INTERNATIONAL FEDERATION OF ACCOUNTANTS

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DATE:	17 JUNE 2005
MEMO TO:	MEMBERS OF THE IPSASB
FROM:	JOHN STANFORD
SUBJECT:	HERITAGE ASSETS-UPDATE AND UK ISSUES PAPER

ACTION REQUIRED

The Board is asked to:

- **note** progress on this project
- **review** the "Heritage Assets-Issues Paper for UK Accounting Standards Board and IPSASB
- **note** the view of the full UK Board to this Issues Paper at the full UK Board Meeting on 23 June
- **provide staff with comments** on that Issues Paper for transmission to the UK ASB Project Manager

AGENDA MATERIAL

		Pages
13.2	Heritage Assets-Issues Paper for UK Accounting Standards Board and IPSASB	13.3 – 13.12
13.3	Project Brief	13.13 -13.18
13.4	Further Paper on Views of UK Board and Sub-Committee to Issues Paper	2nd Distribution

BACKGROUND

Currently IPSAS 17, "Property Plant and Equipment" does not require a public sector entity to recognize heritage assets that would otherwise meet the definition of, and recognition criteria for, property, plant and equipment. Where an entity does adopt a policy of recognizing heritage assets it is required to meet certain disclosure requirements in IPSAS 17. When the then Public Sector Committee approved IPSAS17 it was acknowledged that the approach was a provisional one and that heritage assets would be addressed in due course.

Staff supported by the then UK Technical Adviser compiled a Project Brief for consideration at the Delhi Meeting in November 2004. (That Project Brief is attached at Agenda item 13.3.) Due to the resourcing position it was decided not to review that Project Brief at that time but for the topic to be developed further out of session by the UK Technical Adviser with staff adding input as resources permitted. However, it was accepted that it was unlikely that heritage assets would be addressed at meetings in 2005.

In January 2005, the Chairman of the UK Accounting Standards Board (UK ASB) wrote to the Chairman of IPSASB highlighting that the UK ASB's Public Sector and Not-for-Profit

Committee, its standing technical committee dealing with the public sector, was undertaking a project on heritage assets with a view to the publication of a UK Discussion Paper in 2005. He proposed that IPSASB and UK ASB should work jointly on this topic.

At the March 2005 Oslo meeting this proposal was accepted. A Sub-Committee comprising Australia, France, New Zealand, South Africa, and UK was established to provide input to the UK – ASB in the development and finalization of the Discussion Paper.

DEVELOPMENTS SINCE MARCH MEETING

Following the March meeting the sub-committee provided comments on the ASB's project outline, which have been transmitted to the UK ASB. New Zealand has also provided details of the approach to recognition and measurement of collections in New Zealand museums and also details of audit qualifications that have arisen over heritage assets.

The UK ASB Project Manager has developed an Issues Paper for both the UK Board and IPSASB. That Issues paper is included in this agenda item. The primary aim from a UK perspective is to familiarize the full UK Board with some of the issues that are going to be developed further in the Discussion Paper.

The Issues Paper proposes that the forthcoming Discussion Paper reflect the following points:

- heritage assets should be valued where practical and capitalised in the balance sheet;
- a recognition that in many cases valuation is impractical and an alternative disclosure based approach should be permitted;
- where such a disclosure approach is adopted transactions for the acquisition and disposal of heritage assets should not be reflected in the income and expenditure account; and
- regardless of whether the valuation policy or the disclosure policy is adopted comprehensive disclosures are required from a stewardship perspective.

The Issues Paper is on the agenda for the UK Board's meeting on 23 June. A summary of the reaction of the UK Board and any comments available from the IPSASB Sub-Committee will be provided in the second distribution.

The timing of the forthcoming Discussion Paper is largely dependent upon the views expressed by the UK Board on 23 June. There is a possibility that the Discussion Paper will go to the UK Board in July 2005, although it is probably more likely to be September 2005.

