Agenda Item 9: Heritage

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IPSASB Meeting

June 18–21, 2019

Toronto, Canada
Project management: Stocktake for Heritage Project

- Road Map – progress to date and future meeting plans
- Board Decisions – previous decisions taken and key future issues
- Board Instructions – satisfied with actions taken?
- Other Issues?
Overview of Session

1. Operational and non-operational heritage assets (9.2.2)
2. Classification of issues (9.2.3) + new slides (generic issues)
3. Overview of Recognition, Measurement and Presentation for Heritage (9.2.1)
• Consider whether operational/non-operational distinction is useful for developing guidance on financial reporting for heritage assets

• Information on:
  a) Meaning of operational/non-operational
  b) IPSASB pronouncements, constituents’ views and Heritage Task Force discussions
  c) Possible financial reporting implications
Operational/Non-Operational: Meaning

**Operational heritage assets:**
- Heritage assets that the entity uses for other (non-heritage) activities or to provide other services. (e.g. an historic building used as an office building)

**Non-operational heritage assets:**
- Heritage assets that the entity holds primarily to pursue its objectives in relation to the maintenance/preservation of the heritage. (e.g. a collection of heritage paintings in an art gallery)
Operational/ Non-Operational: IPSAS, Constituents and Task Force

- IPSAS does not presently use this distinction
- Conceptual Framework considers:
  - **Assets**: Whether a resource exists (service potential and/or future economic benefits)
  - **Measurement**: Refers to “operational capacity,” which is contrasted with financial capacity. Assets that the entity uses to provide services contribute to operational capacity
- **Heritage Consultation Paper**: Has one reference in its introduction. No question for respondents. Several respondents referred to this distinction.
- **Task Force members’ views**: Task Force Chair will provide an update on members’ views at the meeting.
Financial reporting implications:

- **Recognition?**
  - *Approach*: Recognize operational heritage assets. Do not recognize non-operational.

- **Measurement?**
  - *Approach*: Same measurement requirements applied to operational heritage assets as those for other non-heritage assets. Extra guidance (or special measurement requirements) for measurement of non-operational heritage assets
  - *Replacement cost* – Cost to replace (a) operational” usage or (b) heritage value?
  - *Depreciation* – Whether heritage asset is used “operationally” could affect useful life and basis for depreciation
Alternative to using operational/non-operational: Entity Considers its Use of the Heritage Asset

• Develop measurement guidance linked to entity’s usage of its heritage asset
  – Allows entity to consider its actual use(s) of the heritage asset to achieve its objectives
  – Actual usage would drive entity’s thinking about depreciation (useful life), replacement cost, and capitalization/expensing of subsequent expenditure

• Problems with operational/non-operational:
  – Simple, black/white category that will drive measurement guidance
  – Criteria for classification developed by an external party (i.e. the standard setter)
  – Confusion between “operational heritage assets” and “heritage assets that contribute to operational capacity”
Decisions required

• Note Task Force views on the operational/non-operational distinction
• Recognition: Agree that the operational/non-operational distinction should not be applied to guidance on recognition of heritage assets
• Measurement: Provide views on relevance of operational/non-operational distinction for guidance on measurement
Consider:

a) Issues in responses to the Heritage Consultation Paper (recognition, measurement and presentation issues)
b) Guidance needed to address the issues
9.2.3 Classification of Heritage Issues

- Table 1 has issues with respect to heritage-related:
  - Recognition,
  - Measurement, and
  - Presentation

- Table 1 summarizes issues in the Heritage Consultation Paper responses:
  - Responses to specific matters for comment (SMC) and preliminary views (PV) that asked for views on recognition, measurement and presentation; and
  - Respondents’ general comments and other comments
No decisions required

The IPSASB is asked to:

a) Note the information in Table 1

b) Provide comment on the issues and their implications for the Heritage Project’s next steps
## Objective of recognition and measurement in terms of reporting entity’s operational and financial capacity

### Cost-Benefit constraints (affects recognition, measurement, presentation and transition)

<table>
<thead>
<tr>
<th>Recognition</th>
<th>Measurement</th>
<th>Presentation (Display &amp; Disclosure)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Ownership/Stewardship/“in Trust“</td>
<td>Symbolic value</td>
<td>Type of information for disclosure</td>
</tr>
<tr>
<td>Natural Heritage coverage</td>
<td>Reliability/Measurability</td>
<td>- Characteristics/performance</td>
</tr>
<tr>
<td>Subsequent expenditure</td>
<td>Relevance/Measurement basis</td>
<td>- Accounting information</td>
</tr>
<tr>
<td>Useful lives/depreciation/impairment</td>
<td></td>
<td>Presentation on f/s face</td>
</tr>
<tr>
<td>Heritage use</td>
<td></td>
<td></td>
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<tr>
<td>Techniques (and sources)</td>
<td></td>
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</tbody>
</table>
Discuss recognition, measurement and presentation guidance for heritage assets

