



**INTERNATIONAL FEDERATION  
OF ACCOUNTANTS**

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**Agenda Item**

**6**

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**DATE:** February 14, 2007  
**MEMO TO:** Members of the International Public Sector Accounting Standards Board  
**FROM:** John Stanford  
**SUBJECT:** Heritage Assets

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**OBJECTIVE OF THIS SESSION:**

- **To approve** the project brief on heritage assets

**AGENDA MATERIAL:**

**Papers**

6.1 Project Brief for Consultation Paper on Heritage Assets

**ACTION REQUIRED**

The Board is asked to:

- **Consider** the current position on heritage assets outlined in this memorandum and attached history sheet on Heritage Assets;
- **Confirm** the view of Staff that the objective of the project on heritage assets should be for a separate Standard on heritage assets or an Exposure Draft of amendments to IPSAS 17; and
- **Review** the attached draft Project Brief, **identify** whether any further issues need to be included and other amendments.
- **Approve** the project brief

**BACKGROUND**

At the meeting of the IPSASB in Norwalk in November 2006 members received an analysis of the submissions on the Consultation Paper, “Accounting for Heritage Assets under the Accrual Basis of Accounting”. Following discussion Members indicated that they wished to progress this project and directed Staff to produce a Project Brief. This memorandum provides the current position on the IPSASB’s evolving approach to heritage assets and is complemented by a history sheet outlining developments since 2001.

**HOW WE REACHED THE CURRENT POSITION ON HERITAGE ASSETS**

The Public Sector Committee (PSC) issued IPSAS 17, “Property, Plant and Equipment” in December 2001. IPSAS 17 does not require entities to recognize heritage assets, otherwise meeting the definition of, and recognition criteria for, property, plant and equipment. If an entity

does recognize heritage assets, it must apply the disclosure requirements of IPSAS 17 and is permitted, but is not required to, apply the measurement requirements in IPSAS 17. IPSAS 17 does not define heritage assets but does provide, in commentary, some indicative characteristics (see paragraphs 8-11 of IPSAS 17 (revised 2006)).

At the time that IPSAS 17 was approved, the PSC acknowledged that the provisions of IPSAS 17 on heritage assets were interim and that further work on this topic would be necessary. A project brief on heritage assets was included in the agenda papers for the meeting in New Delhi in November 2004. However, due to Staff resource constraints it was decided not to initiate a full project at that time. Shortly afterwards the IPSASB received a proposal from the United Kingdom Accounting Standards Board (UK ASB) for joint working on heritage assets. This offer was accepted. The co-operation resulted in the publication of a Consultation Paper, “Accounting for Heritage Assets under the Accrual Basis of Accounting”, which was approved, subject to final amendment, in December 2005 and published in February 2006. The Consultation Paper included at its core a Discussion Paper developed by the UK ASB. There were 38 submissions to the Consultation Paper. The IPSASB received an analysis of these submissions at the November 2006 meeting. Members indicated that they wished to continue with this project and directed Staff to produce a Project Brief.

The major points emerging from that consultation were:

- Strong, although not universal, support for view that heritage items do meet the general asset definition in the IPSASB literature;
- General support with reservations for the definition of heritage assets proposed by the UK ASB;
- Majority support recognizing and measuring heritage assets on the statement of financial position based on general asset recognition criteria (the full recognition and measurement approach);
- Large minority support for not recognizing heritage assets in the statement of financial position, either expensing new acquisitions, or accounting for transactions involving heritage assets through a separate statement, and not recognizing extant heritage assets (non-recognition approaches);
- No strong support for requirements that heritage assets shall be carried only on a valuation model and that adoption of the cost model should be precluded;
- Views that depreciation of heritage assets and impairment testing will often be inappropriate or unnecessary but limited support for providing complete exemptions from charging for depreciation and testing for impairment;
- Almost equal support for developing requirements for heritage assets through a separate Standard and for developing requirements through amendment to IPSAS 17; and
- Identification of a number of issues not considered in the Consultation Paper such as:
  - Control of heritage assets;
  - Dual or multi-purpose heritage assets;
  - Intangible characteristics of heritage assets; and
  - Transitional provisions.

