Dear Sir/Madam,

Exposure Draft 78 ‘Property, Plant, and Equipment’

We are pleased to respond to the invitation from the International Public Sector Accounting Board (IPSASB) to comment on Exposure Draft 78 ‘Property, Plant, and Equipment’ on behalf of PricewaterhouseCoopers. Following consultation with members of the PricewaterhouseCoopers network of firms, this response summarises the views of those firms that commented on the Exposure Draft. “PricewaterhouseCoopers” or “PwC” refers to the network of member firms of PricewaterhouseCoopers International Limited, each of which is a separate and independent legal entity.

We support the work the IPSASB undertakes to develop high-quality accounting standards for use by governments and other public sector entities around the world with the aim of enhancing the quality, consistency and transparency of public sector financial reporting worldwide.

ED 78 proposes new requirements for heritage assets, infrastructure assets and measurement of property, plant, and equipment that update the principles drawn from IPSAS 17, Property, Plant, and Equipment. The holding of infrastructure and heritage assets is significant to the public sector, and we agree that both the specific characteristics of infrastructure assets present challenges when applying and implementing the existing guidance in IPSAS 17 and the existing option included in IPSAS 17 not to recognise heritage assets represents a concern with regards to the definition of an asset in the Conceptual framework and leads to diversity in application. The issuance of ED 78 is therefore particularly welcome.

We believe that adding new guidance about the topics included in this ED would contribute to the improvement of financial reporting by governments and other public sector entities, enhancing comparability while providing useful information for accountability and decision-making purposes. We therefore provide overall support to the views outlined in ED 78, subject to our comments for improvement on some specific accounting matters. The main comment relates to the possibility for an entity that selects the current value measurement model as its
accounting policy to choose either the current operational value or fair value measurement solely based on the primary use of the asset. We believe that the choice should be driven by facts and circumstances.

Our detailed responses to the specific questions in the ED can be found in the Appendix to this letter.

If you would like to discuss any of these points in more detail, please contact Henry Daubeney (henry.daubeney@pwc.com) or Patrice Schumesch (patrice.schumesch@pwc.com).

Yours sincerely,

PricewaterhouseCoopers
Responses to the questions in IPSASB’s Exposure Draft 78 ‘Property, Plant and Equipment’

The Specific Matters for Comment requested for the Exposure Draft are provided below.

- **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 support the improvements by relocating generic measurement guidance to [draft] IPSAS [X] (ED 77), Measurement and by relocating guidance that supports the core principles in this Exposure Draft to the application guidance. We believe that adding guidance and illustrative examples for heritage and infrastructure assets that are within the scope of the Exposure Draft will contribute to the improved consistency in the accounting for these types of 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.

We agree that the current value model should be allowed as the accounting policy for a class of property, plant and equipment (“PP&E”). However, we believe that no choice should be permitted within the current value model between current operational value and fair value solely based on the primary objective for which the asset is held. In other words, the accounting policy choice should exist between historical cost and current value but then within current value, the measurement basis should be driven by facts and circumstances (the reason why the asset is held, the available market information, etc.). Further, the appropriate valuation technique should maximise the use of observable external data.

We question whether having two alternative current value measurement bases would be appropriate for all items of PPE. For example, a non-specialised building that is used by a public sector entity for its daily operations would not, under the current operational value measurement basis, reflect its highest and best use (while it would under the fair value measurement basis). We wonder whether in such a case the current operational value would bring information to the users of financial statements that is more useful than historical cost.
In other circumstances, for example for infrastructure assets such as railroads which are held for their operational capacity and for which market information is not available, the use of the current operational value measurement basis would be fully relevant.

Based on cost-benefit considerations, the appropriateness of the existence of two alternative current value measurement bases for all items of PPE solely based on the primary objective for which the asset is held is doubtful.

We also noted the transitional provisions applicable to heritage assets as set out under paragraph 88. That paragraph indicates that the "deemed cost" may be used when reliable cost information about the asset is not available at the date of application of the standard. We would suggest 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 accrual basis IPSAS. We believe it should be explicit how "deemed cost" should be determined upon transition for heritage assets.

Paragraph 88 indicates that "Deemed cost assumes that the entity had initially recognised the heritage asset at the date it assumed control..." The implications of this statement for measurement purposes should, in our view, be clarified.

- **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.**

  We have not identified additional characteristics of heritage assets. Heritage assets are specific types of assets under the PP&E definition, and we agree that providing specific characteristics for heritage assets clarifies the existing definition of PP&E in IPSAS 17.