- Diagram 1: Overview of recognition, measurement and presentation
- Appendix B: Examples for asset existence:
  - Resource
  - Presently controls
  - Past event
- Main measurement issues for which guidance is needed
- Project scope
9.2.1 Overview of Recognition, Measurement and Presentation

Diagram 1

Step 1, Asset existence

Step 2, Recognition

Step 3, Subsequent measurement

Step 4, Presentation
9.2.1 Overview of Recognition, Measurement and Presentation

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Flow Chart (1) Step 1 Asset existence

1. Resource?
   - Yes: ....
   - No: 2. Controls? (e.g. stewardship)

2. Controls? (e.g. stewardship)
   - Yes: 3. Past event?
   - No: A. No asset

3. Past event?
   - Yes: ....
   - No: A. No asset
9.2.1 Overview of Recognition, Measurement and Presentation

Step 2 Recognition (Reliable measurement)

Yes (Asset)

4 Reliable cost?

Yes

B. Recognize asset

No

5 Reliable other value?

Yes

C. Do not recognize

No
Step 3 Subsequent measurement

Subsequent measurement: Guidance on:
(a) Depreciation/amortization
(b) Subsequent expenditure
(c) Impairment
(d) Revaluation model
9.2.1 Overview of Recognition, Measurement and Presentation

Revaluation (if applicable) **Flow Chart (2)**

1. Asset contributes to operational capacity through non-heritage (NH) uses?

   - **Yes**
     
     A. Replacement cost: Cost to replace *non-heritage* use.

   - **No**
     
     B. Replacement cost: Cost to replace *heritage* use.
Step 4 Presentation

Presentation:
Consider need for line item(s) and note disclosures
Is the Heritage Item a Resource?

- Example 1  Paintings Purchased by National Art Gallery
- Example 2  Art Works in Parliament Building
- Example 3  Aid Agency’s Art Works
- Example 4  Cemetery on Regional Council’s Land

Conceptual Framework

Resource: Item has service potential or ability to generate economic benefits

Service potential: The capacity to provide services that contribute to achieving the entity’s objectives.
Appendix B: Does reporting entity presently control the heritage item?

- Example 5  Department’s Head Office Building Receives Heritage Designation
- Example 6  A Collection on Loan from another Art Gallery
- Example 7  Heritage Person Attached to the National University
- Example 8  Living animals (birds)
- Example 9  Sacred Ancestral Mountain–Custodianship

**Control:** Entity can use resource (or direct others) to derive benefits to achieve its objectives

**Indicators of control:** Reporting entity: — Has legal ownership; — Has access (or can deny/ restrict access) to the resource; — Can ensure that resource is used to achieve its objectives; — Has an enforceable right to service potential or ability to generate economic benefits arising from the resource
Example 10  Donation of Painting
Example 11  Donation of Sculptures
Example 12  Transfer of Notable Musician’s Papers
Example 13  Architectural Heritage in Situ

*Presently controls:* A resource that an entity presently controls must have arisen from a past event (including past transaction)

*Example events:* Entity purchases or develops an asset. Asset is received through a non-exchange transaction or arises through exercise of sovereign powers
9.2.1 Measurement guidance: Priority needs?

Paragraphs 14 – 15 of agenda item 9.2.1:

a) Meaning of replacement cost

b) Depreciation and amortization, including determination of useful lives

c) Impairment: Indicators of impairment. Valuation when impaired (linked to useful life)

d) Revaluations: Frequency, applicable current value, for museum collections

e) Measurement of living heritage assets, e.g. whether to add their value to the land value

Subsequent expenditure – when to expense or capitalize


√ Heritage Project focus is on information in the financial statements (IPSASB decision, March 2019).

√ Project Roadmap has revisions to IPSAS 17, *Property, Plant and Equipment*, as planned outcome for 2019 (roadmap provided to IPSASB’s March 2019 meeting)

— Project’s scope restricted to heritage assets within scope of IPSAS 17? (This excludes:
  (a) Living heritage assets such as plants and animals; and
  (b) Intangible heritage assets.)
Does the IPSASB agree that:

a) Heritage Asset Recognition flow chart (Diagram 1 - FC1) provides a useful overview for recognition

b) Appendix B examples are useful guidance on heritage items as “assets”

c) Measurement issues needing guidance as per paragraphs 14 and 15; and

d) Project’s scope is now focused on heritage assets that fall within the scope of IPSAS 17, *Property, Plant and Equipment*?
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Road map implications, decisions and instructions?

- Road Map – any changes arising from discussion?
- Board Decisions – decisions during discussion
- Board Instructions – instructions during discussion
- Other Issues?