Members are also advised that the South African Accounting Standards Board has recently issued "An Invitation to Comment on a Discussion Paper on Heritage Assets" This ITC has been distributed to the Sub-Committee and is available from Staff on request.

Members are requested to provide staff with comments on the Issues Paper as input for its ongoing development.

Heritage assets: an issues paper

1 Introduction

1.1 The Board will recall from its briefing on 3 February 2005 that the Public Sector and Not-for-Profit Committee (PSNC) has been, over the last nine months, considering the problems associated with accounting for heritage assets and developing proposals to secure improvements in the financial reporting of such assets. **This paper seeks the Board's agreement to the key issues and proposals to be included in a Discussion Paper.** It does not, at this stage, ask the Board to agree specific draft paragraphs. The Board's Technical Plan anticipates that a Discussion Paper will be issued in Quarter 3 of 2005.

1.2 The Discussion Paper will be concerned primarily with heritage assets comprising collections of works of art and other exhibits held by museums and galleries. This is where, in the main, the valuation issues discussed in section 2 below are encountered and where the existing accounting approach gives rise to inconsistent treatment of heritage assets. The term 'collection' also encompasses collections of manuscripts, personal papers and other books of historical significance held by libraries.

1.3 The Discussion Paper will, in summary, reflect the following points set out in this issues paper:

- Heritage assets should be valued where practical and capitalised in the balance sheet;
- Where valuation is impractical, an alternative disclosure based approach should be permitted;
- Under a disclosure approach, acquisitions and disposals of heritage assets should not be reported in the income and expenditure account;
- Regardless of whether a valuation or disclosure approach is adopted, comprehensive disclosures should be provided from a stewardship perspective; and
- The existing 'mixed capitalisation' approach should be withdrawn.

2 Valuation – the overriding issue

A valuation approach

2.1 In principle there are the same benefits of and advantages to recognising and valuing heritage assets as there are for other tangible fixed assets: to inform users about the value of assets held, to encourage good stewardship of the assets by the owner entity and to inform decisions about whether resources are being used appropriately.

2.2 The Discussion Paper will recommend unambiguously that the Board's preferred approach is that entities should be required to recognise and capitalise heritage assets. There are two riders to this:

(a) this approach should be applied wherever valuation is practical; and

(b) measurement should be at a current value. Historical cost would be permitted only where this is a good proxy for the current value.

2.3 The Discussion Paper will propose that to be 'practical' a valuation should be reliable; the benefit to users of a valuation should outweigh the cost of obtaining it and the valuation approach should be applied consistently to all heritage assets in a class or collection. Valuation approaches are already applied by some of the smaller, modern museums to their collections and this should continue to be encouraged.

2.4 Minor valuation problems should not preclude adopting the valuation approach for individual collections. To encourage application of the valuation approach, the Discussion Paper will propose that entities should adopt it where it can be applied to some rather than all collections of heritage assets, provided that assets within a collection have similar cultural or historic qualities and that this information is useful to users. For example, a motor museum may find it practical to value its collection of vintage cars but not its collection of motoring ephemera.

2.5 Does the Board agree that a valuation approach is the preferred accounting approach, but only where this can be applied reliably and consistently for a discrete collection of heritage assets?

Valuation problems

2.6 There are a number of pervasive problems associated with valuing heritage assets and these will need to be recognised in the Discussion Paper as potential barriers to the widespread application of a valuation approach.

2.7 *Incomparable nature:* Some heritage assets (such as the Rosetta Stone) simply cannot be valued as there are no comparable assets from which to determine a value. The provenance of a heritage asset (for example the spear that killed Captain Cook) may determine its cultural (as well as monetary) value which cannot be ascertained properly from like for like comparisons or from its reproduction cost as the heritage provenance cannot be recreated.

