states that it may be difficult to establish the market value for some public sector assets, because there are no</p>	<p><u>Therefore, an increase in the value of the infrastructure asset does not affect the value of the land it stands on.</u></p>	<p><u>How is land under or over infrastructure assets valued or measured?</u></p> <p><u>IG20. Land under or over infrastructure assets on the revaluation model should be valued at fair value. The fair value of land is usually determined from market-based evidence by appraisal.</u></p> <p><u>IG21. In the case of land, reliable market-based evidence is market evidence of land in a similar or likely alternative use, which is located adjacent to (or in close proximity to) the land asset being valued, that is, adjacent values.</u></p> <p><u>IG22. In many instances the market value of land under or over infrastructure assets could be affected by factors such as:</u></p> <ul style="list-style-type: none"> • <u>Physical characteristics such as size/shape and its use;</u> • <u>Designations/underlying zoning;</u> 	<p><u>of land under or over infrastructure assets.</u></p> <p><u>BC21. The IPSASB agreed to add general application guidance (paragraphs AG7-AG8) and implementation guidance (paragraphs IG9-IG27) on valuing land under or over infrastructure assets.</u></p>
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<p>market transactions for these assets.</p> <p>IPSAS 17.47 states that if there is no evidence available to determine the market value of an item of property, the fair value of the item may be established by reference to other items with similar characteristics (for example, the fair value of vacant government land that has been held for a long period during which time there have been few transactions may be estimated by reference to the market value of land with similar features and topography in a similar location for which market evidence is available). In the case of specialized buildings and other man-made structures, fair value may be estimated using depreciated replacement cost, or the restoration cost or service units approaches (see IPSAS 21, <i>Impairment of Non-Cash-Generating Assets</i>).</p> <p>In many cases, the depreciated replacement cost of an asset can be established by reference to the buying price of a similar asset with similar remaining service potential in an active and liquid market. In</p>		<ul style="list-style-type: none"> • <u>Offer back obligations; and</u> • <u>Reserve or endowment status (restricting the use of the land, either current or future).</u> <p><u>IG23. Public sector entities have employed a range of valuation techniques for measuring land under or over infrastructure assets because there is no accepted method of valuing land under or over infrastructure assets.</u></p> <p><u>IG24. Some public sector entities use proxies such as adjacent values as an approximation of fair value to value the land that is under or over infrastructure assets.</u></p> <p><u>IG25. Other public sector entities apply a discount factor to these adjacent values because the adjacent values would unlikely be realized if the land was sold because there are limited buyers (maybe neighboring</u></p>	
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<p>some cases, an asset's reproduction cost will be the best indicator of its replacement cost. For example, in the event of loss, a parliament building may be reproduced rather than replaced with alternative accommodation, because of its significance to the community.</p> <p>IPSAS 17.48 states that if there is no market-based evidence of fair value because of the specialized nature of the item of plant, and equipment, an entity may need to estimate fair value using, reproduction cost, depreciated replacement cost, or the restoration cost or service units approaches (see IPSAS 21). The depreciated replacement cost of an item of plant or equipment may be established by reference to the market buying price of components used to produce the asset or the indexed price for the same or a similar asset based on a price for a previous period. When the indexed price method is used, judgment is required to determine whether production technology has changed significantly over the period, and whether the capacity of</p>		<p><u>owners) and the land under or over the infrastructure assets do not necessarily have the full value attributes of the adjacent neighboring land.</u></p> <p><u>IG26. Other public sector entities consider the value of the land under or over infrastructure assets in terms of entry price. The adjacent value would often represent the starting value, and there could be other costs that reflect the construction or development costs (such as formation costs). Under this approach, the value of land under or over infrastructure assets would likely to be greater than the adjacent values.</u></p> <p><u>IG27. Given the number of assumptions involved in assessing land under or over infrastructure assets, it is essential to disclose the valuation approach and key assumptions in the notes to the financial statements.</u></p>	
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the reference asset is the same as that of the asset being valued.				
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Decisions required

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

Definition, characteristics and examples of Infrastructure Assets

Question

- Whether the IPSASB agrees existing guidance on the definition of infrastructure assets is sufficient.

Issue – [\(Issues #1\(a\) and #1\(b\)\)](#)

- Stakeholders note infrastructure assets should be separately defined in IPSAS 17, *Property, Plant, and Equipment* because they are distinct from property, plant, and equipment and the current characteristics and examples in IPSAS 17 may not capture all attributes of infrastructure assets.

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

- The Task Force applied the Flowchart to analyze the infrastructure assets issue identified. The analysis is summarized in the table below. The detailed analysis is in [6.2.2A](#).

Flowchart	Task Force Analysis
Decision 1: Is the issue prevalent in the public sector?	Yes
Decision 2: Is there sufficient authoritative IPSAS guidance that already addresses this issue in the public sector?	Yes for Definition No for Characteristics and Examples
Decision 3: Is this issue related to general purpose financial statements?	Yes for Characteristics and Examples Not applicable for Definition
Decision 4: Is additional non-authoritative guidance necessary to enhance consistency of application?	No for Definition Not applicable for Characteristics and Examples
Decision 5: Is the issue relevant to other projects?	No
Flowchart recommendation	Develop authoritative guidance for characteristics and examples. No further guidance for Definition.

- The Flowchart proposes authoritative guidance for characteristics and examples of infrastructure assets and no further guidance for definition of infrastructure assets.
- The table below shows current and proposed guidance. Detailed guidance is in [6.2.2B](#) and [6.2.2C](#).

IPSAS Guidance	Core Text	Application Guidance	Implementation Guidance	Illustrative Examples	Basis for Conclusions
Current	✓	X	X	X	X
Proposed	6.2.2B & 6.2.2C	X	X	X	6.2.2B & 6.2.2C

Decisions required

- Does the IPSASB agree with the:
 - Flowchart recommendation to develop authoritative guidance for characteristics and examples and no guidance necessary for definition of infrastructure assets; and
 - Proposed guidance in [6.2.2B](#) and [6.2.2C](#)?

Appendix 6.2.2A: Detailed Analysis - Definition, characteristics and examples of Infrastructure Assets

Question

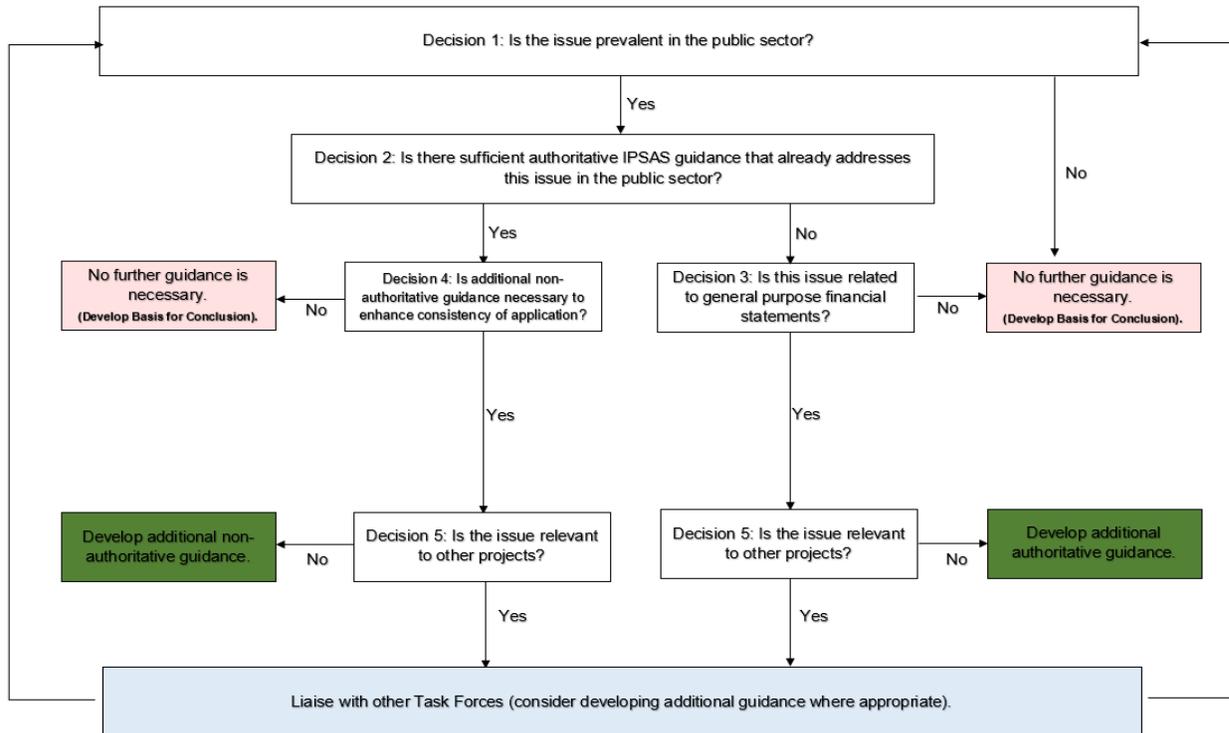
- Whether the IPSASB agrees existing guidance on the definition of infrastructure assets is sufficient.