Fuller detail was provided in the agenda materials for the Norwalk meeting in November 2006. These materials are available from Staff on request.

The UK ASB has proceeded with its own proposals. In December 2006 the UK ASB published Financial Reporting Exposure Draft (FRED) 40, "Accounting for Heritage Assets", which proposes a new and separate Standard dealing with heritage assets. Under the proposals heritage assets would be scoped out of the current UK standards dealing with property, plant and equipment and impairment. FRED 40 retains much of the approach of the Discussion paper, which was incorporated into the February 2006 IPSASB Consultation Paper. However, there are a few interesting and significant changes.

As previously noted the UK ASB has modified the original scope limitation restricting the proposals in the Discussion Paper to entities for which the promotion of knowledge and culture is a central objective. The revised proposal is that the FRED applies to entities for which the promotion of knowledge and culture is a principal objective. The other noteworthy change from the Discussion Paper is that the FRED defines "collections" and proposes that collections should be reported at valuation where it is practicable to obtain valuations. This differs from the approach in the Discussion Paper in which the recognition policy for all heritage assets would be determined by whether a valuation might be practicable on an ongoing basis for a majority, by value, of heritage assets. Under the proposals in FRED 40 it is therefore possible that an entity would recognize certain collections, but not most of its heritage assets.

The consultation period for FRED 40 ends on 20 April 2007. FRED 40 can be downloaded from the UK ASB website ([www.frc.org.uk/asb/](http://www.frc.org.uk/asb/)). Staff can provide copies on request.

**Action Requested:** Note the background and current position on heritage assets outlined in this memorandum and attached history sheet on Heritage Assets

## **KEY ISSUES: DUE PROCESS**

At the time of the approval of the 2006 Consultation Paper the IPSASB gave a pledge that it would not adopt new requirements for heritage assets or amend the existing requirements in IPSAS 17 without a further due process. The key decision is whether further proposals should be developed through a further Consultation Paper or through an Exposure Draft of a proposed IPSAS or amendments to IPSAS 17.

In the view of Staff the initial Consultation Paper has been a valuable vehicle for re-launching the IPSASB's deliberations on this topic. In particular it has given considerable assurance that the main issues have been identified and important information on the current approaches of many leading public sector standard-setters. A further Consultation Paper would allow the IPSASB to take into account views expressed on the first Consultation Paper and to frame possible approaches in the context of existing definitions in the IPSASB literature. It would also allow the IPSASB to address additional issues raised by respondents to the first Consultation Paper including:

- Control of heritage assets, identified by the New Zealand Financial Reporting Council;

- Assets in dual or multiple use, identified by the South African Accounting Standards Board;
- The extent to which heritage items incorporate the characteristics of intangible assets, highlighted by a number of Australian respondents and any implications for measurement of such an intangible asset; and
- Greater detail on valuation approaches, identified by a number of respondents.

With strong promotion a Consultation Paper can attract submissions from those who did not respond to the Consultation Paper issued in February 2006, thereby potentially providing a better geographical balance and a greater representation of preparers.

The disadvantages of developing a new Consultation Paper should be acknowledged. A new Consultation Paper may not elicit significantly different views or totally fresh insights on the key issue of recognition and measurement: There is also an issue of consultation fatigue, in that respondents to the February 2006 publication may not be keen to devote resources to further submissions on a Consultation Paper only 18-24 months after responding to the earlier paper. This can, however, be addressed by effective promotion.

Staff is strongly of the view that the first stage of the IPSASB's own project should be the development of a further Consultation Paper that adopts a global perspective on heritage assets rather than the UK focus of the February 2006 Consultation Paper. A draft of the Project Brief is attached.

**Action Required:** Review the attached draft Project Brief, **identify** any further issues that need to be included and other amendments and **approve** the project brief thereby initiating this project.