2.8 *Insurance values are not relevant:* The incomparable nature of heritage assets also brings into question the appropriateness of insurance values. At best these can only represent compensation for loss of heritage assets which, being unique, cannot be replaced. Many entities do not insure against the loss of heritage assets.

2.9 *Lack of active market:* Heritage assets tend to be held for preservation purposes and are rarely sold. Consequently there is no ready market reference from which to identify a current value. And where markets do exist (for example, for works of art) they may be specialised and the volume of transactions small, making it difficult to determine trends for revaluation purposes or to put into context reported historical costs.

2.10 *No transaction cost:* Some types of heritage assets (such as biological and fossil items) are largely obtained through collection, perhaps at little or no cost. And where heritage assets are acquired by donation there may be no transaction cost information available. Donations are not undertaken at arms length and it can be argued that absence of cost is not a guide to the value of the asset. In these circumstances existing requirements under FRS 15 are that a current value should be determined. However, determining a reliable market-based value encounters the problems identified above.

2.11 *Large collections to be valued:* Museums and galleries may hold thousands of heritage assets - the British Museum has over 100,000 items in its Egyptian collections alone. Often only curatorial staff have the expertise to value collection items which may not be feasible on a large scale given their other day-to-day curatorial duties. It is often argued that the sheer volume of items precludes their valuation on cost-benefit grounds alone.

2.12 *Sample-based estimates may not be reliable:* Some take the view that it is preferable that the financial statements should report a value however unreliable rather than no value, for stewardship purposes, and that such a value can be readily obtained through sampling techniques. This approach may have some application where large collections of similar items are held and has, for example, been used to assign a value to the New Zealand archive. However, a museum collection may well not be homogenous in nature and, as noted above, one of the intrinsic attributes of heritage assets is their unique provenance. This would preclude the widespread use of a reliable estimation technique based on sample valuations. Good stewardship could be equally encouraged through the publication of other non-financial performance information about a collection.

2.13 For many museums and galleries holding larger collections acquired in the past, it is unlikely that, in light of the valuation problems discussed above, an accounting treatment for heritage assets based solely on a valuation approach will secure improvements to the financial reporting of heritage assets.

2.14 Does the Board agree an accounting treatment based only on a valuation approach is unlikely to secure improvements in the financial reporting of heritage assets?

3 Fallback accounting approaches

3.1 Where a museum or gallery can demonstrate that a valuation approach is not practical, a fallback approach should be required. The Discussion Paper will consider two options for this fallback approach:

The existing accounting approach - capitalise acquisitions at historical cost

3.2 FRS 15 'Tangible fixed assets' requires all tangible fixed assets to be capitalised and in principle this includes heritage assets. Since the introduction of FRS 15, museums and galleries have capitalised subsequent acquisitions of heritage assets at historical cost.

3.3 In developing FRS 15 the Board recognised that for some heritage assets not capitalised in the past and some donated heritage assets the cost of obtaining a reliable valuation may outweigh the benefit to users of this information. In practice, few museums and galleries have capitalised retrospectively values for heritage assets acquired before FRS 15 became effective due to the problems associated with valuation discussed in section 2 above.

3.4 The ASB has been criticised by the FRAB[1] and the museums and galleries sector generally for the impact of FRS 15 on the financial reporting by museums and galleries. This criticism has been difficult to defend as the accounting treatment created by FRS 15 gives rise to a number of problems. It is inconsistent - two very different accounting treatments are applied to the same class of asset[2] depending on when items were acquired. Expenditure on restoration which might extend the life of a heritage asset is not capitalised if the heritage asset is not. Financial information is incomplete as the typically low volume of acquisitions means that, even over time, the proportion of the collection that is capitalised will still be small - although the monetary value may appear significant.

3.5 Heritage assets generally have indeterminate lives and often retain their heritage attributes even when their physical condition deteriorates. Typically no further accounting adjustments (depreciation or impairment) are made to the capitalised historical cost which will over time become less relevant to the current reporting period.

