

## Exposure Draft (ED) 78 Summary—*Property, Plant, and Equipment*

This summary provides an overview of [ED 78, \*Property, Plant, and Equipment\*](#).

### **Project Objective:**

This ED proposes updates to the principles drawn from IPSAS 17, *Property, Plant, and Equipment* by proposing new requirements for heritage assets, infrastructure assets, and measurement of property, plant, and equipment. ED 78, *Property, Plant, and Equipment* proposes the following:

- (a) Additional general measurement guidance and options when accounting for assets within its scope;
- (b) Characteristics to identify heritage and infrastructure assets; and
- (c) Additional guidance on how heritage and infrastructure assets should be recognized and measured.

### **The Project Stage:**

The IPSASB issued ED 78 in April 2021 as part of a package of EDs which includes [ED 76, \*Conceptual Framework Update: Chapter 7, Measurement of Assets and Liabilities in Financial Statements\*](#), [ED 77, \*Measurement\*](#) and [ED 79, \*Non-Current Assets Held for Sale and Discontinued Operations\*](#).

### **Next Steps:**

The IPSASB seeks feedback on ED 78 to guide it in developing a final International Public Sector Accounting Standard® (IPSAS®).

### **Comment Deadline:**

ED 78 is open for public comment until October 25, 2021.

### **How to Respond:**

Respondents are asked to submit their comments electronically through the IPSASB website, using the "[Submit a Comment](#)" link. Please submit comments in both a PDF and a Word file. All comments will be considered a matter of public record and will be posted on the website.

## Holistic Approach to Property, Plant, and Equipment

The purpose of this project is to update guidance for reporting heritage and infrastructure assets, as well as to align the measurement of Property, Plant, and Equipment with the related measurement project.

### Three Projects: One Exposure Draft

The IPSASB's work program includes three projects that were expected to update the accounting requirements in IPSAS 17, *Property, Plant, and Equipment*. Instead of issuing three separate proposals, the IPSASB agreed it would be beneficial for constituents to consider the impact of the heritage, infrastructure, and measurement projects holistically and develop a single exposure draft. ED 78 proposes the following:

#### Heritage Project

The heritage project aims to address the long-standing concern with accounting for heritage assets – accounting for those heritage assets which are currently unrecognized.

Through additional authoritative guidance (Core and Application Guidance), Implementation Guidance and Illustrative Examples, ED 78 proposes enhanced transparency and accountability by requiring heritage items that satisfy the definition of property, plant, and equipment to be recognized as assets when they meet the recognition criteria.

#### Infrastructure Project

The infrastructure project seeks to address challenges identified when applying IPSAS 17 to infrastructure assets. These accounting challenges, which relate to the unique characteristics of infrastructure assets, include:

- (a) Control and valuation of land under or over infrastructure assets;
- (b) Identification of individual parts of infrastructure assets; and
- (c) The applicability of information in asset management plans when accounting for infrastructure assets.

#### Measurement Project

The measurement project aligns the fair value measurement requirements for property, plant, and equipment across IPSAS and introduces a public sector specific measurement basis that takes into account the challenges of measuring assets held to deliver services.

## IPSASB's Heritage Project: From Consultation Paper to ED 78

The IPSASB's proposals in ED 78 reflect its consideration of responses to the 2017 Consultation Paper, *Financial Reporting for Heritage in the Public Sector*.

### Consultation Paper, *Heritage*

In its 2017 Consultation Paper (CP) the IPSASB reached several preliminary views (PV), on which it consulted with its constituents. These PVs included:

- (a) Heritage assets should be recognized if they meet the recognition criteria;
- (b) In many cases it will be possible to assign a monetary value to heritage assets; and
- (c) Subsequent measurement of heritage assets is broadly the same as subsequent measurement for other non-heritage assets.

### Responses to the CP

Respondents supported recognition of heritage assets but emphasized measurement difficulties. The IPSASB decided to defer work on Heritage during 2018, so that it could progress work on public sector measurement issues and address the challenges holistically with the heritage project.

### Impact of Heritage on ED 78

Based on responses to its CP, the IPSASB agreed heritage assets that satisfy the definition of property, plant, and equipment should be accounted for as such and recognized when they meet the recognition criteria.

### IPSASB Decisions and Proposals: 2019-2020

ED 78 proposes guidance that can be used by entities to address the recognition and measurement of heritage property, plant, and equipment, providing greater transparency and accountability for heritage assets. It also proposes heritage-related disclosures to meet the needs of users of the financial statements.

## What Changes Does ED 78 Propose for Heritage?

ED 78 proposes heritage assets that satisfy the definition of property, plant, and equipment should be accounted for as such.

### **Definition of Property, Plant, and Equipment**

#### **Removal of Heritage Scope Exclusion**

ED 78 proposes that heritage assets that satisfy the definition of property, plant, and equipment should be recognized as assets when they meet the recognition criteria. Therefore, ED 78 proposes removing IPSAS 17's scope exclusion for heritage assets. The principles in ED 78 on accounting for property, plant, and equipment therefore also apply to heritage assets.

