

EXPOSURE DRAFT 78 (ED 78)

Property, Plant, and Equipment

*The Program and Technical Director
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International Federation of Accountants
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Brasília, Brazil
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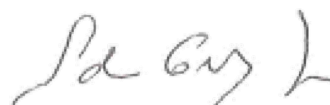
Dear Mr. Ross Smith,

The Conselho Federal de Contabilidade (CFC) of Brazil welcomes the opportunity to collaborate with the consultation on **Exposure Draft 78 - Property, Plant, and Equipment**. CFC, along with its regional arms - Regional Accounting Councils (CRCs), is the Professional Accountancy Organization that carries out regulatory activities for overseeing the accountancy profession throughout the country.

Our points of view and comments can be found on the Appendix of this document that was prepared by the Advisory Board for Public Sector Accounting Standards (GA/NBC TSP) of the CFC. From November 1st 2021, the GA/NBC TSP will be replaced by the Permanent Committee for Public Sector Accounting Standards (CP CASP) representing an institutional strengthening of the Public Sector Standards setting process in Brazil.

If you have any questions or require clarification of any matters in this submission, please contact: tecnica@cfc.org.br.

Regards,



Idésio S. Coelho
Technical Vice-President
Conselho Federal de Contabilidade

APPENDIX

1. Context and General Comments

The Brazilian Federation is composed by central, 26 states, one federal district and 5,569 city governments. These levels of governments are responsible for formulating, implementing and evaluating public policies in cooperative and/or competitive arrangements.

In this document, we present the contributions for the consultation paper based on a practical approach applicable to our jurisdiction.

We believe that most of the IPSASB propositions of the Heritage and Infrastructure assets project are appropriated, however, we have proposed some improvements in this document, including the issuance of a specific standard related to heritage assets.

In the next section, we present our answers for the specific matters for comment of the Exposure Draft.

2. Responses to the Specific Matters for Comment and Preliminary Views

Specific Matter for Comment 1:

[Draft] IPSAS [X] (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?

The CP CASP **partially agrees** with the proposed restructuring of IPSAS 17 within [draft] IPSAS [X] (ED 78).

We agree in split the content between core principles and application guidance and adding guidance related to the accounting of infrastructure assets. We believe, however, that a specific IPSAS standard of heritage assets is necessary as such assets can be tangible, intangible or a combination of tangible and intangible elements, which require an integrated analysis of the characteristics of these assets to conclude on the adequate recognition and measurement criteria, as is the case of Biological Assets and Non-Current Assets Held for Sale.

According to the proposed amendment to IPSAS 31 – Intangible Assets, a heritage asset may also be recognized as an intangible asset. Therefore, users of IPSAS will be required to assess two standards to account for heritage assets, which can make the standard user-unfriendly. The decision as to whether an asset should be recognized as fixed assets or intangibles based on the most significant element seems not to be appropriate for heritage assets as due to the high complexity of measuring the intangible element and, therefore, only the tangible element would be recognized. In this case, disclosure requirements would be necessary mentioning which elements of an asset are being recognized and measured.

Specific Matter for Comment 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.

The CP CASP **partially agrees** 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 at either current operational value or fair value.

Nevertheless, we believe that the standard should indicate in which situations the measurement bases are suitable. As Property, plant, and equipment are tangible assets that: (a) are held for use in the production or supply of goods or services, for rental to others, or for administrative purposes; and (b) is expected to be used during more than one reporting period, we believe that additional Guidance is required to clarify which tangible assets should be measured at fair value or current operational value. As, for instance, can an asset held to achieve an entity's objectives be measured at fair value?

In relation to the current operational value, the measurement of an asset held for operational capacity, especially a heritage asset, may not reflect its service potential if the income approach is chosen as the criteria for setting entry fees, for example, do not relate to the asset's service potential. Due to its historical and cultural value, the objective of an entity may be to allow more access to the public by charging a negligible amount that covers only the maintenance costs for the visiting. Therefore, the value obtained from the income approach may not reflect the tangible and/or intangible element of heritage assets, as is the case of the Cristo Redentor (Christ the Redeemer) in Brazil.

Specific Matter for Comment 3— (paragraph AG3):

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.

The CP CASP **partially agrees** with the proposal. In our view, an additional characteristic should be included:

(d) They have information restrictions for measuring the cost or current value due to lack of documentation.

The addition of this characteristic is justified by the difficulty of finding historical documentation related to heritage assets. Thus, it will be necessary to elaborate new documents (i.e., technical reports), which can be costly and bureaucratic. For other fixed assets, it is easier to obtain documents that can help in the recognition and measurement, such as contracts, invoices, technical reports, and photographic records.

Regarding the characteristics already listed, additional explanations are needed for heritage assets to be considered irreplaceable. As in some cases the greatest value of a heritage assets is symbolic and cultural, some heritage assets can be reconstructed (as in war cases, for example) and still retain their original purpose, we recommend that this situation should be dealt by the standard to make it easier for interpretation.

Despite the inclusion of characteristics, in our view the most important issue is a definition of heritage assets since it may avoid different interpretations that could occur where a heritage asset may only have other characteristics than related to tangible element.

As a contribution to the definition of heritage assets, we suggest an analysis of the UNESCO portal, which has studies and follow-up on Heritages: (<https://whc.unesco.org/en/criteria>). In Brazil, National Legislation from 1937 (Decree-Law 25 of November 30, 1937) has an approximate definition that may be useful (“The national historical and artistic heritage asset is the set of movable and immovable assets whose conservation is of the public interest whether for its link to memorable facts in the history of Brazil, whether for its exceptional archaeological or ethnographic, bibliographic or artistic value”).

Specific Matter for Comment 4 — (paragraph AG5):

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.

The CP CASP **partially agrees** with the proposal. In our view, an additional characteristic should be included:

(c) It may be difficult to separate the land from the built area.

As, for instance, how a land would be separated from a road? How to separate a sanitary landfill from the land?

Would make sense to take advantage of ED 78 to introduce a new rule for fixed assets that have interdependence with infrastructure?

Specific Matter for Comment 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.

The CP CASP does not agree with the disclosure requirement 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.

We are concerned about the application of the rule set in item 80, because if these assets have not been recognized it may be due to the fact of the high complexity in their identification and, consequently, disclosure.

Such complexity may be hampered by the absence of general and detailed guidance on how this information should be disclosed. Guidance should be prepared considering the cost-benefit relation of the information to be disclosed.

Specific Matter for Comment 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.

The CP CASP **does not agree** with the Implementation Guidance.

As mentioned in SMC 1, since a heritage asset can be tangible, intangible or a combination of tangible and intangible elements, there is a need for an integrated analysis of the characteristics of these assets to decide on the most appropriate recognition and measurement criteria, as is the case for Biological Assets and Non-Current Assets Held for Sale. Therefore, we recommend the development of a recognition and measurement criteria in a specific standard.

Specific Matter for Comment 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.

The CP CASP **partially agrees** with the Implementation Guidance.

According to the comments to SMC 4, it is difficult to separate the land from the built-up area and this could be better developed in the Implementation Guidance.