## **LINKS WITH INTERNATIONAL VALUATION STANDARDS COMMITTEE PUBLICATIONS**

At the Norwalk meeting staff was asked to ascertain the position on activities of the International Valuation Standards Committee (IVSC) which might have an impact on this project. Staff met with the current Vice-Chair of the IVSC in January 2007. IVSC is currently developing two publications of potential relevance to this project and more widely to IPSAS 17:

- Proposed International Valuation Guidance Note on “The Valuation of Historic Property”
- Proposed International Valuation Application Note on “Valuation of Public Sector Assets for Financial Reporting”

Drafts of both documents, which make extensive references to relevant IPSASs, were approved in principle at the IVSC's final meeting of 2007, subject to minor editorial changes.

Members may also wish to note that the IVSC has recently developed proposals to restructure the IVSC. These proposals can be accessed on the IVSC website at [www.ivsc.com](http://www.ivsc.com).

**Action Required:** Note the activities of the International Valuation Standards Committee that are relevant to heritage assets.

Appendix A

*Heritage Assets*

*History Sheet*

IPSASB/ MEETING	PSC	ACTION
NOVEMBER 2001		<ul style="list-style-type: none"> <li>• PSC approves IPSAS 17, “Property, Plant and Equipment”. IPSAS 17 does not require entities to recognize heritage assets, otherwise meeting the definition of, and recognition criteria for, property, plant and equipment. If an entity does recognize heritage assets, it must apply the disclosure requirements of IPSAS 17 and may, but is not required to apply the measurement requirements. IPSAS 17 does not define heritage assets but does provide, in commentary, some indicative characteristics.</li> <li>• PSC acknowledges that the provisions of IPSAS 17 on heritage assets are interim and that further work on heritage assets will be necessary.</li> </ul>
NOVEMBER 2004		<ul style="list-style-type: none"> <li>• Agenda papers include a project brief on accounting for heritage assets jointly prepared by Technical Director and UK Technical Advisor. PSC decides not to proceed with project at time due to resource considerations. UK Technical Advisor agrees to develop Discussion Paper out of session.</li> </ul>
MARCH 2005		<ul style="list-style-type: none"> <li>• Following an approach by Chairman of UK Accounting Standards Board (UK ASB) the IPSASB agrees to work with the UK ASB to jointly develop a Discussion Paper on heritage assets. An IPSASB Subcommittee is formed to provide input to UK ASB, comprising Australia, France, New Zealand, South Africa and United Kingdom.</li> </ul>
JULY 2005		<ul style="list-style-type: none"> <li>• IPSASB receives an Issues Paper prepared by UK ASB Secretariat and summary of comments on this Paper by Subcommittee. IPSASB agrees to receive a copy of the UK Discussion Paper at November meeting.</li> </ul>
NOVEMBER 2005		<ul style="list-style-type: none"> <li>• IPSASB receives a draft of a Consultation Paper incorporating at its core the recently published UK Discussion Paper, “Heritage Assets: Can Accounting do Better?” The Consultation Paper includes as a “wrap-around” an Introduction produced by the IPSASB Subcommittee. Some reservations are expressed by IPSASB members. These include a view that the focus of the UK Discussion Paper is too narrowly focused on museum and art collections. The IPSASB approves publication of the document, subject to further modifications to the Introduction and Preface. Publication is anticipated in the first quarter of 2006.</li> </ul>

<b>FEBRUARY 2006</b>	<ul style="list-style-type: none"><li>• Consultation Paper, “Accounting for Heritage Assets Under the Accrual Basis of Accounting” is published with a consultation period expiring on 30 June 2006. The Consultation Paper includes 11 specific matters for comment on which the IPSASB particularly wishes to receive the views of constituents.</li></ul>
<b>NOVEMBER 2006</b>	<ul style="list-style-type: none"><li>• IPSASB receives an analysis of submissions to the Consultation Paper. 37 submissions were received and a further submission was tabled at the meeting of the IPSASB in Norwalk. Submissions indicate considerable support for UK ASB’s proposals on definition of heritage assets and the need for additional disclosures. Responses indicate that, on recognition and measurement, there are two significant and contrasting views; one view favors no deviation from the existing recognition and measurement requirements in IPSAS 17, “Property, Plant and Equipment”, whilst the other favors non-recognition of items meeting the definition of heritage assets.</li><li>• Staff directed to produce a Position Paper and Project Brief.</li></ul>
<b>MARCH 2006</b>	<ul style="list-style-type: none"><li>• Agenda papers for Accra meeting include memorandum/position paper and project brief.</li></ul>