Issue – (Issues #1(a) and #1(b))

- Stakeholders note that there is no universally accepted definition of infrastructure assets. IPSAS 17, *Property, Plant, and Equipment* does not define infrastructure assets but describes the characteristics and examples of infrastructure assets. Jurisdictions implementing accrual based standards for the first time keep raising the need for infrastructure assets to be defined in IPSAS 17.
- Stakeholders are of the opinion that infrastructure assets should be separately defined because:
 - They are distinct from property, plant, and equipment and may require a different accounting treatment; and
 - The current lists of characteristics and examples that describe infrastructure assets in IPSAS 17 are not exhaustive and may not capture all the relevant attributes of infrastructure assets. For example, infrastructure assets are characterized as immovable whilst there are global infrastructure satellite networks that are movable.

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

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



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

Yes

Public sector entities' investments in infrastructure assets are numerous and financially significant and yet there is no accepted definition for infrastructure assets.

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

Yes

Definition of Infrastructure Assets

Whilst paragraph 21 of IPSAS 17, *Property, Plant, and Equipment* acknowledges *there is no universally accepted definition of infrastructure assets*, there is sufficient authoritative IPSAS guidance on the definition of infrastructure assets because:

- Paragraph 5(b), of IPSAS 17, is explicit, that the Standard *applies to property, plant, and equipment including infrastructure assets*;
- Paragraph 21 of IPSAS 17 elaborates, *infrastructure assets meet the definition of property, plant, and equipment and should be accounted for in accordance with this Standard*;
- Paragraph 13 of IPSAS 17 defines *property, plant, and equipment as tangible items that are held for use in the production or supply of goods or services, for rental to others, or for administrative purposes; and are expected to be used for more than one reporting period*; and
- Paragraph 21 of IPSAS 17 lists the characteristics and examples of infrastructure assets. The lists are discussed below.

No

Characteristics and Examples of Infrastructure Assets

Paragraph 21 of IPSAS 17 states that *infrastructure assets may 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*.

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

It may be possible that the current authoritative guidance on the characteristics and examples of infrastructure assets may be insufficient because it may not capture all the relevant attributes of infrastructure assets.

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

Not applicable for Definition of Infrastructure Assets.

Yes

Characteristics and Examples of Infrastructure Assets

This issue is related to general purpose financial statements because the list of characteristics and examples of infrastructure assets may not capture all the attributes of infrastructure assets. Infrastructure assets represent a significant investment for public sector entities. Consumption of infrastructure assets, whether recognized or not is a significant expense. Failure to recognize infrastructure consumption as a depreciation expense can result in under recovery of operating costs and difficulties in renewing infrastructure components to maintain existing service levels.

According to paragraph 21 of IPSAS 17, infrastructure assets are characterized as immovable whilst there are global infrastructure satellite networks that are movable. When accounting for these assets, IPSAS 17, is the applicable standard. However, IPSAS 17 only refers to immovable assets, and satellites move.

Therefore, the Task Force proposes additional authoritative guidance to augment the characteristics of infrastructure assets. Refer to [Appendix 6.2.2B](#) for the proposed guidance. Staff/Task Force cautions that it may be a difficult task to provide an exhaustive list of characteristics and examples that captures all the attributes of infrastructure assets.

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

Not applicable for Characteristics and examples of Infrastructure Assets.

No

Definition of Infrastructure Assets

The perceived lack of definition of infrastructure assets does not impair the ability of financial statements to provide useful information for accountability and decision making because:

- IPSAS 17 is clear that infrastructure assets meet the definition of property, plant, and equipment and should be accounted in terms of the Standard;
- IPSAS 17 provides adequate guidance for recognition and measurement of infrastructure assets;
- Infrastructure assets do not require different accounting treatment to property, plant, and equipment;
- The term, infrastructure assets is usually thought to include roads, water and sewerage systems and power systems which are already included as characteristics and examples of infrastructure assets in IPSAS 17; and
- It may be complex to define infrastructure assets because they refer to a broad range of assets with a myriad of characteristics. It is questionable whether a definition could capture all the characteristics and examples of infrastructure assets.

The Task Force has analyzed several challenges identified by stakeholders when accounting for infrastructure assets. The Task Force concluded in most circumstances the existing principles in IPSAS 17 are clear on how infrastructure assets should be accounted for. Since additional

principles are not being developed specifically for infrastructure assets, there is no benefit in defining them as they will not be accounted for differently than property, plant, and equipment.

The Task Force also analyzed the following definitions of infrastructure assets:

- The Government Finance Statistics (GFS)³ defines infrastructure assets as *immovable non-financial assets that generally do not have alternative uses and whose benefits accrue to the community at large* (see page 173 of the GFS 2014 Manual);
- The International Infrastructure Management Manual (IIMM 2015) defines infrastructure assets as *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;* and
- The Australian Infrastructure Financial Management Manual (AIFMM 2015) defines infrastructure assets as *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.*

The Task Force noted that the abovementioned definitions are somewhat captured in the characteristics and examples on infrastructure assets in IPSAS 17.

According to the GFS reporting guidelines, infrastructure assets are not explicitly identified as a separate asset but are included within the category of 'non-financial assets' as a type of 'fixed assets'. This approach is somewhat similar to IPSAS 17 which includes infrastructure assets as a type of property, plant, and equipment.

Furthermore, the issue of a lack of definition is not unique to the public sector. Private sector entities also hold numerous infrastructure assets (such as roads owned by a private sector entity) and apply guidance in IAS 16, *Property, Plant, and Equipment* to infrastructure assets. Therefore, additional guidance is unnecessary as the Task Force is unaware of any interpretation issues in the private sector.

Whilst no additional guidance on the definition of infrastructure assets is recommended, the analysis above will be summarized in the Basis for Conclusions. Refer to [Appendix 6.2.2C](#) for the decision not to define infrastructure assets in the Basis for Conclusions.

³ The IPSASB considers opportunities to reduce unnecessary differences with GFS in all projects to develop standards and guidance. For further details please see the IPSASB's [Process for Considering GFS Reporting Guidelines during the Development of IPSASs](#).

Decision 5: Is the issue relevant to other projects?

No

The issues regarding the definition, characteristics and examples of infrastructure assets is unique to the Infrastructure Assets project and not relevant to other projects.

Task Force Recommendation

5. The Task Force recommends additional authoritative guidance be developed for the characteristics and examples of infrastructure assets. No further guidance is necessary for the definition of infrastructure assets. Refer to [Appendix 6.2.2B](#) for the proposed guidance on the characteristics and examples of infrastructure assets and [Appendix 6.2.2C](#) for the decision not to define infrastructure assets in the Basis for Conclusions.

Decisions required

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

Appendix 6.2.2B: Additional Guidance – Characteristics and Examples of Infrastructure Assets

Proposed guidance

1. The proposed IPSAS guidance available to address the issue of characteristics and examples of infrastructure assets is in the table below.
2. New text is underlined and deleted text is struck through.

