

Ian Carruthers
Chairman
International Public Sector Accounting
Standards Board
International Federation of Accountants

Submitted via website

25 October 2021

Comments to IPSASB's EDs 78

Dear Mr. Carruthers,

We are pleased to contribute to the improvement of the IPSASB's ED 78.

Please find attached our detailed comments to the proposed Standard.

Should you need any further information, please do not hesitate to contact us.

Sincerely,



Thomas Müller-Marqués Berger
Partner and Global Leader of Public Sector Accounting

Ernst & Young GmbH
Wirtschaftsprüfungsgesellschaft

Detailed comments:

ED 78, Property, Plant, and Equipment

SMC 1: ED 78, Property, Plant, and Equipment proposes improvements to the existing requirements in IPSAS 17, Property, Plant, and Equipment by relocating generic measurement guidance to [draft] IPSAS [X] (ED 77), Measurement; relocating guidance that supports the core principles in this Exposure Draft to the application guidance; and adding guidance for accounting for heritage assets and infrastructure assets that are within the scope of the Exposure Draft.

Do you agree with the proposed restructuring of IPSAS 17 within [draft] IPSAS [X] (ED 78)? If not, what changes do you consider to be necessary and why?

Yes, we agree with the proposed restructuring. In our view, in the Application Guidance, for subsequent measurement of PP&E more references to ED 77, *Measurement* could be made. This would help preparers finding the appropriate guidance.

SMC 2 (paragraphs 29-30): Do you agree that when an entity chooses the current value model as its accounting policy for a class of property, plant, and equipment, it should have the option of measuring that class of assets either at current operational value or fair value?

If not, please provide your reasons, stating clearly which current value measurement basis would best address the needs of the users of the financial information, and why.

For assets, the current value model has three measurement bases (current operational value (COV), cost of fulfillment and fair value). As for some items of PP&E it might be hard to determine whether it is held for operational capacity or for financial capacity (e.g. a mixed use office building), it might be difficult to select an appropriate measurement basis. As we do have some difficulties in understanding how to reliably determine COV, we suggest improving the guidance on how to determine COV.

SMC 3 (paragraph AG 3): Are there any additional characteristics of heritage assets (other than those noted in paragraph AG3) that present complexities when applying the principles of [draft] IPSAS [X] (ED 78) in practice?

Please provide your reasons, stating clearly what further characteristics present complexities when accounting for heritage assets, and why.

Characteristics of heritage assets that do not seem to come through are that a heritage asset is "unique" and "rare". If an asset is not unique or rare, it is unlikely to be a heritage asset as it is not irreplaceable and has no special identifiable heritage characteristic or nature. These specific characteristics are important as a market generally doesn't exist for heritage assets which makes its measurement thereof subject to a higher degree of judgement than usual.

SMC 4 (paragraph AG 5): Are there any additional characteristics of infrastructure assets (other than those noted in paragraph AG5) that present complexities when applying the principles of [draft] IPSAS [X] (ED 78) in practice?

Please provide your reasons, stating clearly what further characteristics present complexities when accounting for infrastructure assets, and why.

When comparing the characteristics of infrastructure assets with the characteristics in the current IPSAS 17 we have noted that the IPSASB has removed „immovability“ as a characteristic in ED 78. We were wondering why the IPSASB has dropped that characteristic. In that context and against the backdrop of an increasing digitalization in public administrations we were also wondering whether the IPSASB envisages to consider hardware (including necessary software) systems also as infrastructure assets. This might also be an issue in the context of a future project on IPSAS 31.

SMC 5 (paragraphs 80-81 and AG44-AG45): This Exposure Draft proposes to require disclosures in respect of heritage property, plant, and equipment that is not recognized in the financial statements because, at initial measurement, its cost or current value cannot be measured reliably.

Do you agree that such disclosure should be limited to heritage items?

If not, please provide your reasons, stating clearly the most appropriate scope for the disclosure, and why.

Based on our experience, we welcome the requirement to provide such disclosures for heritage PP&E that cannot be recognized. We agree that such disclosure should be limited for

unrecognized heritage items. For all other assets that qualify as PP&E it can typically be assumed that, at initial measurement, its cost or current value can be measured reliably (also for infrastructure assets).

SMC 6 (paragraphs IG1-IG40): Do you agree with the Implementation Guidance developed as part of this Exposure Draft for heritage assets?

If not, please provide your reasons, stating clearly what changes to the Implementation Guidance on heritage assets are required, and why.

Yes, we generally agree with the Implementation Guidance. In IG9 we think it would be helpful for preparers to understand why a reporting entity should capitalize subsequent expenditure that it incurs on an unrecognized heritage asset, where that expenditure meets the recognition principle.

We have noted that no guidance is provided on the appreciation of heritage assets. As some heritage assets increase in value over time and therefore need to be appreciated rather than depreciated further guidance would be helpful for such types of heritage assets.

SMC 7 (paragraphs IG1-IG40): Do you agree with the Implementation Guidance developed as part of this Exposure Draft for infrastructure assets?

If not, please provide your reasons, stating clearly what changes to the Implementation Guidance on infrastructure assets are required, and why.

Infrastructure assets are often more difficult to account for than heritage assets, yet there is very little new guidance provided on infrastructure assets. For example, infrastructure assets are difficult to account for in practice due to different interpretations around how to determine components of a network, for example a road network. Does one break up the network into units of distance, or does one break up the layers of the road into separate component assets? Or both? Similarly, accounting for a tunnel could be complex. More guidance on the characteristics of infrastructure assets and how these affect the measurement will be useful for preparers of financial statements.

IG35 of ED 78 states that “information in asset management plans may be used to account for property, plant, and equipment when the items of property, plant, and equipment are maintained in accordance with a sufficiently detailed asset management plan that is subject to good internal controls and has reliable and up to date information.”

In our view “good” (internal controls) may not be sufficiently specific and should therefore be replaced by “functioning” or “reliable”. The criteria for the acceptance to use management plans could also be further specified, e.g. “updated at least on an annual basis close to year end”.

Other matters to be addressed in ED 78:

1. *Deemed cost*

Where is deemed cost defined / explained in the standard, other than in relation to transitional provisions? Deemed cost is used for property, plant and equipment acquired for no consideration, but it is not explained in ED 78 how deemed cost has to be determined, and there is no reference to IPSAS 23 or another standard.

2. *Heritage assets where service potential is not clearly evident*

Heritage assets may only be recognized if they meet the definition of an asset and the recognition criteria. The identification of service potential embodied within the asset is a critical part of this assessment. However, this service potential is not always evident for all heritage assets. For example, what is the service potential embodied within a heritage asset that an entity is legally or morally obliged to maintain for a future undetermined use, even though it is held without the intention of ever being displayed for consumption by the public or some other user. There may be a distinction between an entity being obliged to hold and maintain an asset in its custody due to heritage reasons (and thus incur expenditure on it), vs. the holding of heritage assets that will support some form of service delivery (e.g. displayed in museums or for educational purposes, or for aesthetic reasons, etc.). Where an entity is obliged to hold and maintain an asset in its custody due to heritage reasons, in such cases the item may not qualify as an asset and would therefore be out of the scope of the Standard. Perhaps this could be more clearly explained in the ED.