

REQUEST FOR COMMENT

EXPOSURE DRAFT 78 – Property, Plant & Equipment

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?

Response

I do agree with the proposed restructuring of former PPE IPSAS, IPSAS 17 to the changes enumerated above.

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.

Response

Yes, I do agree that an entity should have the wherewithal to select the particular measurement methods based on its business objectives/model. The ED goes on to say that this selection can be switched based on which is more representative of the value of the asset. Thus, this addresses any potential misstatements that arise from the particular method selected by the entity.

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.

Response

Heritage assets are by definition very old with sometimes insufficient records on costs. This makes the larger Heritage assets accounting quite difficult. Especially when some of these assets have no equivalent comparable to seek values against. The pyramids in Giza, Egypt or Machu Picchu in Peru, or Bagan in Myanmar, great barrier reefs in Australia, Angkor Wat in Cambodia or the Great Wall in China. Even more common use type structures like coliseums, natural waterfalls and dams are extremely difficult to assign value to. Jurisdictions where these are situated will consider these heritage assets that have immense value due to their tourism benefits, but there will be considerable difficulty in estimating this.

In addition, when comparing the value assigned to the more common use type Heritage asset structures to other more modern assets, the relationship will not be reasonable because on one hand, these Heritage assets may have existed for centuries with the prospect that they will last for centuries more vs modern asset equivalents that are less than 50 years old and are not expected to last more than 20 years at most. The benefit of assigning a value to the Heritage assets that are not truly comparable in the financials is not certain.

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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.

Response

The current age of some infrastructure assets might, similar to heritage assets prove to be a difficulty that impacts estimating costs of them. How does one value/compare a cobblestone street constructed in a prior century with a modern asphalt street today of similar length and use?

In addition, from the previous paragraph, some infrastructure assets are a mix of infrastructure and heritage therefore complicating valuation even further. The heritage aspect of the infrastructure all but guarantees an indefinite life of some roads, but the same cannot be said for our modern roads which will certainly be replaced if newer technology comes around that requires different materials and accessories for say electric vehicles, etc. The squares and streets of some areas in Rome come to mind vs modern streets in some of our largest cities. Or jurisdictions that have natural dams and waterfalls vs those jurisdictions that have in modern times constructed their dams.

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.

Response

I agree. I would however add that care should be taken to review what is classified as infrastructure assets and those that are both infrastructure and heritage be added to this category. In addition, with respect to the subsequent expenditures on unrecognized heritage property, plant and equipment, these be clearly labelled as “Improvements to Heritage assets”, as these recent construction costs should not be mixed up with the values assigned to the Heritage assets themselves whiles considered invaluable due to their age and the authors of these assets, have been assigned a value for financial statement reporting. A painting from say a great master like Da Vinci should not have its valuation diluted by maintenance/restoration costs.

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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.

Response

I do agree with most of the points in the Implementation Guidance that deal with Heritage assets.

However, in line with my previous comment, I think that subsequent expenditures on Heritage assets be clearly isolated/delineated from the actual Heritage assets and labelled “Improvements on Heritage assets”.

In addition, I have an issue with the last paragraph after IG18;

“By contrast, a heritage asset’s current value may not be derivable if its service potential is independent of the heritage asset’s ability to represent an era or type and depends, instead, on something unique and specific to that heritage asset.”,

I do agree that it might not be possible to assign value to all heritage assets. I also, however disagree that a value can be assigned to a heritage asset for any and all previous eras. Very old assets that are from an era in antiquity might not be estimable.

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.

Response

I do agree with the Implementation Guidance developed for Infrastructure assets in this Exposure Draft.