Proposed Guidance (New text is underlined and deleted text is struck through)				
Core Text	Application Guidance	Implementation Guidance	Illustrative Examples	Basis for Conclusions
<p>IPSAS 17.21 explains some assets are commonly described as infrastructure assets. While there is no universally accepted definition of infrastructure assets, these assets usually <u>may</u> display some or all of the following characteristics:</p> <p>(a) They are part of a system or network;</p> <p>(b) They are specialized in nature and do not have alternative uses;</p> <p>(c) They are <u>normally</u> or <u>likely to be</u> immovable; and</p> <p>(d) They may be subject to constraints on disposal;</p> <p>(e) <u>They usually have long useful lives especially when they are consistently maintained and renewed; and/or</u></p> <p>(f) <u>They are usually held for service delivery to the community at large.</u></p> <p>Although ownership of infrastructure assets is not confined to entities in the public sector, significant</p>	None	None	None	<p><i>This Basis for Conclusions accompanies, but is not part of, IPSAS 17</i></p> <p><u>Infrastructure Assets</u></p> <p><u>Characteristics and examples of Infrastructure Assets</u></p> <p><u>BC22. Stakeholders noted that the list of characteristics and examples of infrastructure in IPSAS 17 does not capture all the attributes of infrastructure assets. For example, infrastructure assets are characterized as immovable in IPSAS 17 whilst there are global infrastructure satellite networks that are movable.</u></p> <p><u>BC23. The IPSASB decided to develop additional guidance and expand the characteristics and examples of infrastructure assets. In developing the characteristics and examples of infrastructure assets, the IPSASB had regard to the characteristics and examples in the Government</u></p>

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Proposed Guidance (New text is underlined and deleted text is struck through)				
Core Text	Application Guidance	Implementation Guidance	Illustrative Examples	Basis for Conclusions
<p>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.</p> <p>Examples of infrastructure assets include <u>airfield runways, dams, harbors, ports, bridges, tunnels, road networks (including streets, highways and motorways), railways and subways, water and sewerage systems, storm water systems, and power supply systems</u>distribution and transmission networks, pipelines, and communication, satellite and telephone networks, sport and recreational facilities (including leisure facilities, playgrounds, sporting complexes and swimming pools), parks and reserves.</p>				<p><u>Finance Statistics (GFS) and the International Infrastructure Management Manual (IIMM 2015).</u></p>

Decisions required

3. Does the IPSASB agree with the additional guidance recommended by the Task Force?

Appendix 6.2.2C: Additional Guidance – Definition of Infrastructure Assets

Proposed guidance

1. The proposed IPSAS guidance available to address the issue of definition of infrastructure assets is in the table below.
2. New text is underlined and deleted text is struck through.

Proposed Guidance (New text is underlined and deleted text is struck through)				
Core Text	Application Guidance	Implementation Guidance	Illustrative Examples	Basis for Conclusions
<p>IPSAS 17.5(b), is explicit, that the Standard applies to property, plant, and equipment including infrastructure assets.</p> <p>IPSAS 17.13 defines property, plant, and equipment as tangible items that are held for use in the production or supply of goods or services, for rental to others, or for administrative purposes; and are expected to be used for more than one reporting period.</p> <p>IPSAS 17.21 explains there is no universally accepted definition of infrastructure assets. Infrastructure assets meet the definition of property, plant, and equipment and should be accounted for in accordance with this Standard (IPSAS 17).</p>	None	None	None	<p><i>This Basis for Conclusions accompanies, but is not part of, IPSAS 17</i></p> <p><u>Infrastructure Assets</u></p> <p><u>Definition of Infrastructure Assets</u></p> <p><u>BC24. Stakeholders questioned whether infrastructure assets should be separately defined because they are distinct from property, plant, and equipment and may require a different accounting treatment and the current lists of characteristics and examples that describe infrastructure assets in IPSAS 17 are not exhaustive and may not capture all the relevant attributes of infrastructure assets. For example, infrastructure assets are characterized as immovable whilst there are global infrastructure satellite networks that are movable.</u></p> <p><u>BC25. The IPSASB acknowledged there is no universally accepted definition of infrastructure assets. However, a new definition for infrastructure assets is not necessary because, IPSAS 17 applies to property, plant, and equipment including infrastructure assets and</u></p>

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Proposed Guidance (New text is underlined and deleted text is struck through)				
Core Text	Application Guidance	Implementation Guidance	Illustrative Examples	Basis for Conclusions
				<p><u>infrastructure assets meet the definition of property, plant, and equipment. Private sector entities apply guidance in IAS 16, <i>Property, Plant, and Equipment</i> to account for infrastructure assets. IPSAS 17 is drawn primarily from IAS 16. In determining whether to define infrastructure assets, the IPSASB had regard to the Government Finance Statistics (GFS) in order to increase consistency with the GFS and the International Infrastructure Management Manual (IIMM 2015). The definition of infrastructure assets in the GFS and IIMM 2015 are somewhat captured in the characteristics and examples on infrastructure assets in IPSAS 17. According to the GFS, infrastructure assets are not explicitly identified as a separate asset but are included within the category of 'non-financial assets' as a type of fixed assets. This approach is somewhat similar to IPSAS 17 which includes infrastructure assets as a type of property, plant, and equipment.</u></p>

Decisions required

3. Does the IPSASB agree with the additional guidance recommended by the Task Force?

Depreciation versus Renewals Accounting

Question

- Whether the IPSASB agrees guidance on depreciation of infrastructure assets is sufficient.

Issue – [\(Issues #5\(a\) and #5\(b\)\)](#)

- Stakeholders note the only expense which should be reported is maintenance and not the conventional depreciation in IPSAS 17, *Property, Plant, and Equipment* because infrastructure assets have long useful lives and are constantly maintained and renewed.

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

- The Task Force applied the Flowchart to analyze the infrastructure assets issue identified. The analysis is summarized in the table below. The detailed analysis is in [6.2.3A](#).

Flowchart	Task Force Analysis
Decision 1: Is the issue prevalent in the public sector?	Yes
Decision 2: Is there sufficient authoritative IPSAS guidance that already addresses this issue in the public sector?	Yes (IPSAS 17 paragraphs 13, 59, 64, 68, 71)
Decision 3: Is this issue related to general purpose financial statements?	Not Applicable
Decision 4: Is additional non-authoritative guidance necessary to enhance consistency of application?	No
Decision 5: Is the issue relevant to other projects?	Yes (Measurement and Heritage)
Flowchart recommendation	No further guidance is necessary

- The Flowchart proposes no further guidance is necessary. The decision not to develop this guidance will be summarized in the Basis for Conclusions. The table below shows current and proposed guidance. Detailed guidance is in [6.2.3B](#).

IPSAS Guidance	Core Text	Application Guidance	Implementation Guidance	Illustrative Examples	Basis for Conclusions
Current	✓	X	X	X	X
Proposed	✓	X	X	X	6.2.3B

Decisions required

- Does the IPSASB agree with the:
 - Flowchart recommendation not to develop additional guidance for renewals accounting; and
 - Proposed guidance in [6.2.3B](#)?

Appendix 6.2.3A: Detailed Analysis - Depreciation versus Renewals Accounting

Question

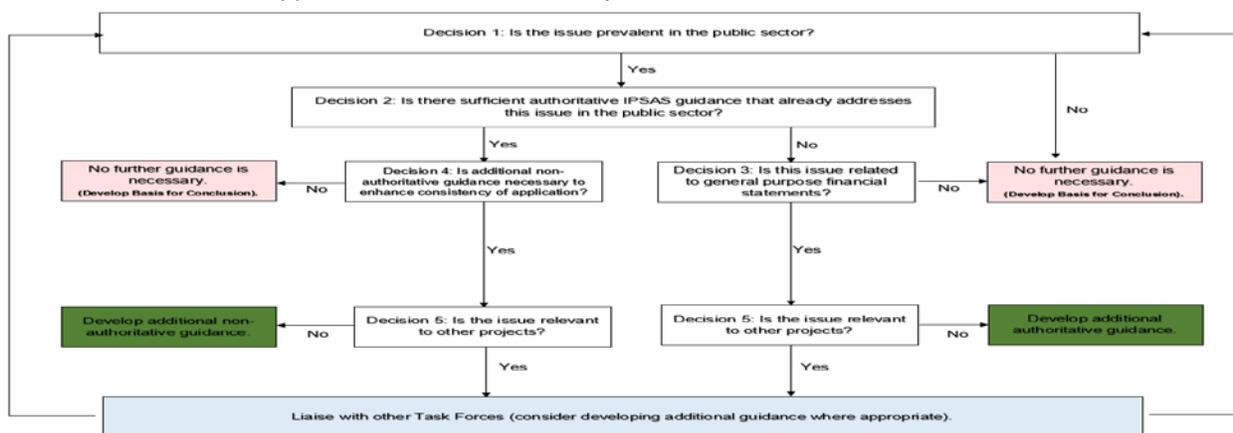
- Whether the IPSASB agrees guidance on depreciation of infrastructure assets is sufficient.

Issue – (Issues #5(a) and #5(b))

- Stakeholders note the conventional depreciation methods in IPSAS 17, *Property, Plant, and Equipment* may not be suitable for infrastructure assets because:
 - They have long useful lives and it may be difficult to reliably estimate their useful lives. Therefore, depreciation may not report an accurate loss in the value of an asset; and
 - They are constantly maintained and renewed and the only expense which should be reported is maintenance because depreciation represents a loss in value which is prevented by maintenance.
- These stakeholders recommend ‘renewals accounting’ as an alternative approach to depreciation because they argue that the amount recognized in surplus or deficit in respect of the upkeep of the assets is similar to the depreciation charge that would have been recognized. There are various methods of renewals accounting.
 - Method 1 – This approach expenses all expenditure incurred to maintain or replace infrastructure assets.
 - Method 2 – This approach expenses all expenditure incurred to maintain infrastructure assets and capitalizes expenditure which improves the infrastructure assets operating capacity.
 - Method 3 - The Condition Based Depreciation method requires a shortfall in the estimated maintenance costs and actual maintenance expenditure incurred to be recognized as depreciation expense because the shortfall represents deterioration of the asset. The depreciation expense and the actual maintenance costs will be recognized as expenses in the surplus or deficit.