3.6 The existing accounting treatment has not secured improvements to the financial reporting of heritage assets and, for the reasons cited above, the Discussion Paper will propose that it should be replaced. Consequently it is not appropriate as a fallback to a valuation approach.

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[1] *The Financial Reporting Advisory Board - an independent statutory body which advises the Treasury on financial reporting principles and standards applicable to government bodies which include many of the national museums and galleries.*

[2] *It is noted that inconsistent accounting such as this exists elsewhere in UK financial reporting. Under FRS 10 'Goodwill and intangible assets', purchased goodwill should be capitalised but internally generated goodwill should not.*

3.7 Does the Board agree that the existing approach to capitalise acquisitions at historical cost is not a suitable fallback to a valuation approach?

A disclosure approach

3.8 A disclosure approach would not require museums and galleries to capitalise heritage assets acquired in the past or during the current reporting period. Instead, the reporting entity should provide enhanced disclosures on the reasons for not adopting a valuation approach, the nature and number of heritage assets held, the purpose for their preservation and financial information on acquisitions and disposals within the reporting period. These disclosure requirements are considered further in section 4 of this paper.

3.9 Under a disclosure approach it is proposed to segregate heritage asset transactions (such as acquisitions, disposals and major restoration costs) from the income and expenditure account for the reporting period. Presentation of the acquisition of a heritage asset as an expense would be wrong as an asset has been acquired which has not been consumed. This distorts the level of reported expenses and does not properly reflect financial performance.

3.10 The Discussion Paper will propose that heritage asset transactions are presented in a separate statement clearly distinguished from financial performance. It is considered that this approach, linked to the enhanced disclosures described below, will provide users with a clearer picture of heritage asset transactions for the reporting period and in the context of the collection as a whole. An illustration of such a statement is attached to this paper.

3.11 Does the Board agree that where a valuation approach is not practical, a reporting entity should be required to adopt a disclosure approach as a fallback?

4 Enhanced disclosures

4.1 The quality of the disclosures regarding heritage assets should be sufficient to allow users to appreciate the context of transactions with regard to the collection as a whole. This applies equally whether a valuation approach is adopted or not and there should be some rigour to the disclosures made. Having considered the needs of users and 'best practice' in the UK and other jurisdictions, the Discussion Paper will propose that the following information is disclosed:

(a) The purpose, scale and nature of the collection of heritage assets held;

(b) Preservation objectives – to explain the aims of conservation, maintenance or restoration programmes and the extent to which they have been completed;

(c) The accounting policy applied to a collection including the measurement basis used for a valuation approach;

(d) Where a valuation approach has not been applied to a collection, an explanation of why not, having regard to particular valuation difficulties;

(e) Funding sources for acquisitions – to distinguish grants, donations (including cash) and utilisation of reserves;

(f) Financial information on acquisitions and disposals together with descriptions of key assets comprising these transactions;

(g) Where the current value of some items is known, but these represent only a small part of the whole collection, this value should be disclosed in a note to the accounts but not capitalised in the balance sheet;

(h) where a valuation approach is applied to more than one collection of heritage assets, a breakdown of values for each collection;

(i) a five year summary of collection activity – to provide quantitative information on the number of items held on display and in archive/storage and development of the collection over the five year period.

4.2 The Discussion Paper will contain examples to illustrate the valuation and disclosure approaches and enhanced disclosure requirements.

4.3 Does the Board agree that, irrespective of the accounting approach adopted, a reporting entity should provide enhanced disclosures for heritage assets as described above?

5 Other issues

5.1 While the Discussion Paper will focus primarily on collections of heritage assets held by museums and galleries, it will also consider briefly how the proposed valuation and disclosure approaches might be applied to other types of heritage asset such as historic buildings used for office accommodation; and 'corporate art'.

