

October 29, 2021

International Public Sector Accounting Standards Board (IPSASB)
277 Wellington Street West
Toronto, ON M5V 3H2 Canada

Re: Response to Exposure Draft 78, *Property, Plant and Equipment*

Thank you for the opportunity to provide input on ED 78, *Property, Plant and Equipment*.

Overall, PSAB is supportive of the proposals in ED 78. The comments set out in this letter are the views of PSAB. PSAB agrees:

- With the proposed improvements to the existing requirements in IPSAS 17, Property, Plant, and Equipment;
- That an entity that chooses the current value model as its accounting policy for a class of property, plant and equipment should have the option of measuring that class of assets either at current operational value or fair value;
- With the three characteristics of heritage assets outlined in AG3 and has provided some clarification updates;
- With the two characteristics of infrastructure assets outlined in AG5 and has provided a minor clarification update;
- With limiting disclosures of assets not recognized in the financial statements (because cost or current value cannot be measured reliably) to only heritage assets;
- With the Implementation Guidance developed as part of this Exposure Draft for heritage assets; and,
- With the Implementation Guidance developed as part of this Exposure Draft for infrastructure assets.

In some cases where PSAB agrees, PSAB has provided additional points for consideration or clarification. PSAB has also provided some other feedback related to this Exposure Draft in Appendix B. We have also included some stakeholder comments in Appendix C.

We hope that you find the comments helpful.

Kind regards,

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RESPONSES TO SPECIFIC MATTERS FOR COMMENT

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?

PSAB Response

PSAB agrees with the proposed restructuring of IPSAS 17. Relocating generic guidance to ED 77, and moving more detailed guidance that supports the core principles to the application guidance helps keep the standard concise.

Regarding the structure of the standard, PSAB suggests that the IPSASB consider developing decision trees, for heritage and infrastructure assets, to help stakeholders find the relevant accounting principles for each type of asset. As proposed, the relevant paragraphs specific to these two types of assets are spread throughout IPSAS 17, 31 and other IPSAS. Having one location for the relevant material would make the set of IPSAS more user-friendly in respect to these two types of significant public sector assets.

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.

PSAB Response

PSAB agrees that an entity that chooses the current value model as its accounting policy for a class of property, plant and equipment should have the option of measuring that class of assets either at current operational value or fair value. However, PSAB suggests that some guidance be provided to help stakeholders make the choice between the two current value options. PSAB recommends that the choice should be based on the facts and circumstances, for example, the reason why the asset is held, the available market information etc. Application or Implementation Guidance would be helpful and beneficial in terms of accountability to users, consistency of information for decision-making, and consistency in the application of measurement techniques for similar classes of property, plant, and equipment.

In addition, while PSAB agrees with the use of current operational value to measure a class of assets, PSAB has some concerns with the current operational value definition, as outlined in our response to ED 77 (see PSAB's responses to SMC 5 and 6 in particular). PSAB recommends that these concerns be addressed prior to allowing an entity to choose current operational value as its measurement technique when applying the current value model as its accounting policy for classes of property, plant, and equipment.

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.

PSAB Response

PSAB agrees with the three characteristics of heritage assets outlined in AG3. However, PSAB has some suggested clarification points for the existing characteristics.

In respect of AG3(a), PSAB suggests that heritage assets not only have restrictions on their use, but on their disposal as well. Given their irreplaceable nature, heritage assets are often protected and not easily disposed. Revising paragraph AG3(a) to say, "they have restrictions on their use or their disposal," is likely a more accurate characteristic of heritage assets.

Moreover, PSAB advises that it is worth explaining the "irreplaceable" characteristic. Describing an asset as irreplaceable lacks clarity. Revising paragraph AG3(b) to say, "they are irreplaceable as a result of their historical, cultural, educational or environmental attributes or value," results in greater understanding of what is meant by the word "irreplaceable."

Finally, it may be worthwhile combining paragraphs AG2 and AG3 into a single paragraph, so that the paragraph effectively becomes a definition.

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.

PSAB Response

PSAB agrees with the two characteristics of infrastructure assets outlined in AG5. PSAB has no other additional characteristics to suggest. However, PSAB has suggested a minor clarification point to one of the characteristics.

Specifically, PSAB suggests that a minor clarification can be made to AG5(a) to clarify that the networks and systems in place are used for public benefit. This change is in keeping with the public sector focus of IPSAS. AG5(a) could be revised to say, “they are networks or systems used for public benefit.”

PSAB also advises that some reference to IPSAS 31 might be useful because some portion of infrastructure assets may be intangible (software, cloud computing, etc.).

Finally, it may be worthwhile combining paragraphs AG4 and AG5 into a single paragraph, so that the paragraph effectively becomes a definition.