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

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



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

Yes

Public sector entities' own infrastructure assets that have long useful lives. Public sector entities' infrastructure assets are continuously renewed and maintained. Depreciation and maintenance charges are major expense line items for public sector entities that own and maintain infrastructure assets. Public sector entities depreciate infrastructure assets irrespective of the difficulties in estimating the useful lives to comply with the requirements of IPSAS 17, *Property, Plant, and Equipment*.

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

Yes

IPSAS 17, *Property, Plant, and Equipment* is explicit *property, plant, and equipment including infrastructure assets should be depreciated*. Therefore, IPSAS 17 addresses this issue with an approach that is different to the renewals method proposed by stakeholders.

Paragraph 68 explains that *repairs 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*.

Paragraph 71 elaborates *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 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*.

Paragraphs 13 and 64 elaborates *depreciation is the systematic allocation of the depreciable amount of an asset over its useful life. The depreciation charge for each period shall be recognized in surplus or deficit, unless it is included in the carrying amount of another asset*.

Paragraph 59 of IPSAS 17 states 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*.

Therefore, there is sufficient authoritative guidance that property, plant, and equipment should be depreciated.

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

Not applicable

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

No

Whilst there may be benefits to renewals accounting as an alternative to depreciation, this approach should not be adopted in the public sector because:

- Under the historical cost and current value measurement models, the acquisition cost of an asset that has a limited useful life must be depreciated over its useful life, maintenance

expenses that enhance the future economic benefits or service potential of an asset must be capitalized and maintenance expenses that do not enhance the future economic benefits and service potential are not capitalized but are expensed. Maintenance expenses incurred that are not capitalized may still impact the “fair value” of the asset, but such an increase in value cannot be recognized under the historical cost measurement model. On the other hand, an increase in fair value as a result of maintenance may need to be recognized under the current value measurement model. However, assets carried on the current value measurement model still need to be depreciated. Therefore, repairs and maintenance of an asset on either the historical cost or current value measurement models does not negate the need to depreciate it. Not recognizing depreciation because of maintenance is akin to realizing an offset between the depreciation expense and the increase in value generated by the maintenance. This is not possible under both the historical cost and current value measurement models because depreciation is recognized even if the fair value of the asset exceeds its carrying amount; and

- Renewals accounting assumes that infrastructure assets are in a steady state and that service potential or future economic benefits embodied in the infrastructure assets are always constant. This is incorrect as the service potential or future economic benefits embodied in the infrastructure assets are consumed or expire over its useful life and therefore giving rise to expenses. Depreciation represents this consumption of service potential or loss of future economic benefits. The *Conceptual Framework for General Purpose Financial Reporting by Public Sector Entities* (the Conceptual Framework) explains that *depreciation is the acceptable method for determining the consumption of the service potential of an asset*. Therefore, difficulty in estimating the useful life or longevity of an asset does not justify non-depreciation. Depreciation is recognized even when the asset is being maintained by regular repairs and maintenance.

Furthermore, this issue is not unique to the public sector. Infrastructure assets owned by public and private sector entities are depreciated consistently using the principles applicable to IAS 16, *Property, Plant, and Equipment*. As the Task Force is unaware of any private sector interpretation issues, no further public sector guidance is necessary.

Whilst no additional guidance on the depreciation or renewals accounting of infrastructure assets is recommended, the analysis above will be summarized in the Basis for Conclusions. Refer to [Appendix 6.2.3B](#) for the decision not to provide further guidance on the alternative approaches to depreciation in the Basis for Conclusions.

Decision 5: Is the issue relevant to other projects?

Yes

The infrastructure assets issue of depreciation is relevant to other projects as it impacts useful lives. Staff/Task Force will liaise with the Measurement and Heritage projects because the depreciation of infrastructure assets is relevant to other projects.

Task Force Recommendation

5. The Task Force recommends no further guidance is necessary for the depreciation of infrastructure assets. Refer to [Appendix 6.2.3B](#) for the decision not to provide further guidance on the alternative approaches to depreciation in the Basis for Conclusions.

Decisions required

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

Appendix 6.2.3B: Additional Guidance – Depreciation versus Renewals Accounting of Infrastructure Assets

Proposed guidance

1. The proposed IPSAS guidance available to address the issue of depreciation of infrastructure assets is in the table below.
2. New text is underlined and deleted text is struck through.

Proposed Guidance (New text is underlined and deleted text is struck through)				
Core Text	Application Guidance	Implementation Guidance	Illustrative Examples	Basis for Conclusions
<p>IPSAS 17.68 is explicit, property, plant, and equipment should be depreciated. Paragraph 68 explains that repairs 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.</p> <p>IPSAS 17.71 elaborates 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 when the asset is derecognized. Therefore, depreciation does not cease when the asset becomes idle or is retired</p>	<p>None</p>	<p>None</p>	<p>None</p>	<p><i>This Basis for Conclusions accompanies, but is not part of, IPSAS 17</i></p> <p><u>Infrastructure Assets</u></p> <p><u>Depreciation versus Renewals Accounting of Infrastructure Assets</u></p> <p><u>BC26. Stakeholders noted the conventional depreciation methods in IPSAS 17 may not be suitable for infrastructure assets that have long useful lives and are constantly maintained and renewed because it may be difficult to reliably estimate their useful lives. Stakeholders argued if the required maintenance is carried out, the only expense which should be reported is maintenance because depreciation represents a loss in value which is prevented by maintenance. Therefore, stakeholders recommended a Renewals Accounting approach which either expenses all expenditure incurred to maintain or replace infrastructure assets or expenses all expenditure incurred to maintain infrastructure assets and capitalizes expenditure which improves the infrastructure assets operating capacity. Other stakeholders recommended a</u></p>

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Proposed Guidance (New text is underlined and deleted text is struck through)				
Core Text	Application Guidance	Implementation Guidance	Illustrative Examples	Basis for Conclusions
<p>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>IPSAS 17.13 and 64 elaborates depreciation is the systematic allocation of the depreciable amount of an asset over its useful life. The depreciation charge for each period shall be recognized in surplus or deficit, unless it is included in the carrying amount of another asset.</p>				<p><u>Condition Based Depreciation method which requires a shortfall in the estimated maintenance costs and actual maintenance expenditure incurred to be recognized as depreciation expense. The depreciation expense and the actual maintenance costs will be recognized as expenses in surplus or deficit.</u></p> <p><u>BC27. The IPSASB acknowledged the benefits of renewals accounting. However, the IPSASB decided not to replace depreciation with renewals accounting. Under the historical cost and current value measurement models, the acquisition cost of an asset that has a limited useful life must be depreciated over its useful life, maintenance expenses that enhance the future economic benefits or service potential of an asset must be capitalized and maintenance expenses that do not enhance the future economic benefits and service potential are not capitalized but are expensed. Maintenance expenses incurred that are not capitalized may still impact the “fair value” of the asset, but such an increase in value cannot be recognized under historical cost accounting. On the other hand, an increase in fair value as a result of maintenance may need to be recognized under the current value measurement model. However, assets carried on the current value measurement model still need to be depreciated. Therefore, repairs and maintenance of an asset on either the historical cost or current value measurement models does not negate the need to depreciate it. Not</u></p>

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Proposed Guidance (New text is underlined and deleted text is struck through)				
Core Text	Application Guidance	Implementation Guidance	Illustrative Examples	Basis for Conclusions
				<p><u>recognizing depreciation because of maintenance is akin to realizing an offset between the depreciation expense and the increase in value generated by the maintenance. This is not possible under historical cost and current value measurement models because depreciation is recognized even if the fair value of the asset exceeds its carrying amount.</u></p> <p><u>BC28. Renewals accounting assumes that infrastructure assets are in a steady state and that service potential or future economic benefits embodied in the infrastructure assets are always constant. This is inconsistent with the IPSASB's view that the service potential or future economic benefits embodied in the infrastructure assets are consumed or expire over its useful life and therefore giving rise to expenses. Depreciation represents this consumption of service potential or loss of future economic benefits. The <i>Conceptual Framework for General Purpose Financial Reporting by Public Sector Entities</i> (the Conceptual Framework) explains that depreciation is the acceptable method for determining the consumption of the service potential of an asset.</u></p>

Decisions required

3. Does the IPSASB agree with the additional guidance recommended by the Task Force?

Infrastructure Assets Spare Parts

Question

- Whether the IPSASB agrees existing guidance on accounting infrastructure assets spare parts is insufficient.