**INTERNATIONAL FEDERATION OF ACCOUNTANTS  
INTERNATIONAL PUBLIC SECTOR ACCOUNTING STANDARDS BOARD  
DRAFT PROJECT BRIEF**

**Heritage Assets**

**BACKGROUND**

The Public Sector Committee (PSC) issued IPSAS 17, “Property, Plant and Equipment” in December 2001. IPSAS 17 does not require entities to recognize heritage assets, otherwise meeting the definition of, and recognition criteria for, property, plant and equipment. If an entity does recognize heritage assets, it must apply the disclosure requirements of IPSAS 17 and is permitted, but is not required to, apply the measurement requirements in IPSAS 17. IPSAS 17 does not define heritage assets but does provide, in commentary, some indicative characteristics. (see paragraphs 8-11 of IPSAS 17 (revised 2006)).

At the time that IPSAS 17 was approved, the PSC acknowledged that the provisions of IPSAS 17 on heritage assets were interim and that further work on this topic would be necessary. A project brief on heritage assets was included in the agenda papers for the meeting in New Delhi in November 2004. However, due to Staff resource constraints it was decided not to initiate a full project at that time, although it was agreed that the UK Technical Advisor (subsequently an IPSASB Staff Member) would develop a Discussion Paper out of session, which might be brought to the PSC at a later date. Shortly afterwards the IPSASB (as the PSC had become) received a proposal from the United Kingdom Accounting Standards Board (UK ASB) for joint working on heritage assets. This offer was accepted. The co-operation resulted in the publication of a Consultation Paper, “Accounting for Heritage Assets under the Accrual Basis of Accounting”, which was approved, subject to final amendment, in December 2005 and published in February 2006. The Consultation Paper included at its core a Discussion Paper developed by the UK ASB. There were 38 submissions to the Consultation Paper. The IPSASB received an analysis of these submissions at the Norwalk meeting in November 2006. At that meeting Members indicated that they wished to continue with this project and directed Staff to produce a project brief.

**PROJECT OBJECTIVE**

The ultimate objective of the project is to produce requirements and guidance for accounting for heritage assets either through a separate Standard or amendment to IPSAS 17. The objective of this stage of the project is to build on the responses received to the initial Consultation Paper and put forward options, and obtain further feedback from constituents, on accounting for heritage assets, prior to the development of either a separate ED of an IPSAS dealing with heritage assets or an ED of amendments to IPSAS 17, Property, Plant and Equipment.

## **PROJECT SCOPE**

The project scope includes approaches to the recognition, measurement, presentation and disclosure of all heritage assets. The project will not address accounting for other items of property, plant and equipment, for example infrastructure assets.

## **IPSASB DUE PROCESS**

It is proposed that the project will follow the standard IPSASB ‘due process’. All documents will be exposed for a consultation period of four months, following which there will be a Staff analysis of submissions. The analysis will be an agenda item at a meeting of the IPSASB. Unless anonymity is requested submissions will be made publicly available on the IFAC website.

The first stage of this project will be the development and issuance of a consultation paper. Following analysis of the submissions to this consultation paper a decision will be made on whether to develop requirements through a separate IPSAS or by amendment to IPSAS 17. Regardless of the route proposals will be exposed for a further period of four months.

## **RELATIONSHIP WITH OTHER IPSASB AND IASB PROJECTS AND PROJECTS OF OTHER BODIES**

The recently initiated collaborative project on the Public Sector Conceptual Framework will be relevant to a number of aspects of this project, in particular the components of the Conceptual Framework Project dealing with: qualitative characteristics, definition and recognition of elements, measurement and presentation and disclosure. The analysis of “benefits that justify costs” in the context of the qualitative characteristics of decision-useful financial reporting information will be particularly relevant to this project (see also below “Assessment of Cost-Benefit” in the Key Issues section. It will be necessary to monitor developments and ensure that any proposals do not conflict, or risk conflicting, with views and proposals in the Conceptual Framework project. There may be very limited overlap with the proposed project on “intangible assets” arising from comments made on the first Consultation Paper. Although IAS 38, “Intangible Assets” does not address the issue of whether intangible assets are contained in heritage or historic assets, IAS 38 does acknowledge that “some intangible assets may be contained in or on a physical substance”.