5.2 The objectives of an entity and the purposes for which heritage assets are held may have some bearing on how heritage assets are reported[3]. For example, if a company that aims to maximise the financial return to shareholders has capital tied up in heritage assets, it might be reasonable to assume that these should be reported alongside the company's other assets. Such an approach might not be appropriate for a government funded national museum that exists solely to hold heritage assets as a custodian.

5.3 The Discussion Paper will assert that heritage assets meet the definition of an asset as they can be used directly or indirectly to provide services in furtherance of an entity's objectives. A definition of a heritage asset will be developed to clarify the scope of the application of its proposals. The definition of a heritage asset currently being developed in the draft Discussion Paper is:

"An asset with cultural, historic, artistic, scientific, technological, geophysical or environmental qualities that is held and maintained, in whole or in part, for preservation purposes."

5.4 Does the Board agree that a Discussion Paper should focus primarily on collections of heritage assets as typically held by museums and galleries?

[3] *The Discussion Paper will consider the qualitative characteristics of financial information regarding heritage assets that will make it useful to users.*

6 Next steps

6.1 Since the Board's briefing in February, the International Public Sector Accounting Standards Board (IPSASB) has accepted our offer to contribute to its own project to develop proposals on accounting for heritage assets. This issues paper, updated to reflect the Board's views, will be submitted to IPSASB for consideration at its July 2005 meeting.

6.2 The IPSASB has set up an informal sub-committee to contribute to the development of the proposals and its members have already provided some comments on the shape and direction of the project which have been reflected in this issues paper. Other comments provided will be reflected in the Discussion Paper and include:

- Consideration of natural as well as man-made heritage assets within the scope of the project;
- Consideration of different bases of measurement;
- Accounting treatment of buildings used to house heritage assets;
- Accounting treatment of donated heritage assets;
- Consideration of asset management practices from a stewardship perspective.

6.3 Subject to comments made by the Board it is proposed to (a) submit this issues paper to IPSASB for consideration at its July 2005 meeting and (b) prepare a draft Discussion Paper for consideration by the Board at a subsequent meeting.

Attachment

Illustration of a statement of change in recognised net assets

By way of illustration, an entity might present heritage asset transactions in such a statement as follows:

Statement of change in recognised net assets	**£000s**	**£000s**
Recognised gains/(losses) for the financial year		1,000
Heritage asset transactions:		
Grants/donations towards acquisition of heritage assets	200	
Proceeds from disposal of heritage assets	25	
Acquisition of heritage assets	(250)	
Major restoration costs	(30)	
Net heritage asset transactions		(55)
Change in recognised net assets		945

For the purposes of this illustration it is assumed that:

(a) the reporting entity acquired two heritage assets: one through donation valued at £100k and one through purchase at £150k funded by £100k grant, £25k disposal proceeds and £25k retained surplus;

(b) the major restoration extended the useful life of a heritage asset and would have been capitalised under FRS 15 if the asset was an item of PPE.

INTERNATIONAL FEDERATION OF ACCOUNTANTS
PROJECT BRIEF
(NOTE: PREPARED FOR THE PSC DURING 2004)
(Also included in materials for November 2004 and March 2005 meetings)

Heritage Assets

Background

Currently IPSAS 17, *Property, Plant & Equipment* does not require an entity to recognize heritage assets that would otherwise meet the definition of, and recognition criteria for, property, plant and equipment. However, where an entity does adopt a policy of recognizing heritage assets, IPSAS 17 requires that entity to comply with the disclosure requirements in paragraphs 73, 74 and 77 of IPSAS 17. IPSAS 17 does not require the entity to apply the measurement requirements in that standard to heritage assets that it chooses to recognize.