Issue – [\(Issue #1\(d\)\)](#)

- Stakeholders note there is insufficient guidance in IPSAS 17, *Property, Plant, and Equipment* that distinguishes whether infrastructure assets spare parts are part of the asset, or, whether these spare parts are inventory and should be accounted in terms of IPSAS 12, *Inventories*.

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

- The Task Force applied the Flowchart to analyze the infrastructure assets issue identified. The analysis is summarized in the table below. The detailed analysis is in [6.2.4A](#).

Flowchart	Task Force Analysis
Decision 1: Is the issue prevalent in the public sector?	Yes
Decision 2: Is there sufficient authoritative IPSAS guidance that already addresses this issue in the public sector?	Yes (IPSAS 17 paragraphs 17, 18 and 23)
Decision 3: Is this issue related to general purpose financial statements?	Not Applicable
Decision 4: Is additional non-authoritative guidance necessary to enhance consistency of application?	Yes (Clarify principle)
Decision 5: Is the issue relevant to other projects?	No
Flowchart recommendation	Develop non-authoritative implementation guidance

- The Flowchart proposes non-authoritative implementation guidance be developed for accounting for infrastructure assets spare parts.
- The table below shows current and proposed IPSAS guidance. Detailed guidance is in [6.2.4B](#).

IPSAS Guidance	Core Text	Application Guidance	Implementation Guidance	Illustrative Examples	Basis for Conclusions
Current	✓	X	X	X	X
Proposed	✓	X	6.2.4B	X	6.2.4B

Decisions required

- Does the IPSASB agree with the:
 - Flowchart recommendation to develop non-authoritative implementation guidance; and

- (b) Proposed guidance in [6.2.4B](#)?

Appendix 6.2.4A: Detailed Analysis - Infrastructure Assets Spare Parts

Question

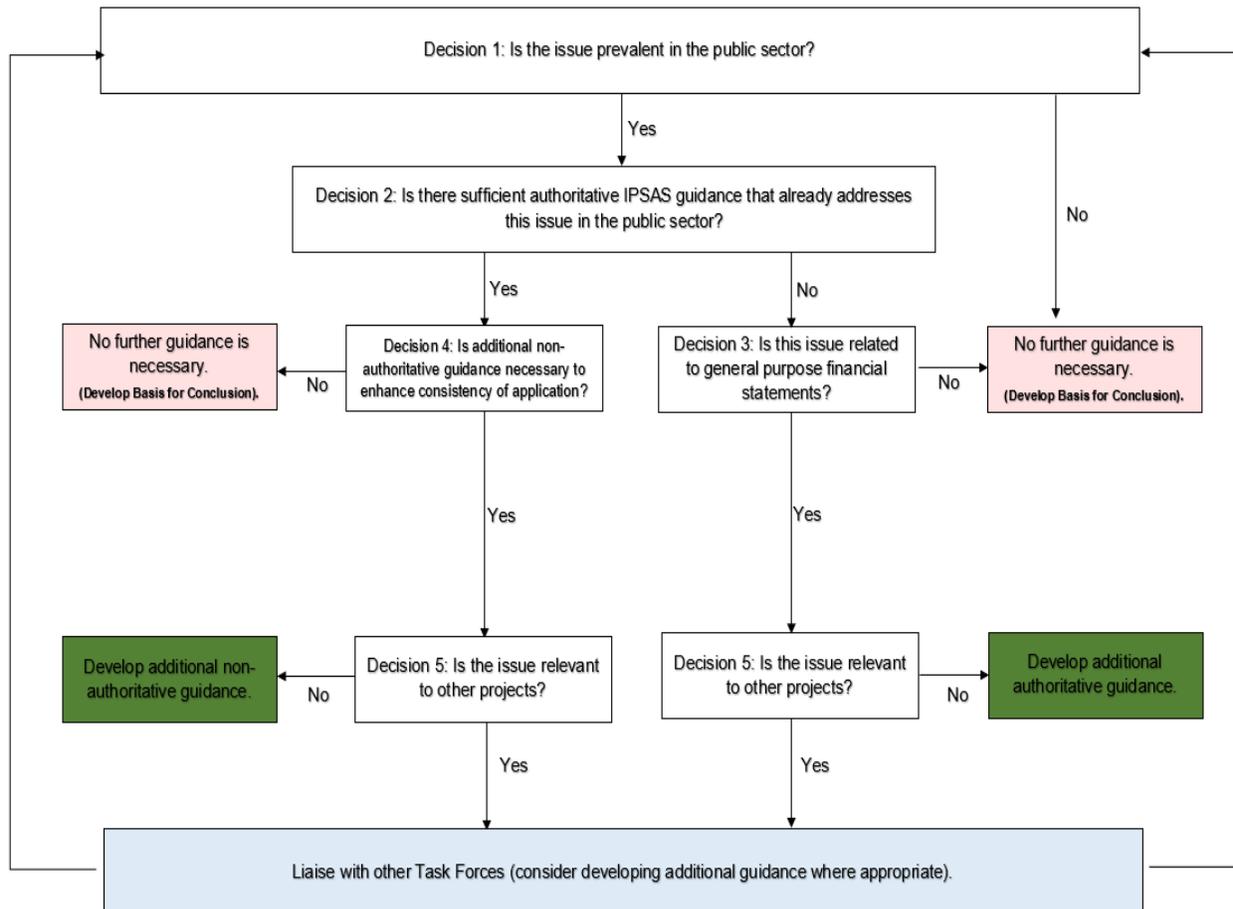
1. Whether the IPSASB agrees existing guidance on accounting for infrastructure assets spare parts is insufficient.

Issue – (Issue #1(d))

2. Stakeholders note that there are challenges to assess whether spare parts required to maintain or repair the infrastructure assets should be included as part of the asset itself, or, whether these parts comprise inventory as they are consumed in the rendering services because IPSAS does not provide sufficient guidance whether spare parts of infrastructure assets are capital or inventory in nature.
3. This distinction is important because spare parts that are capital in nature will be capitalized to the carrying amount of infrastructure assets in terms of IPSAS 17, *Property, Plant, and Equipment*. Spare parts that are inventory in nature may need to be accounted in terms of IPSAS 12, *Inventories* where there will be expensed when consumed.

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

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



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

Yes

Public sector entities have the responsibility to maintain and upgrade infrastructure assets in order to maintain a specific level of service to its citizens and stakeholders. As such public sector entities acquire spare parts that are used to maintain or repair infrastructure assets. Public sector entities also acquire normal consumable spare parts that are used for day to day operations. A difficult point for public sector entities is identifying when a purchase of a spare part is a consumable (inventory) or if it adds value (property, plant, and equipment).

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

Yes

Paragraph 12 of IPSAS 12, *Inventories* states that *inventories in the public sector include spare parts other than those that meet the definition of property, plant, and equipment in IPSAS 17.*

Paragraph 17 of IPSAS 17 states that *items such as spare parts, stand-by equipment and servicing equipment are recognized when they meet the definition of property, plant, and equipment. Otherwise, such items are classified as inventory. For example, spare parts are property, plant, and equipment if the entity expects to use them over more than one accounting period, (i.e., over a period of more than 12 months).*

Paragraph 18 of IPSAS 17 states that *this 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 (when an entity establishes a capitalization threshold, assets below the relevant threshold are expensed in the period of purchase and assets above the threshold are recognized as assets in the statement of financial position).*

Paragraph 23 of IPSAS 17 states that *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.*

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

Not applicable

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

Yes

Additional guidance can always help to clarify existing principles. Whilst specific authoritative guidance is available in IPSAS 17 and IPSAS 12, further non authoritative implementation guidance

is necessary to distinguish infrastructure assets spare parts that are capital and those that are inventory in nature.

Public sector entities hold infrastructure spare parts. A difficult point is to identify when a spare part is a consumable and when does it gives added or renovated value to a component of the infrastructure asset.

Therefore, the Task Force proposes additional non-authoritative implementation guidance to augment the accounting requirements for infrastructure assets spare parts. Refer to [Appendix 6.2.4B](#) for the proposed guidance.

Decision 5: Is the issue relevant to other projects?

No

The issue of infrastructure spare parts is unique to the Infrastructure Assets project and not relevant to other projects.