The International Valuation Standards Committee’s (IVSC) work program includes projects on “Valuation for Public Sector Reporting” and “Valuation of Historic Property”. Publications on both these topics are expected in the first half of 2007. It will be necessary to monitor these projects and evaluate the impact on IPSASB approaches.

## **MATTERS TO BE DEALT WITH IN THE PROJECT**

### *Definition*

The initial Consultation Paper included the definition of heritage assets proposed by the UK ASB. Subject to widespread reservations about any definition which depends upon the objectives of the reporting entity there was a strong level of support for many of the



components of the definition proposed. The project will explore whether the definition should include requirements that heritage items need to be held for “public benefit” purposes, the issue of designation through official registers and other legislative mechanisms and whether religious buildings are within the definition. The project will also address the intangible characteristics of heritage assets, and change of use of heritage assets. These were all issues identified in submissions to the first Consultation Paper.

A large number of heritage items are held in trust by the entities displaying them or have stipulations attached to them: the exact arrangements can vary in precision and clarity. In such circumstances it is questionable whether they are controlled by the reporting entity and therefore whether they meet asset definition criteria. This issue, which arose from comments on the initial Consultation Paper, will be explored.

#### *Recognition and Measurement*

This is the most significant issue in the project and also the most contentious. The UK ASB Discussion Paper proposed that heritage assets should be recognized, if it is practicable to obtain reliable valuations for a majority, by value, of all heritage assets on a continuing basis. The majority of respondents to the Consultation Paper did not support this proposal (subsequently modified by the UK ASB as discussed in the accompanying memo and position paper). However, those opposing the proposal fell mainly into two distinct camps.

The first group view heritage assets as a class of property, plant and equipment. This group considers that recognition and measurement criteria for heritage assets should be the same as for other items of property, plant and equipment within the scope of IPSAS 17. The second group considers that acquisitions of heritage items should be expensed or otherwise accounted for outside the statement of financial position and that there should be no recognition of existing heritage items in the statement of financial position. Although fewer submissions supported this approach than the approach advocated by the first group it seems likely that this view was underrepresented at consultation. In particular no responses were received from Canada and the USA. In both countries standard-setters do not require recognition of some or all heritage items. In addition only 4 responses were from preparers. On both practicality and cost-benefit grounds it seems that preparers are more likely to support non-recognition approaches than respondents in other categories.

One of the key purposes of developing a Consultation Paper in the first stage is to ascertain the level of support globally for a single treatment for the recognition and measurement of heritage assets. The strategic objective of the International Accounting Standards Board (IASB) has been to eliminate options wherever possible, and this has been reflected in the IPSASB’s own Improvements Project. Some may view the permitting of options in a new or amended IPSAS as at variance with IPSASB’s strategic objectives and therefore a retrograde step. The issue of options for recognition is a fundamental issue that will have a pervasive influence on this project going forward. It is essential to obtain as many views as possible on this issue before progressing to ED stage.

*Assessment of Cost-Benefit*

One of the principal reasons put forward by those who do not support the recognition and measurement of heritage assets is that the costs of initial recognition exceed the benefit that users derive from the information. This view typically stresses the difficulties in obtaining valuations of huge museum collections comprising thousands or even millions of items, for example excavated archaeological fragments. Even where it is conceded that it is technically feasible to obtain valuations some suggest that the benefit of any information for users is outweighed by the cost of those valuations. It is also suggested that cost information becomes outdated quite quickly and that initial usefulness will decline quite rapidly: this view links cost-benefit arguments with skepticism about the value of measurement on the cost model.

Some are distrustful of any reliance on cost-benefit arguments. They believe that believing that any cost-benefit analysis is a matter of subjective judgment and that cost-benefit considerations can be manipulated to avoid the presentation of financial information which shows an entity in a poor light. This view sometimes also links recognition and measurement to stewardship and suggests that cost-benefit arguments can be used to disguise poor stewardship.