In commentary, IPSAS 17 notes that "some assets are described as heritage assets" because of their cultural, environmental or historical significance. Examples of heritage assets are given as historical buildings and monuments, archaeological sites, conservation areas and nature reserves and works of art. Heritage assets are therefore likely to include both discrete assets, such as castles and monuments, and collections. Collections may comprise many thousands of items –for example national collections of archaeological and natural history artifacts. Only a small proportion of such items may be on display. IPSAS 17 further identified a number of characteristics which, whilst not exclusive to heritage assets, are often displayed by them. These are:

a) Their value in cultural, environmental, educational and historical terms is unlikely to be fully reflected in a financial value based purely on a market price;
b) Legal and/or statutory obligations may impose prohibitions or severe restrictions on disposal by sale;
c) They are often irreplaceable and their value may increase over time even if their physical condition deteriorates; and
d) It may be difficult to estimate their useful lives, which in some cases could be several hundred years.

Some are of the view that the issue of "heritage assets" is not especially technically complex. However, there can be tension between conceptual purity, the usefulness of information to users and the benefit-cost evaluation of measurement, particularly in relation to large collections of art works and museum artifacts. Some argue that, going forward, entities should be required to recognize all assets, including those that would satisfy any definition of heritage or cultural or similar assets, but need not recognize such assets already controlled by the entity. However, others are of the view that users can be confused by "partial measurement" approaches where recently acquired heritage assets are valued at cost or fair value, but similar assets acquired some time previously, before the adoption of the accrual basis, remain off-balance sheet. Those of this view tend to favor full capitalization or the expensing of newly acquired heritage items.

Project Objective

The objective of this project is to develop authoritative requirements and guidance on the recognition and measurement of heritage assets. Issues to be resolved in respect of the logistics of the development process and the ultimate location of the guidance are:

- Is it necessary to develop an Invitation to Comment (ITC) or similar discussion paper prior to an Exposure Draft (ED); and
- Should the detailed requirements be included in a revised IPSAS 17, or is a separate IPSAS necessary?

Staff are of the view that although issuance of an ITC will considerably extend timescales, the range of international approaches (see below) as well as the experience of national standard-setters suggests that conceptual and/or practical issues may be significant, and achieving a strong measure of consensus without an extended consultative process might be difficult. This may militate in favor of an ITC as an initial stage. Establishing a Project Advisory Panel to provide input to an ITC developed by the PSC itself, rather than developed separately by a Steering Committee, provides a mechanism to bring together expertise from different jurisdictions with experience of different approaches and to move the project forward at PSC level. This provides an opportunity to forge a common approach and to involve PSC members directly in the development of the project at all stages. The non-exhaustive list of key issues in the final section of the project brief further demonstrates the contestability of some of the main topics.

International approaches

One of the key activities will be to consider in detail the approaches of those national standard-setters that have considered heritage assets. Brief preliminary analysis, largely based on material collected by the UK Accounting Standards Board, suggests that although there is some common ground between standards-setters there are significant differences both of substance and form - sometimes between standards-setters with jurisdiction over different components of the economy in the same country. For example, in the USA the Financial Accounting Standards Board (FASB) encourages retrospective capitalization of art collections, whilst acknowledging that the cost of retrospective capitalization is likely often to exceed the incremental benefits to users. Conversely, the Federal Accounting Standards Advisory Board (FASAB) requires expenditures on the acquisition, construction, reconstruction or improvement of heritage assets to be expensed and in a separate standard details disclosure requirements from a stewardship perspective. The Governmental Accounting Standards Board (GASB) encourages, but does not require, capitalization of collections and additions.

At the last OECD Accrual Symposium, Sweden reported that it has recently reviewed its practices at central government level. Acquisitions of heritage assets are capitalized like other assets. There is no depreciation where asset lives are unlimited. Retrospective capitalization is permissible, but is rarely used.

New Zealand adopts an approach that allows for little distinction between heritage assets and other items of property, plant and equipment. Heritage assets meeting the definition of property, plant and equipment are to be accounted for in accordance with the New Zealand standard on property, plant & equipment, with use of the revaluation model optional. Interestingly, and unlike many other standard-setters, New Zealand considers it very rare for items of property, plant and equipment other than land to have unlimited useful lives.