Task Force Recommendation

5. The Task Force recommends additional non-authoritative implementation guidance be developed for the accounting for infrastructure assets spare parts. Refer to [Appendix 6.2.4B](#) for the proposed guidance on infrastructure assets spare parts.

Decisions required

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

Appendix 6.2.4B: Additional Guidance – Infrastructure Assets Spare Parts

Proposed guidance

1. The proposed IPSAS guidance available to address the issue of infrastructure assets spare parts is in the table below.
2. New text is underlined and deleted text is struck through.

Proposed Guidance (New text is underlined and deleted text is struck through)				
Core Text	Application Guidance	Implementation Guidance	Illustrative Examples	Basis for Conclusions
<p>Paragraph 12 of IPSAS 12, <i>Inventories</i> states that inventories in the public sector include spare parts other than those that meet the definition of property, plant, and equipment in IPSAS 17.</p> <p>IPSAS 17.17 states that items such as spare parts, stand-by equipment and servicing equipment are recognized when they meet the definition of property, plant, and equipment. Otherwise, such items are classified as inventory. For example, spare parts are property, plant, and equipment if the entity expects to use them over more than one accounting period, (i.e., over a period of more than 12 months).</p> <p>IPSAS 17.23 states that an entity does not recognize in the carrying amount of an item of property, plant, and equipment the costs of the day-to-day</p>	<p>None</p>	<p><i>This guidance accompanies, but is not part of, IPSAS 17</i></p> <p><u>Infrastructure Assets</u></p> <p><u>How are infrastructure assets spare parts accounted for?</u></p> <p><u>IG28. Spare parts are usually recognized as inventory and expensed when consumed in accordance to IPSAS 12, <i>Inventories</i>.</u></p> <p><u>IG29. However, spare parts are not classified as inventory but as property, plant, and equipment or infrastructure assets if the spare parts are:</u></p> <p>(a) <u>Major or material;</u></p> <p>(b) <u>Expected to be used for more than one period; and</u></p> <p>(c) <u>Can only be used in connection with a specific property, plant,</u></p>	<p>None</p>	<p><i>This Basis for Conclusions accompanies, but is not part of, IPSAS 17</i></p> <p><u>Infrastructure Assets</u></p> <p><u>Accounting for infrastructure assets spare parts</u></p> <p><u>BC29. Stakeholders noted there are challenges to assess whether spare parts required to maintain or repair the 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 because IPSAS 17 does not provide sufficient guidance whether spare parts of infrastructure assets are capital or inventory in nature. This distinction is important because spare parts that are capital in nature will be capitalized to the carrying amount of</u></p>

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Proposed Guidance (New text is underlined and deleted text is struck through)				
Core Text	Application Guidance	Implementation Guidance	Illustrative Examples	Basis for Conclusions
<p>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.</p> <p>IPSAS 17.18 states that this 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 (when an entity establishes a capitalization threshold, assets below the relevant threshold are expensed in the period of purchase and assets above the threshold are recognized as</p>		<p style="text-align: center;"><u>and equipment or infrastructure assets item.</u></p> <p>IG30. <u>In practice, spare parts that are material are not considered as inventory but rather as property, plant, and equipment or infrastructure assets. Thus, judgment may be required in determining spare parts that are inventory and those that are property, plant, and equipment or infrastructure assets.</u></p>		<p><u>infrastructure assets in terms of IPSAS 17. Spare parts that are inventory in nature are accounted in terms of IPSAS 12, Inventories where there will be expensed when consumed.</u></p> <p>BC30. <u>The IPSASB agreed to add implementation guidance (paragraphs IG28-IG30) to clarify the accounting for infrastructure assets spare parts.</u></p>

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Proposed Guidance (New text is underlined and deleted text is struck through)				
Core Text	Application Guidance	Implementation Guidance	Illustrative Examples	Basis for Conclusions
assets in the statement of financial position).				

Decisions required

- Does the IPSASB agree with the additional guidance recommended by the Task Force?

Costs to dismantle Infrastructure Assets

Question

- Whether the IPSASB agrees existing guidance on costs to dismantle infrastructure assets is insufficient.

Issue – [\(Issue #3\(c\)\)](#)

- Stakeholders note there is insufficient guidance in IPSAS 17, *Property, Plant, and Equipment* for accounting for the impact of future decommissioning costs on the value of infrastructure assets.

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

- The Task Force applied the Flowchart to analyze the infrastructure assets issue identified. The analysis is summarized in the table below. The detailed analysis is in [6.2.5A](#).

Flowchart	Task Force Analysis
Decision 1: Is the issue prevalent in the public sector?	Yes
Decision 2: Is there sufficient authoritative IPSAS guidance that already addresses this issue in the public sector?	Yes (IPSAS 17 paragraphs 30, 32 and 91)
Decision 3: Is this issue related to general purpose financial statements?	Not Applicable
Decision 4: Is additional non-authoritative guidance necessary to enhance consistency of application?	Yes (Clarify principle)
Decision 5: Is the issue relevant to other projects?	Yes (Measurement and Heritage)
Flowchart recommendation	Develop non-authoritative implementation guidance

- The Flowchart proposes non-authoritative implementation guidance be developed for accounting for costs to dismantle infrastructure assets.
- The table below shows current and proposed IPSAS guidance. Detailed guidance is in [6.2.5B](#).

IPSAS Guidance	Core Text	Application Guidance	Implementation Guidance	Illustrative Examples	Basis for Conclusions
Current	✓	X	X	X	X
Proposed	✓	X	6.2.5B	X	6.2.5B

Decisions required

- Does the IPSASB agree with the:
 - Flowchart recommendation to develop non-authoritative implementation guidance; and
 - Proposed guidance in [6.2.5B](#)?

Appendix 6.2.5A: Detailed Analysis – Costs to dismantle Infrastructure Assets

Question

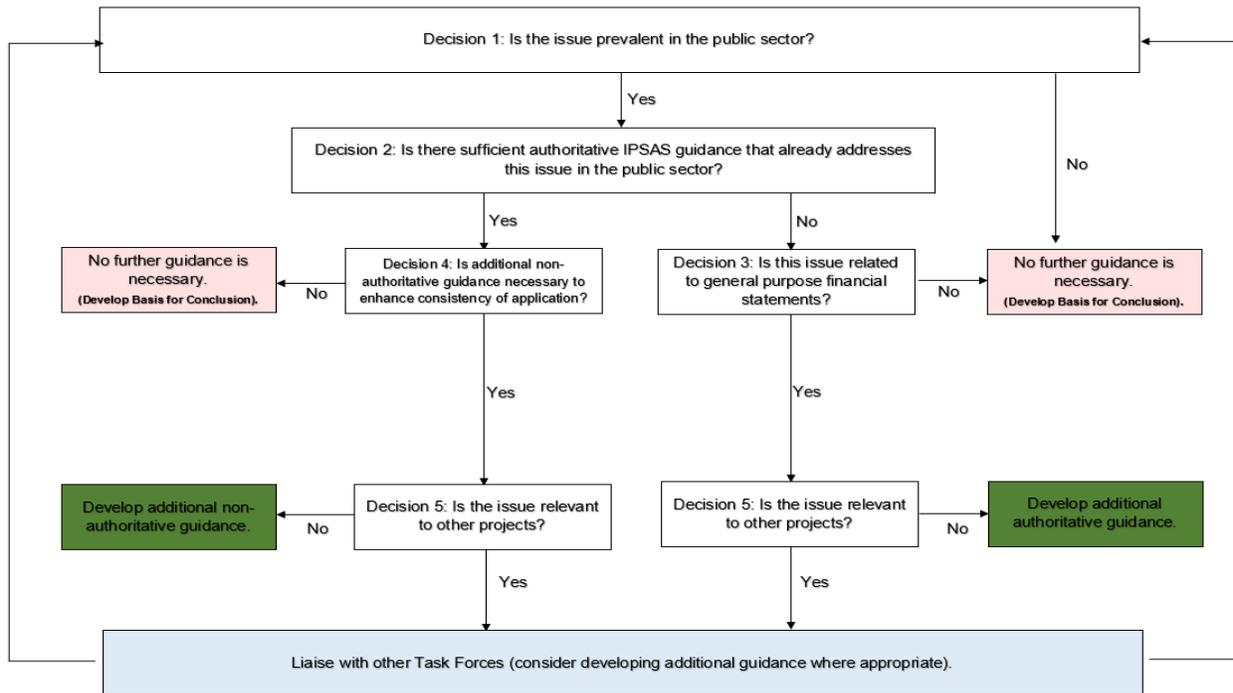
- Whether the Task Force agrees existing guidance on costs to dismantle infrastructure assets is insufficient.