  We highlight the importance of having mutually exclusive scope of the IPSASs dealing with PP&E, intangible assets or investment property. For example, what features are most relevant for the classification of heritage buildings as PP&E or investment property (a heritage building held to earn rentals, for capital appreciation, or both). Heritage assets falling out of the scope of IPSAS 17 could potentially have different reporting requirements. The judgment required to determine classification of some heritage assets should be explained in the financial statements, in addition to the information required by paragraphs 80-81.
• 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.

We have not identified additional characteristics of infrastructure assets.

We however recommend clarifying whether certain specialised assets, such as ports or correctional facilities, which might not be seen as networks or systems, should be considered as infrastructure assets.

• 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 recognised 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.

Heritage assets would in most cases meet the definition of an asset in the Conceptual framework, that is a resource controlled by an entity as a result of the past event with service potential or ability to generate economic benefits. However, we agree that in certain cases it will be difficult to reliably measure heritage assets and the cost-benefit constraint would be applicable.

We agree that additional disclosure requirements would lead to a greater transparency about the heritage assets not recognised in the financial statements. The disclosures identified in paragraph 80 for unrecognised heritage property, plant, and equipment should ensure that, when read in the context of information about recognised property, plant, and equipment, the financial statements provide useful and relevant information about the entity’s overall holding of property, plant, and equipment, and thereby support users’ evaluation of the entity’s finances, including its net financial position, and understanding of its ability to deliver services.

The IPSASB could provide further guidance or examples to explain the criteria for assessing the “significance of the unrecognised asset(s) in relation to delivery of the entity’s objectives”. Disclosure of information about the operational use of the heritage assets could be provided too, in addition to being held for their characteristics as heritage items.

We believe that, where current information is available, disclosure requirements in paragraph 80 could be extended to include an estimate of the value of those unrecognised assets, such as recent insurance value or valuation done for other purposes.

We agree that the additional disclosures should be limited to heritage items, to the extent that the inability to measure the cost reliably is supposed to occur exclusively for those assets.
• **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.

With the removal of the heritage scope exclusion clause in IPSAS 17, the authoritative guidance in IPSAS 17 will apply to heritage assets’ measurement. We agree that, due to heritage assets’ characteristics of restrictions and irreplaceability, additional non-authoritative guidance is needed to support the implementation of ED 78’s principles to heritage assets.

Notably, the criteria set out in IG26-IG29 regarding the determination of the useful life is principles-based and it will assist preparers in making that determination. As a general comment, we would welcome a more detailed example showing application of the principles to an illustrative fact pattern.

ED 77, Measurement makes references to the challenges associated with using a current value model for heritage assets. We agree with those concerns. We note that ED 78 does not provide specific guidance or examples to help preparers address those challenges. We suggest adding such guidance.

Moreover, a detailed numerical example could demonstrate the calculations and journal entries relevant when applying the current value model (with revaluation increases and decreases, depreciation). In our view, the mechanics of the revaluation model are not straightforward and could therefore benefit from an illustrative example. We note that the complexity in applying the current value model is not specific or limited to heritage assets.

• **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.

We agree with the Implementation Guidance and Illustrative Examples developed to clarify the application of existing principles to infrastructure assets:

(a) The potential use of asset management plans as a source for financial reporting, which may provide an input to help calculate depreciation, determine whether there is an indication of impairment, or determine the significant parts of the asset;  
(b) Control and valuation of land under or over infrastructure assets;  
(c) Under-maintenance of assets; and  
(d) Identifying significant parts of infrastructure assets.

These are the areas where application of the general principles of IPSAS 17 appears challenging. In particular, the guidance on the application of the component approach (IG 30-IG 34) is useful to reduce diversity in practice. The Implementation Guidance reflects on the need to use judgment in determining whether those parts of the assets or similar group of assets that make
up the infrastructure asset networks/systems are significant in relation to the whole infrastructure asset network or system. We agree that the approach reflects the cost-benefit constraint and results in the application of the component approach to material components. Additional illustrative examples of possible major components for some common types of infrastructure assets (such as road networks, sewer systems, water and power supply systems and communication networks) could be helpful as educational material.

- **Additional Specific Matter for Comment (paragraph 55) (added by PwC)**

ED 78 in paragraph 55 states: “An entity shall assess whether the useful life of property, plant, and equipment is finite or indefinite and, if finite, the length of, or number of production or similar units constituting that useful life. Land usually has an indefinite useful life”. We believe the wording in this last sentence is not correct because, contrary to some types of intangible assets and with some limited exceptions (for example quarries), land has an unlimited useful life rather than an “indefinite” useful life. The same error is also done in AG39: “... land is usually considered to have an indefinite useful life”. We note that IPSAS 17 paragraph 74 and IAS 16 paragraph 58 use an appropriate terminology (“unlimited useful life”). We recommend that the same wording be used throughout ED 78 when referring to the characteristics of land.