25 October 2021

International Public Sector Accounting Standards Board

International Federation of Accountants
277 Wellington Street West
Toronto, ON M5V 3H2

Re: Exposure Draft 78, Property, Plant, and Equipment

Thank you for the opportunity to comment on the above Exposure Draft. I am responding on behalf of the Office of the Auditor General of Canada.

We are pleased to submit to the Board our response below to the specific questions posed in the Exposure Draft.

Sincerely,

Lissa Lamarche, CPA, CA
Assistant Auditor General
Specific questions posed by IPSASB:

**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?

We have not addressed this Specific Matter for Comment (SMC).

**Specific Matter for Comment 2:**

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.

No, we do not 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 because we are not persuaded that introducing a new current operational value measurement basis is necessary as explained below.

As noted in our response to SMC 3 in ED 76 and SMC 5 in ED 77, fair value has been determined to be a relevant measurement basis for many types of assets and across different frameworks, including Canadian public sector accounting standards (PSAS). Having two different current value measurement bases within a set of public sector financial statements, and potentially within a class of assets, requires financial statement preparers, auditors, and valuation experts to understand the requirements of two different current value measurement bases. It may also impose additional costs and effort to assess which measurement basis is appropriate for different assets, may reduce comparability and understandability, and ultimately may not result in any significant measurement differences except for the treatment of transaction costs. Therefore, we think that IPSASB should reflect further on whether its proposal to introduce the new current operational value measurement basis is necessary. We think that IPSASB should instead consider providing additional guidance in ED 77 on how to apply IFRS 13 concepts to non-financial assets that are held primarily for their operational capacity. We think that such an approach would be less complex, less costly and would lead to increased comparability and understandability rather than a decrease. We think that if other jurisdictions have been able to adapt IFRS 13 principles for valuing non-financial assets held for their operational capacity in the public sector, that this approach would be preferable to the introduction of a new current value measurement basis.
Should IPSASB choose to proceed with the introduction of current operational value as an alternative to fair value, we do not think it should be a free choice, but rather one based on the characteristics of the assets. While paragraph 29 of ED 78 does mention that the primary objective for which an entity holds an asset guides the selection of the measurement basis, the language used in the [draft] standard may not ultimately result in the most relevant measurement basis for the asset which we think may negatively impact comparability and understandability. More specifically, use of the word “guides” in paragraph 29 could be interpreted to mean it does not decide or determine the selection of the measurement basis. We think that stronger wording in this paragraph would make it clearer that the objective for which an entity holds an asset should determine the selection of the measurement basis and result in the most relevant information to the users of financial statements as outlined in ED 77.BC33.

Furthermore, ED 77.BC33, states that the “IPSASB agreed that, when an asset is held for its operational capacity, the most relevant information to users of financial information is the current value of the asset in its current use” (i.e. current operational value). The nature of the requirements in this ED may not lead to most relevant information to users of financial information as users seem to be given more latitude when choosing the measurement basis under the current value model. In order to ensure consistency, comparability and understandability of financial information, we think that the IPSASB should be more prescriptive on the measurement basis that should be used if an entity chooses the current value model. We think this could be better achieved if the measurement hierarchy in ED 76 contained guidance on when each measurement basis would be applied in practice, as mentioned in our response to SMC 1 in ED 76, which would then be cross-referenced to ED 78.

Specific Matter for Comment 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.

No, we have not identified any additional characteristics of heritage assets. However, we find these characteristics to be very broad and thus we think that additional guidance will be needed to accompany these characteristics as explained further below.

We note that the IPSASB has not provided a definition of heritage assets, opting instead to provide characteristics of heritage assets. The current characteristics of heritage assets listed in ED 78.AG3 include:

- Restrictions on their use;
- Irreplaceability; and
- Long and sometimes indefinite useful lives.

Due to the very broad characteristics of heritage assets, it is unclear to us whether land, such as a park, could be considered a heritage asset. As noted in our response to SMC 5 and 6 below, we think that IPSASB should provide guidance on whether land, such as a park, can be considered a heritage asset.
Yes, we have identified further characteristics that present complexities when accounting for infrastructure assets.

We note that the IPSASB has not provided a definition of infrastructure assets, opting instead to provide characteristics of infrastructure assets. This approach is consistent with the approach taken by the Public Sector Accounting Board (PSAB) in its public private partnerships (P3) standard (PS 3160) which also does not define infrastructure. The current characteristics of infrastructure assets listed in ED 78.AG5 include the fact that they:

- Are networks or systems; and
- Have long useful lives.