Issue – (Issue #3(c))

- Stakeholders note that IPSAS provides insufficient guidance for accounting for costs to dismantle infrastructure assets. Stakeholders are of the opinion that guidance is needed to highlight the impact of future environmental or decommissioning costs on the value of property, plant, and equipment or infrastructure assets acquired.

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

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



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

Yes

Public sector entities usually incur decommissioning costs because they own infrastructure assets such as nuclear power stations and are obliged to rectify the damage caused by these assets. Therefore, public sector entities that own these infrastructure assets may need to provide for these decommissioning costs in the financial statements.

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

Yes

Paragraph 30 of IPSAS 17, *Property, Plant, and Equipment* states that *the cost of an item of property, plant, and equipment comprises of:*

- (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: and*
- (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.*

Paragraph 32 of IPSAS 17 elaborates that *the obligations for costs accounted for in accordance with IPSAS 17 are recognized and measured in accordance with IPSAS 19, Provisions, Contingent Liabilities and Contingent Assets.*

Paragraph 91 of IPSAS 17 states that *in accordance with IPSAS 3, Accounting Policies, Changes in Accounting Estimates and Errors, 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 the estimated costs of dismantling, removing, or restoring items of property, plant and equipment.*

Paragraph 27 of IPSAS 19 elaborates that, *a public sector entity would recognize a provision for the decommissioning costs of a defense installation or a government-owned nuclear power station, to the extent that the public sector entity is obliged to rectify damage already caused.*

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

Not applicable

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

Yes

Additional guidance can always help to clarify existing principles. Whilst specific authoritative guidance is available in IPSAS 17 and IPSAS 19, further non authoritative implementation guidance is necessary to illustrate that public sector entities that have a present obligation (legal and/or constructive) to decommission its assets at the end of the useful lives should include in the cost of property, plant, and equipment or infrastructure asset, the estimated cost of dismantling and removing the asset and restoring the site to the extent that such cost is recognized as a provision.

No provision is made, and no amount is capitalized, in respect of any environmental damage that has yet to occur. This is because, there is no present obligation for any environmental damage that has yet to occur.

Therefore, the Task Force proposes additional non-authoritative implementation guidance to augment the accounting requirements for costs to dismantle infrastructure assets. Refer to [Appendix 6.2.5B](#) for the proposed guidance on costs to dismantle infrastructure assets.

Decision 5: Is the issue relevant to other projects?

Yes

The infrastructure assets issue for determining the costs to dismantle infrastructure assets is relevant to other projects. Staff/Task Force will liaise with the Measurement and Heritage projects.

Task Force Recommendation

4. The Task Force recommends additional non-authoritative implementation guidance be developed for the accounting for costs to dismantle infrastructure assets. Staff/Task Force will liaise with the Measurement and Heritage projects with respect to the costs to dismantle infrastructure assets. Refer to [Appendix 6.2.5B](#) for the proposed guidance on the costs to dismantle infrastructure assets.

Decisions required

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

Appendix 6.2.5B: Additional Guidance – Costs to dismantle Infrastructure Assets

Proposed guidance

1. The proposed IPSAS guidance available to address the issue of costs to dismantle infrastructure assets is in the table below.
2. New text is underlined and deleted text is struck through.

Proposed Guidance (New text is underlined and deleted text is struck through)				
Core Text	Application Guidance	Implementation Guidance	Illustrative Examples	Basis for Conclusions
<p>IPSAS 17.30 states that items the cost of an item of property, plant, and equipment comprises of:</p> <p>(a) Its purchase price, including import duties and non-refundable purchase taxes, after deducting trade discounts and rebates;</p> <p>(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: and</p> <p>(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</p>	<p>None</p>	<p><i>This guidance accompanies, but is not part of, IPSAS 17</i></p> <p><u>Infrastructure Assets</u></p> <p><u>How are costs to dismantle infrastructure assets accounted for?</u></p> <p><u>IG31. The cost of infrastructure assets includes the estimated cost of dismantling and removing the asset and restoring the site to the extent that such cost is recognized as a provision.</u></p> <p><u>IG32. Therefore, a public sector entity that owns a nuclear power plant that has a useful life of 20 years may be legally obliged through environmental laws to dismantle the nuclear power plant at the end of its useful life. The entity recognizes a provision for the dismantling costs.</u></p>	<p>None</p>	<p><i>This Basis for Conclusions accompanies, but is not part of, IPSAS 17</i></p> <p><u>Infrastructure Assets</u></p> <p><u>Accounting for costs to dismantle infrastructure assets</u></p> <p><u>BC31. Stakeholders noted that IPSAS provides 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 property, plant, and equipment or infrastructure assets acquired.</u></p> <p><u>BC32. The IPSASB agreed to add implementation guidance (paragraphs IG31-IG33) to clarify</u></p>

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Proposed Guidance (New text is underlined and deleted text is struck through)				
Core Text	Application Guidance	Implementation Guidance	Illustrative Examples	Basis for Conclusions
<p>acquired, or as a consequence of having used the item during a particular period for purposes other than to produce inventories during that period.</p> <p>IPSAS 17.32 states that the obligations for costs accounted for in accordance with IPSAS 17 are recognized and measured in accordance with IPSAS 19, <i>Provisions, Contingent Liabilities and Contingent Assets</i>.</p> <p>IPSAS 17.91 states that in accordance with IPSAS 3, <i>Accounting Policies, Changes in Accounting Estimates and Errors</i>, 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 the estimated costs of dismantling, removing, or restoring items of property, plant and equipment.</p>		<p><u>which are also capitalized as part of the cost of the infrastructure asset.</u></p> <p><u>IG33. No provision is made, and no amount is capitalized, in respect of any environmental damage that has yet to occur. This is because there is no present obligation for any environmental damage that has yet to occur.</u></p>		<p><u>the accounting for costs to dismantle infrastructure assets.</u></p>

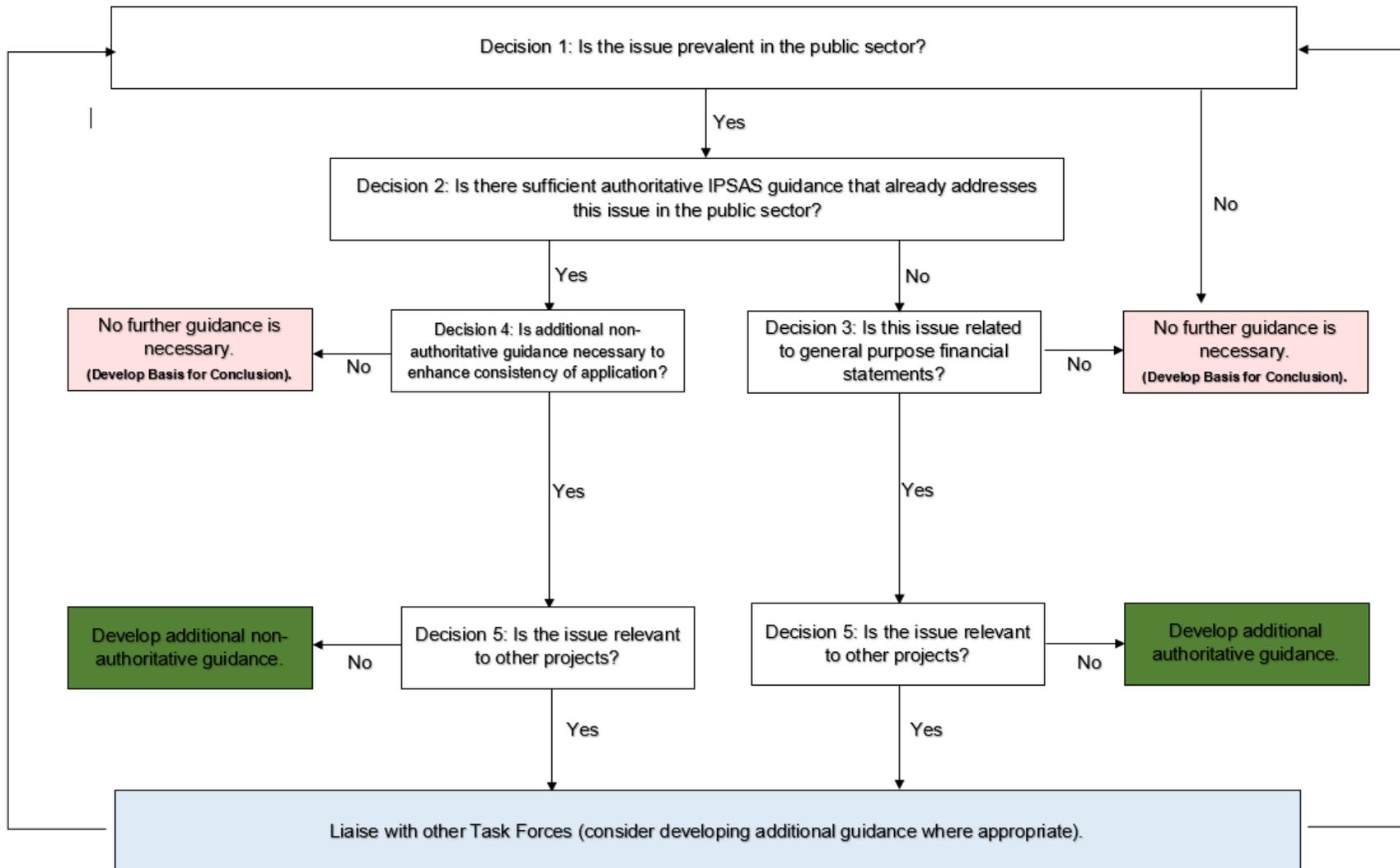
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Proposed Guidance (New text is underlined and deleted text is struck through)				
Core Text	Application Guidance	Implementation Guidance	Illustrative Examples	Basis for Conclusions
IPSAS 19.27 elaborates that, a public sector entity would recognize a provision for the decommissioning costs of a defense installation or a government-owned nuclear power station, to the extent that the public sector entity is obliged to rectify damage already caused.				