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.

PSAB Response

PSAB agrees that such disclosure should be limited to heritage items for the time being, although PSAB is interested in what the Natural Resources consultation would propose with respect to natural assets whose current value cannot be measured reliably.

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.

PSAB Response

PSAB agrees with the Implementation Guidance developed as part of this Exposure Draft for heritage assets and has no additional feedback or changes to provide.

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.

PSAB Response

PSAB agrees with the Implementation Guidance developed as part of this Exposure Draft for infrastructure assets and has no additional feedback or changes to provide.

Appendix B

ADDITIONAL COMMENTS

Depreciation:

One area where PSAB suggests more guidance is required is with respect to how depreciation would be calculated under the current value model of subsequent measurement.

This outcome is unclear in the standard. There are several paragraphs that reference depreciation, but a clear picture of how depreciation is to be calculated and the inter-play between the depreciation calculation and revaluation under the current value model is lacking. Application guidance or an illustrative example would help. If there are examples in IPSAS 21 or IPSAS 16, reference should be made to these examples.

Current operational Value of Heritage Assets:

Another area where PSAB suggests more guidance is required is how current operational value applies to heritage assets. It is currently unclear what current operational value would look like if it were applied to heritage assets. The current operational value brings a certain element of measurement that looks to the past as opposed to considering forward-looking potential. As such, PSAB questions if that is a meaningful way to value heritage assets. By definition, past transactions do not reflect the unique value (be it cultural, historical, esthetic or otherwise) of heritage assets.

Deemed Cost:

PSAB also recommends that more guidance is required as it relates to the transitional provisions (paragraphs 88 and 89). We note that the transitional provisions applicable to heritage assets under paragraph 88 outline that “deemed cost” may be used when reliable cost information about the asset is not available at the date of application of the standard.

PSAB suggests clarifying what deemed cost represents in the context of heritage assets and how it aligns with the current value model and the concept of deemed cost used within IPSAS 33 on first-time adoption of the accrual basis of accounting. PSAB recommends that the IPSASB should be explicit as to how “deemed cost” should be determined upon transition for heritage assets.

Disclosure Requirements on Unrecognized Heritage Property, Plant and Equipment:

Finally, PSAB recommends that IPSASB provide further guidance on the disclosure requirements for unrecognized heritage property, plant and equipment (paragraphs 80 – 81). It is not clear to PSAB how stakeholders are to apply the disclosure requirements for unrecognized heritage property, plant and equipment. Notably, we recommend that IPSASB provide further guidance or examples to explain the criteria to be used in assessing the “significance of the unrecognized asset(s) in relation to delivery of the entity’s objectives”. While

the implementation guidance is useful, it is very high level. It would be beneficial to include an example showing the application of these principles.

APPENDIX C – CANADIAN STAKEHOLDER FEEDBACK

In addition to developing our own response, PSAB spoke with some Canadian stakeholders to understand their feedback on the proposals. Below is a brief summary of the feedback we heard.

Please note that this is a summary of the responses and feedback provided by Canadian stakeholders who chose to share their feedback with PSAB, and may not reflect the views of all Canadian stakeholders.

- Stakeholders did 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 at either current operational value or fair value. As mentioned in the response to ED 76 and ED 77, they were not persuaded that introducing a new current operational value measurement basis is necessary. They noted that if the current operational value measurement basis was kept, the decision to use either fair value or current operational value should be based on the characteristics of the assets. (SMC 2)
- Stakeholders have not identified any additional characteristics of heritage assets. However, they did note that they found the characteristics included in ED 78 to be broad, and therefore believe that additional guidance may be needed to further explain these characteristics. (SMC 3)
- Stakeholders have identified additional characteristics of infrastructure assets. They noted that infrastructure assets often combine multiple asset types (ex. land and buildings) that are distinct, rather than a single asset. They also noted that 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. (SMC 4)
- Stakeholders did not agree that disclosure of property, plant and equipment that cannot be measured reliably should only be limited to heritage items. They felt that this should apply to any asset not recognized in the financial statements at initial measurement because their cost or current value cannot be measured reliably. (SMC 5)
- Stakeholders agreed with the implementation guidance for heritage assets, but felt it could be further improved. Stakeholders mentioned that they felt it would be beneficial to include guidance on the treatment of land and whether it can also be considered a heritage item. They also felt it would be beneficial to provide guidance on how to measure types of unique heritage assets rather than only providing guidance on whether a value can be derived. (SMC 6)
- Stakeholders agreed with the implementation guidance for infrastructure assets, but felt it could be further improved. Stakeholders noted 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. They noted that they found 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 standard. They noted that greater clarity was needed in this regard.