Australian GAAP requires the recognition of heritage assets provided that they meet recognition criteria related to the probability of the eventuation of future economic benefits and the reliability of measurement.

Operating Procedures

Staff proposes that the ITC be developed by the PSC, supported by a Project Advisory Panel (PAP) of preparers, users, valuers and national standards-setters. The PAP will act as a reference group and test approaches and thinking – it is anticipated that the PAP will comprise 10-12 members and will conduct its business electronically, though a meeting could occur if considered necessary. A PSC member would be asked to Chair the PAP and co-ordinate the distribution of materials and review PAP responses with staff. Because the issue of reliability of measurement of heritage and similar assets and the interpretation of benefit-cost are particularly germane, the PAP should be charged with providing input on the technical and practical consequences of different approaches.

Given the differences in approach between standard-setters, the creation of a Steering Committee which would meet a number of times to develop an ITC might be justified. This will, however, have unsustainable resource implications.

Project Timetable (subject to staff availability

November 2004: Consider and approve Project Brief
December 2005/January 2006: Establish Project Advisory Panel
July 2005: PSC consider first Draft ITC
November 2005: PSC consider 2nd draft ITC. Approve for issue January 2006, with 4 months exposure
July 2006: Evaluate response from ITC
November 2006: Consider first draft ED prepared by staff
March 2007 Approve ED
November 2007: Evaluate response from ED
March 2008: Approve additional requirements to IPSAS 17 (revised) or a separate IPSAS on heritage assets

Key Issues
Key issues to be considered in developing this project include the definition of a heritage asset and recognition and measurement criteria that should apply to such assets. These issues are developed further below.

Definitional Issues
Do heritage assets meet the definition of assets in IPSASs?
Whilst the PSC's definition of assets as "resources controlled by an entity as a result of past events and from which future economic benefits or service potential are expected to flow to the entity" appears sufficiently wide to encompass the majority of "heritage assets" there can be some ambiguity where the reporting entity has no intention to use the asset, put it on display or use it for educational or scientific purposes. In such instances it may be arguable whether such assets are likely to give rise to service potential. In addition the notion of service potential can be complex – see the discussion on operational heritage assets below.

Are heritage assets a separate class of assets rather than a separate class of property, plant and equipment?
If they meet the asset definition, are heritage assets property plant and equipment (PP& E) or are there additional characteristics that need to be included in any definition, so they become a distinct class of assets? Central to this issue is whether they are different in concept from PP & E, and whether different requirements flow from any such difference. For example, if heritage assets have unlimited useful lives, then the depreciation issue is resolved. However, how should impairment be assessed, if the value of heritage assets can increase whilst their physical condition is deteriorating?

What preponderance of characteristics must be present and identifiable to make an asset a heritage asset?
As indicated in the body of the project brief, paragraph 8 of IPSAS 17 provides a mix of characteristics that are often displayed by heritage assets. However, IPSAS 17 gives little indication of the extent to which these characteristics must be present in order to justify designation as a heritage asset. Preparers are therefore left to designate assets as heritage assets using their own judgment with little guidance on how they should weight these characteristics. For example, there can be blanket prohibitions or severe restrictions on the disposal of many assets held by public sector entities. It seems dubious whether the imposition of prohibitions or severe restrictions on disposal, in the absence of other characteristics, is sufficient to justify classification as a heritage asset.

Should there be a distinction between operational and non-operational heritage assets and what consequences flow from such a distinction?
In at least one jurisdiction, approaches to recognition and measurement have been developed which are dependent upon a distinction between operational and non-operational heritage assets. Non-operational heritage assets are held primarily for display and/or maintenance and preservation for future generations. Whilst operational heritage assets also form part of the nation's heritage or patrimony, they are used to provide other services. Examples include forts used as military barracks or historic buildings used for administrative purposes. Whilst operational heritage assets

must be valued, non-operational heritage assets need not be measured on cost-benefit grounds or if insufficiently reliable valuations can be obtained. If heritage assets are to be considered a separate class of assets, is there a case that heritage assets in operational use are in essence property, plant and equipment? Where such an asset ceases to be used for operational purposes should it be reclassified?

