

**Meeting:** International Public Sector Accounting  
Standards Board

**Meeting Location:** Toronto, Canada

**Meeting Date:** September 20–23, 2016

## Agenda Item 6

For:

☐ Approval

☒ Discussion

☒ Information

### Heritage

<b>Project summary</b>	Develop a consultation paper (CP) on financial reporting for heritage	
	<b>Topic</b>	<b>Agenda Item</b>
<b>Project management</b>	1. Instructions—June 2016 meeting and before	6.1.1
	2. Decisions—June 2016 meeting and before	6.1.2
	3. Project roadmap	6.1.3
<b>Decisions required at this meeting</b>	4. Chapter 1—Approve	6.2.1
	5. Chapter 2—Approve Preliminary view 1—Approve	6.2.2
	6. Chapter 3—Approve Preliminary view 2—Approve	6.2.3
	7. Chapter 4—Provide instruction Preliminary views 4.1 to 4.4—Discuss	6.2.4
	8. Chapter 5—Provide instruction Preliminary view 5—Discuss	6.2.5
	9. Chapter 6— Provide instruction Preliminary views 6.1 to 6.4—Discuss	6.2.6
<b>Supporting items</b>	CP, Chapter 1, <i>Introduction</i>	6.3.1
	CP, Chapter 2, <i>Descriptions, Definitions of Heritage</i>	6.3.2
	CP, Chapter 3, <i>Heritage Items as Assets</i>	6.3.3
	CP, Chapter 4, <i>Recognition, Measurement of Heritage Assets</i>	6.3.4
	CP, Chapter 5, <i>Heritage Items, Related Obligations</i>	6.3.5
	CP, Chapter 6, <i>Presentation of Information on Heritage Assets</i>	6.3.6

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**IPSASB Instructions—June 2016 meeting and earlier**

<b>Meeting</b>	<b>Instructions</b>	<b>Actions</b>
June 2016	<p>1. Ensure that chapters consider GPFR users' information needs.</p> <p>2. Revise the CP structure as follows:</p> <p>(a) Chapter 4: Revise name of chapter to "Recognition and Measurement of Heritage Assets"; move "Different Approaches to Recognition" to second heading before "Measurement"; and, include section(s) on subsequent expenditure and depreciation/renewals.</p> <p>(b) Chapter 5: Revise name of chapter to "Heritage items and Related Obligations"; and include a new subsection named "Recognition and Measurement of Obligations" after subsection 5.3.</p> <p>(c) Chapter 6: Move subsection 6.2.2 to chapter 7.</p> <p>3. Revise Chapter 1 as follows:</p> <p>(a) Shorten the content;</p> <p>(b) Highlight quotes from Conceptual Framework, applying approach used in recent CPs; and</p> <p>(c) Introduce concept of GPFR users' information needs when reporting on heritage.</p> <p>(d) Include specific references where necessary and remove appendices with detail on National Standard Setters' heritage accounting.</p> <p>4. Revise Chapter 2 as follows:</p> <p>(a) Reduce detailed description of heritage categories, take broader approach, and remove explanations of how categories differ from the UNESCO categories;</p> <p>(b) Provide further discussion of how heritage could be distinguished objectively, including whether this should be considered at the national level;</p> <p>(c) Keep focus on heritage items and remove financial reporting references (e.g. Conceptual Framework coverage and references to investments);</p> <p>(d) Have chapter lead up to description of heritage item which could then be a preliminary view (PV)</p> <p>5. Restructure Chapter 3 to focus on the Conceptual Framework's three components of the definition of an asset, i.e. resource, control and past event.</p> <p>6. Develop draft Preliminary View (PV ) to reflect IPSASB's in-principle support for heritage items being assets.</p> <p>7. Revise Chapter 3 as follows:</p> <p>7. (a) Remove the example on page 8 (relates to a mountain that is controlled but not owned);</p>	<p>1. Done</p> <p>2. CP structure revised</p> <p>(a) Done</p> <p>(b) Done</p> <p>(c) See agenda item 6.2.6 for September meeting.</p> <p>3. Done</p> <p>(a) Done</p> <p>(b) Done</p> <p>(c) Done</p> <p>(d) Done</p> <p>4. Chapter 2 revised.</p> <p>(a) Done</p> <p>(b) Done</p> <p>(c) Done</p> <p>(d) Done</p> <p>5. Done</p> <p>6. Done</p> <p>7. Done</p> <p>7 (a) Done</p>