Given the broad nature of the term “infrastructure assets” in PS 3160, Public private partnerships and the lack of definitive componentization requirements in PS 3150, Tangible capital assets, we have had challenges in distinguishing between infrastructure asset parts (or components) and asset items when it comes to accounting for infrastructure assets under Canadian public sector standards. For example, whether an infrastructure asset item can include multiple different asset types (e.g. bridges and roads) or whether each distinctly different asset type (e.g. a bridge and road) would be considered an asset item for which ED 78.44 would then apply to those asset items. We are pleased to see that ED 78 provides some additional guidance in in ED 78.IG30-IG34 with respect to this aspect, although, as mentioned in our response to SMC 7 below, we think that more clarity could be provided. As for the characteristics, we think that some additional characteristics could be helpful to supplement the examples provided in AG6 as follows:

- They often combine multiple asset types (such as land and buildings) that are distinct, rather than parts of a single asset type (such as the roof of a building). We think it would be rare to refer to a single asset (such as a building) as an “infrastructure asset”.

- We also think the characteristic that they are networks or systems could be expanded to state that they are networks or systems that work together to deliver a good or service for public consumption. This would be consistent with the examples provided in AG6 and would provide more clarity when applying the new standard.
Specific Matter for Comment 5:

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.

No, we do not agree that disclosure should be limited to heritage items.

Although it is unlikely that other assets would not be recognized because their cost or current value cannot be measured reliably, we think this principle should apply to any asset not recognized in the financial statements because, at initial measurement, its cost or current value cannot be measured reliably. This is consistent with the requirements in PS 3210.32 which requires disclosure of any economic resource that meets the definition of an asset but is not recognized "because a reasonable estimate of the amount involved cannot be made.”

To illustrate our position, it is not clear whether a heritage item could include land, such as a park, which must be maintained as a park. Restricted land may have similar characteristics to heritage assets and may be difficult to derive a value.

Specific Matter for Comment 6:

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 agree with the Implementation Guidance (IG) developed as part of this ED for heritage assets; however, we think it could be further improved.

We note that the guidance covers many different aspects related to recognition and measurement and presents such guidance in a question and answer format. We think this guidance and format will be very useful when applying the [draft] standard. However, we think that more guidance could be provided. As mentioned in our response to SMC 5 above, it is unclear whether land can be considered a heritage item and we note that the guidance does not address land under a heritage item, in the same way it addresses land under infrastructure in ED 78.IG1-IG5. We think it would be helpful to include guidance on the treatment of land and whether it can also be considered a heritage item. We think this will be especially important should IPSASB retain the specific disclosure requirements in paragraphs 80-81 related to unrecognized heritage property, plant, and equipment.
We support the IPSASB’s proposal to require an entity to recognize heritage assets that would otherwise meet the definition of, and recognition criteria for, property, plant, and equipment. We think this is an improvement from the existing requirement that gave entities a choice on whether to recognize or not, as we think this should improve comparability. However, without additional guidance on how to measure the unique aspects of heritage assets, we think that the objective of increased comparability may not be met. While we think that the guidance in the IG is a good start, we think measurement of certain heritage assets may still be challenging. We think there may be clear instances where measurement may prove problematic, such as for items that are truly unique. Therefore, we encourage the IPSASB to provide guidance on how to measure these types of unique assets rather than only providing guidance on whether a value can be derived.

Specific Matter for Comment 7:

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.

Yes, we agree with the IG developed as part of this Exposure Draft for infrastructure assets; however, we think it could be further improved.

Similar to the IG for heritage items, we note that the guidance covers many different aspects related to recognition and measurement and presents such guidance in a question and answer format. We think this guidance and format will be very useful when applying the [draft] standard. However, we think there could be some confusion based on the terminology used to describe infrastructure items in ED 78.37, infrastructure parts in ED 78.IG 30 and infrastructure assets in ED 78.IG 31-IG 33. We find that the use of these three terms (i.e. items, parts, and assets), sometimes interchangeably, creates a lack of clarity as to how items, parts, and assets are meant to link together within the [draft] standard. We would therefore encourage the IPSASB to consider whether further improvements, either in the guidance or in the [draft] standard itself, could be made to alleviate this confusion.
Other consideration:

Non-monetary transactions:

Although we have indicated in our response to SMC 2, that we would prefer the IPSASB adapt IFRS 13 principles for valuing non-financial assets held for their operational capacity rather than introducing another current value measurement basis, we noted an inconsistency in this ED with respect to determining the deemed cost of an item of property, plant, and equipment in a non-monetary exchange transaction. We note in ED 78.22 that the cost of property, plant, and equipment that is “acquired in exchange for a non-monetary asset or assets, or a combination of monetary and non-monetary assets” is “measured at its fair value unless the exchange transaction lacks commercial substance, or the fair value of neither the asset received nor the asset give up is reliably measurable.” This requirement seems contrary to the requirement in paragraph 21 which requires that the initial measurement of an item of property, plant, and equipment in such circumstances be its deemed cost and ED 77.10 indicates that one or more current value measurement techniques are used to estimate the value of the asset as a deemed cost on initial measurement. We do not see a compelling reason not to allow assets received in non-monetary exchanges to be measured at current operational value if those assets are held primarily for their operational capacity. Therefore, should the IPSASB decide to move forward with its proposal, we think that paragraph 22 should be re-evaluated to ensure that it meets the measurement objectives as set out in ED 77.1.