Are buildings which house heritage assets such as art collections or natural history collections themselves heritage assets in the absence of other characteristics?
Buildings which house art collections or other collections may not meet the definition of a heritage asset. How should such buildings be treated?

Recognition and measurement
What options should be available for recognition and measurement? As indicated in the main body of the project brief globally there is a range of options for recognition and measurement extending from:

- full capitalization of both new acquisitions and retrospectively acquired items; through
- capitalization of new acquisitions with no recognition of heritage assets acquired before the adoption of the accrual basis; to
- the expensing of heritage items and the provision of extensive information through disclosure.

To what extent should IPSASs identify and/or permit alternative treatments?

How should the criteria of reliability and cost-benefit be interpreted? In some approaches the concepts of reliability and cost-benefit are key to the recognition decision. Whilst there can be active and liquid markets for many heritage assets, such as vintage cars or airplanes, there are a large number of heritage assets where either market values are entirely absent or a value can only be attributed within a wide range. This raises the question of how robust values must be in order to permit measurement and whether curatorial valuations or insurance valuations are sufficiently robust for financial reporting purposes.

Appendix 2 to IPSAS 1, “Presentation of Financial Statements”, describes the balance between benefit and cost as a pervasive constraint. IPSAS 1 notes that “the benefits derived from information should exceed the cost of providing it” and proceeds to state that the evaluation of benefits is substantially a matter of judgment and that the costs of provision do not always fall on those who enjoy the benefits. The interpretation of the benefit-cost relationship is likely to be even more difficult to ascertain for heritage assets than in other areas of financial reporting. Internationally, a number of standards-setters have acknowledged benefit-cost considerations, although the weight that they have given such considerations varies considerably. Major state collections of archaeological or natural history artifacts are likely to run to several million items and the costs of providing a valuation would be, arguably, unrealistically high. Should the Committee therefore develop more detailed guidance on the application of benefit-cost tests?

Disclosures

Are there stewardship disclosures in relation to heritage assets beyond those required by IPSAS 17?

Some standards-setters have identified additional detailed disclosure requirements. IPSAS 17 requires significant disclosures in relation to, inter alia, depreciation methods, useful lives, additions, disposals, acquisitions through business combinations and impairments. However, should further disclosures be required in respect of heritage assets, possibly involving narrative on the nature of the assets, their provenance, condition, restrictions on disposal and planned and deferred maintenance expenditures?

Should the treatment of donated assets differ from those acquired with the entity's own resources?

IPSAS 17 requires that "where an asset is acquired at no cost or for a nominal cost, its cost is its fair value as at the date of acquisition". Should the same requirement apply to heritage assets or is there a parallel with "donated services" being considered by the Non-Exchange Revenue Steering Committee. In particular, can a distinction be made between a heritage asset which the reporting entity would have acquired with its own resources and a heritage asset which the reporting entity would not have acquired. Should entities only be required to recognize and measure heritage assets that they would have acquired?

Other Issues

What are the links to other projects? There are obvious links to the PSC's proposed conceptual framework project, in respect of any amendments to the existing definition of a public sector assets that might emerge from that project. There are also links to the project on Non-Exchange Revenue in the treatment of heritage assets arising from non-exchange transactions and the parallel between donated services and donated heritage assets. Developments of requirements for accounting for heritage assets will also need to be cognizant of any development in convergence with government finance statistics and the development of the IASB project on performance reporting.

Are transitional provisions necessary? The current transitional provision in IPSAS 17 permits entities not to recognize property, plant and equipment for five years following first adoption of the standard. The extent to which transitional provisions need to be introduced for heritage assets will need to be considered.