The cost-benefit issue has been identified by the Monitoring Group of National Standard-Setters' report on the first Discussion Paper in the IASB/FASB Conceptual Framework Project as one which needs further consideration in a public sector and not-for-profit context. Whilst it is not an issue that is exclusive to heritage assets the issue is highlighted very starkly in a heritage context.

*Assets in Dual or Multiple Use*

Some jurisdictions have requirements for assets with heritage characteristics that are used to deliver non-heritage related operational services. Essentially these provisions require or permit entities to measure such assets in the same way as they would non-heritage assets used to provide the same or similar operational services. They would therefore allow entities carrying property, plant and equipment on the valuation model to adopt depreciated replacement cost or reproduction cost for assets where a reliable value might not otherwise be available. The project will consider whether it is appropriate to provide additional requirements for heritage assets in dual or multiple use, particularly for jurisdictions and entities where operational property, plant and equipment is carried on a valuation model.

A related issue is whether a components approach should be used where an asset has heritage features, but is principally used for operational service purposes, for example where the façade of a historic building has been preserved but the core of the building is a modern office block. The project will address the benefits and disbenefits of componentization.

*Measurement Bases*

The UK ASB Discussion Paper proposed that heritage assets should be carried on a valuation model and that the cost model should not be permitted. Whilst this proposal received a significant level of support the majority of respondents favored retention of both cost and valuation models for heritage items.

The project will seek confirmation of the staff view that both cost and valuation models are appropriate for heritage assets and will consider practical steps to facilitate the use of the valuation model consider practical steps to facilitate the use of the valuation model for heritage assets. These include some of the suggestions put forward by respondents to the initial Consultation Paper such as the use of revaluation triggers and the relaxation of revaluation requirements for heritage assets, principally the IPSAS 17 requirement that where one item of property, plant and equipment is revalued, the entire class to which the asset belongs shall be revalued.

*Guidance on Valuation*

A number of respondents indicated that they would welcome further guidance on the valuation of heritage assets. This aspect of the project will assess the approaches of the IVSC and guidance in place in jurisdictions which require the recognition and measurement of heritage assets.

*Depreciation and Impairment*

The response to the initial Consultation Paper suggested that many respondents considered that depreciation charges and impairment testing of heritage assets would often not be necessary for heritage assets. However, there was limited support for providing a full exemption from depreciation and impairment testing requirements for all heritage assets. The project will seek to clarify circumstances under which depreciation charges and impairment testing is required.

*Disclosures*

The provision of additional stewardship disclosures for heritage assets, beyond those required by IPSAS 17, was strongly supported at consultation. The project will propose additional disclosures that will apply to heritage assets, regardless of recognition and measurement.

*Transitional Provisions*

A number of respondents raised the need for transitional provisions. The project will present options and seek views on the adequacy or over-generosity of transitional provisions.

**LINKS TO OTHER IPSASB PROJECTS**

There is a link to the project on the conceptual framework and the proposed project on intangible assets.

**TIMING AND KEY MILESTONES**

The proposed timing and key milestones are as follows:

<i>Date</i>	<i>Milestone</i>
March 2007	Approval of Project Brief
July 2007	First Draft of Consultation Paper
November 2007	Approval of Consultation Paper
December 2007	Publication of Consultation Paper
April 2007	Expiry of Consultation Period on Consultation Paper
May 2007	Submissions posted to Leadership Intranet and to Internet Staff Analysis of Submissions on Consultation Paper
July 2007	IPSASB Review of Submissions and Submissions Analysis
November 2007	First Draft of ED of separate IPSAS or ED of amendments to IPSAS 17
March 2008	Approval of ED
April 2008	Publication of ED
August 2008	Expiry of Consultation Period on ED
September 2008	Submissions posted to Leadership Intranet and to Internet Staff Analysis of Submissions on ED
November 2008	IPSASB Review of Submissions and Submissions Analysis First Draft of Separate IPSAS or Amendments to IPSAS 17
March 2009	Approval of Separate IPSAS or Amendments to IPSAS 17
April 2009	Publication of Separate IPSAS or Amendments to IPSAS 17