#### **Characteristics of Heritage Assets**

ED 78 does not define heritage assets because they are a subset of property, plant, and equipment. ED 78 proposes the following Application Guidance that identifies the key characteristics of heritage assets which make them unique compared to property, plant, and equipment more broadly. These characteristics are:

- (a) Irreplaceability; and
- (b) Restrictions and long and sometimes indefinite useful lives.

#### **Disclosures Related to Unrecognized Heritage Property, Plant, and Equipment**

ED 78 proposes disclosure of unrecognized heritage assets that cannot be measured reliably.

### **Application of Principles**

ED 78 proposes adding Application Guidance, Implementation Guidance and Illustrative Examples to clarify application of existing principles to heritage assets related to:

- (a) Depreciation guidance to clarify:
  - (i) The useful life of an asset, including finite and indefinite useful lives; and
  - (ii) That entities are required to review property, plant, and equipment with an indefinite useful life annually for indications of impairment;
- (b) Control of heritage assets, including those held temporarily as well as those being stored and not displayed for the public;
- (c) Restrictions on the use of heritage assets which may impact the entity's ability to derive its current value; and
- (d) Recognition of subsequent expenditure on unrecognized heritage assets.

## What Changes Does ED 78 Propose for Infrastructure?

The characteristics of infrastructure assets give rise to specific accounting issues for which the IPSASB has developed additional guidance.

### **Infrastructure is Property, Plant, and Equipment**

The principles in ED 78 on accounting for property, plant, and equipment also apply to infrastructure assets. However, infrastructure assets have characteristics that distinguish them from general property, plant, and equipment and give rise to specific accounting challenges for which the IPSASB has developed additional guidance.

### **Characteristics of Infrastructure Assets**

ED 78 does not define infrastructure assets because they are a subset of property, plant, and equipment. ED 78 proposes the following Application Guidance that identifies the key characteristics of infrastructure assets. These characteristics are:

- (a) They are networks or systems; and
- (b) They have long useful lives.

### **Application of Principles**

ED 78 proposes adding Application Guidance, Implementation Guidance and Illustrative Examples to clarify the application of existing principles to infrastructure assets related to:

- (a) The potential use of asset management plans as a source for financial reporting, which may provide an input to help calculate depreciation, determine whether there is an indication of impairment, or determine the significant parts of the asset;
- (b) Control and valuation of land under or over infrastructure assets;
- (c) Under-maintenance of assets; and
- (d) Identifying significant parts of infrastructure assets.

## What Changes Does ED 78 Propose for Measurement?

ED 78 enhances general measurement guidance and adds measurement options when accounting for assets within its scope.

### Measurement Bases

One of the key objectives of the measurement project is to provide more detailed guidance on the implementation of commonly used measurement bases, and the circumstances under which these measurement bases should be used.

This resulted in two key measurement related proposals included in ED 78 which:

- (a) Update fair value measurement principles to align with IFRS 13, *Fair Value Measurement*; and
- (b) Introduce a public sector specific measurement basis—Current Operational Value.

### Fair Value

The measurement project, ED 77, *Measurement*, proposes the term “fair value” continue to be used in the IPSAS literature. However, to enhance consistency and support high quality measurement, ED 77 proposes fair value in IPSAS have the same meaning as in IFRS 13. This proposal increases the alignment between the measurement of property, plant, and equipment between IPSAS and IFRS.

### Current Operational Value

While respondents to CP, *Measurement*, supported the updates to the fair value definition, they expressed a view that a public sector specific measurement is also required.

Current operational value is a current value measurement basis developed to consider the unique characteristics of many assets held in the public sector—specifically the characteristics of assets held for their operational capacity. Current operational value requires the estimate takes into account the current use of the asset, which contrasts fair value, which requires a highest and best use valuation.

Since property, plant, and equipment is often held for service delivery, ED 78 proposes current operational value be available to measure assets within the scope of ED 78.

## Next Steps:

The deadline for comments is **October 25, 2021**.

During the comment period, the IPSASB members are available to discuss the proposals with a wide range of parties.



### How Can I Comment on the Proposals?

ED 78 includes Specific Matters for Comment (SMCs) on which the IPSASB is seeking views.

Respondents may choose to answer all SMCs or just a selected few. The IPSASB welcomes comments on any other matters respondents think it should consider in forming its views.

Respondents are asked to submit their comments electronically through the IPSASB website, using the “[Submit a Comment](#)” link. Please submit comments in both a PDF and a Word file.

All comments will be considered a matter of public record and will be posted on the IPSASB website.

The IPSASB will carefully consider all feedback and discuss responses at its public meetings after the comment period has ended.

### Stay Informed

The IPSASB’s website will indicate the meetings at which feedback on the ED will be discussed. The dates and the locations of 2021 meetings are available at:

<http://www.ipsasb.org/meetings>

To stay up to date about the project, please visit:

<https://www.ipsasb.org/consultations-projects/heritage>

<https://www.ipsasb.org/consultations-projects/infrastructure-assets->

and

<https://www.ipsasb.org/consultations-projects/measurement>.