Decisions required

- Does the IPSASB agree with the additional guidance recommended by the Task Force?

IPSASB Approved Flowchart



IPSASB approved list of issues identified accounting for Infrastructure Assets

1. The list of issues identified when accounting for Infrastructure Assets was approved by the IPSASB at the September 2019 meeting.
2. The issues that have already been analyzed by the Infrastructure Assets Task Force (Task Force) and the IPSASB have been shaded Grey.
3. The issues that have been analyzed by the Task Force and not yet analyzed by the IPSASB have been shaded light blue.
4. The issues that have not been analyzed by the Task Force and the IPSASB are not shaded.

List of Issues
Issue #1: Scope and Definition
<u>Issue #1(a) – There is insufficient guidance of the definition of infrastructure assets.</u> Stakeholders note that there is no generally accepted definition for infrastructure assets. A definition for infrastructure assets may need to be considered. Currently infrastructure assets are classified as property, plant, and equipment. Other stakeholders note that infrastructure assets are not property, plant, and equipment and should be treated as a separate distinct group of assets.
<u>Issue #1(b) – The list of characteristics and examples of infrastructure assets in IPSAS may not be relevant and not capture all the essential characteristics of infrastructure assets.</u> Stakeholders note that the current list of characteristics and examples of infrastructure assets in IPSAS are not exhaustive and relevant because: <ul style="list-style-type: none">▪ The list does not capture all the characteristics of infrastructure assets. For example, infrastructure assets are characterized as immovable whilst there are global infrastructure satellite networks that are movable. For example, the European Union (EU) has a network of satellites used to provide the EU version of GPS. When accounting for these assets, IPSAS 17, is the applicable standard. However, IPSAS 17 refers to immovable assets, and satellites move, so stakeholders see an issue with IPSAS 17. The list does not capture all the examples of infrastructure assets.
<u>Issue #1(c) – There is insufficient guidance on accounting for land under or over infrastructure assets.</u> IPSAS does not provide sufficient guidance whether land under or over infrastructure should be separately accounted from infrastructure assets. Stakeholders questioned whether land and infrastructure assets should be treated separately or as a single asset.
<u>Issue #1(d) – There is insufficient guidance on whether spare parts of infrastructure assets are capital or inventory.</u> IPSAS does not provide sufficient guidance whether spare parts of infrastructure assets are capital or inventory in nature.

This distinction is important because infrastructure assets that are capital in nature will be capitalized to the carrying amount of infrastructure assets in terms of IPSAS 17. Infrastructure assets that are inventory in nature may need to be accounted in terms of IPSAS 12, *Inventories* where there will be expensed when consumed.

Issue #2: Recognition

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

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

- i. Poor record keeping;
- ii. Infrastructure assets that are legally owned by other entities may be managed or operated by another public sector entity (for example, a water system may have many different public sector entities and various levels of government operating different parts of the same network. Assessing control and which entity should account for the infrastructure network is a big challenge).
- iii. Infrastructure assets may be jointly controlled by two (2) or more public sector entities.
- iv. Land and infrastructure assets acquired together may be controlled or operated by different parties. There is risk of double recognition/counting if land and infrastructure assets are held and operated by different levels in the public sector.
- v. Access rights, right-of-way, or easements are granted over the land for transportation purposes, electrical transmission lines and oil and gas pipelines which may or may not revert to its original owners.
- vi. Infrastructure assets belonging to the central government are usually transferred to other public or private sector entities, which control the use of the infrastructure assets and can derive economic benefit or service potential from them.
- vii. Infrastructure assets may cross more than one jurisdiction.

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

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

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

- It may be difficult to identify the grantor or operator in a service concession arrangement. This distinction is important because the grantor owns and recognizes the infrastructure asset in the financial statements. The operator does not recognize the asset because it maintains and operates the infrastructure asset on behalf of the grantor.
- Difficulties also arise in a service concession arrangement whereby the grantor may control the asset but does not have the capital expenditure information as the asset is operated and maintained by another party.

In the EU many questions related to the satellite system arise when considering the accounting treatment, such as the question of who controls the system. Is it the EU or the companies involved in operating the satellites? A

further issue leading from this point is whether the transaction between the EU and companies operating the network is a service concession arrangement?

Issue #3: Measurement

Issue #3(a) - Measurement bases may be difficult to apply when valuing infrastructure assets.

Stakeholders note that it may be difficult to initially measure infrastructure assets because:

- There may be minimal records of the historical cost information.
- There is no active market for infrastructure assets.

Stakeholders note that measurement requirements for infrastructure assets in the Conceptual Framework, *Public Sector Measurement* and IPSAS 17 need to be considered.

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

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

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

Costs to dismantle infrastructure assets such as nuclear plants are an element of the cost of the infrastructure asset. Accounting for such decommissioning costs on infrastructure assets could be complex.

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

Determining the threshold of the costs of infrastructure assets to capitalize or expense could be complex. The threshold is important because it determines the point where material items above a certain threshold are capitalized to infrastructure assets whilst the immaterial expenses below a threshold are expensed when incurred.

Issue #3(e) – Valuing network assets may be complex.

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

For example, formation costs of highway networks are normally a material component of the cost of constructing a road. The following may need to be considered:

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

Issue #4: Subsequent measurement

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

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

- There are minimal records of the historical cost information.
- There is no active market for infrastructure assets that were acquired a long time ago.
- It is not clear whether the cost model or revaluation model applicable to property, plant, and equipment also applies to infrastructure assets.
- Measuring the remaining service potential of infrastructure assets that do not directly generate revenue could be complex. There is a need to define service potential.

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

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

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

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

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

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

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

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

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

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

- View 1: Consider whether commitments arising from backlog maintenance should be recognized in the financial statements.

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

Issue #5: Depreciation

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

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

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

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

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

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

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

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

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

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

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

Issue #6: Componentization

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

IPSAS 17 requires separate identification of significant parts of an asset. However, other stakeholders note that infrastructure assets should not be componentized because they are single networks and are not individual assets. For example, road surface assets are recognized as a single asset in some jurisdictions.

The componentization approach of infrastructure assets may be complex to apply in practice. More guidance/clarification on how separate elements of infrastructure assets should be componentized may be needed.

Issue #7: Impairment

Issue #7(a) - Assessment of impairment of infrastructure assets could be complex.

Specific impairment indicators of infrastructure assets could be required which may not be provided in IPSAS.

Impairment of components of infrastructure assets could be complex (For example, if a portion of an infrastructure asset is impaired, should the whole infrastructure asset be impaired?).

Issue #8: Derecognition

Issue #8(a) - There is insufficient guidance on the derecognition of infrastructure assets.

More guidance on derecognition of infrastructure assets should be provided in IPSAS. For example, infrastructure assets that are replaced, should be derecognized to avoid double counting as the infrastructure assets that are acquired are capitalized.

Issue #9: Presentation and Disclosure

Issue #9(a) - There is insufficient guidance on the disclosure of infrastructure assets.

Since there is no specific standard for infrastructure asset disclosure, asset reporting of has been mainly guided by the accounting principles of IPSAS 17.

As a result, stakeholders note that there is insufficient guidance on the presentation and disclosure of the physical condition, planned and deferred/backlog maintenance, long-term nature and valuation of infrastructure assets.