Meeting	Instructions	Actions
	<p>(b) Broaden discussion to cover access rights generally, not limiting discussion to physical access to heritage items;</p> <p>(c) Discuss control from perspective of stewardship rather than ownership, analyse rights and link them to custodianship/stewardship; and</p> <p>(d) Discuss principal-agent arrangements, (entity responsible for heritage on behalf of another entity that owns the heritage item) and relevance of service performance reporting in this context (i.e. reporting on heritage stewardship).</p> <p>8. Revise Chapter 4 as follows:</p> <p>(a) Amend paragraph 8 to focus on what is necessary for measurement;</p> <p>(b) Include more discussion of the qualitative characteristics and constraints applied to the measurement of heritage assets;</p> <p>(c) Remove tables 1 and 2 and replace with discussion of relevance of different measurement bases to the measurement objective applied to heritage assets, while also discussing the qualitative characteristics generally;</p> <p>(d) Discuss implication of heritage assets being used as either operational or non-operational assets and include different fact patterns to discuss different measurement perspectives, including reasons why an entity holds a heritage item, type of accountability that applies and potential impact on accounting options;</p> <p>(e) Discuss information needs and whether monetary values provide useful information and is in the public interest, given constraints applicable to monetary information for heritage assets;</p> <p>(f) Note that application of the Conceptual Framework's measurement guidance depends on the reporting entity and its objectives, so that measurement is contextual and not an absolute;</p> <p>(g) Acknowledge the difficulties of measuring heritage assets, but adopt a view that measurement is possible if the information can achieve the qualitative characteristics, meets the needs of users, while taking into account the constraints; and</p> <p>(h) The usefulness of information relates to what an entity is accountable for, including whether it is a cost centre or operates on another basis.</p>	<p>7. (b) Done</p> <p>(c) Done</p> <p>(d) Done</p> <p>8. Done. Extensive revisions to Chapter 4 have addressed change while also introducing new structure.</p> <p>(a) Done</p> <p>(b) Sufficient?</p> <p>(c) Done</p> <p>(d) For IPSASB consideration of revised Chapter 4 on whether further coverage is needed to fully address this instruction. (Same point may apply to (f) and (h))</p> <p>(e) Sufficient?</p> <p>(f) Still needed, given other revisions to chapter?</p> <p>(g) Done</p> <p>(h) Still needed, given other revisions to chapter?</p>
March 2016	<p>1. Rename "Heritage Assets" project as the "Heritage" project.</p> <p>2. With respect to the CP's structure:</p>	<p>1. Project name changed on website and in agenda papers.</p> <p>2. Draft structure for CP revised as per</p>

Meeting	Instructions	Actions
	<p>(a) Include chapter on obligations after those on heritage assets;</p> <p>(b) Rename subsection named “Heritage Assets Project”;</p> <p>(c) Discuss category issues within each chapter; and</p> <p>(d) Cover asset recognition and measurement in one chapter.</p> <p>3. Use terminology that is accessible to non-accountants in the CP, e.g. use “resource” to provide a bridge to “asset”.</p> <p>4. Include different views in the CP with respect to heritage:</p> <p>(a) Identification (e.g. principles versus list);</p> <p>(b) Classification as resources for financial reporting purposes and the meaning of “resource” in this context;</p> <p>(c) Measurement, including whether monetary values would achieve qualitative characteristics and constraints; and</p> <p>(d) Information needed for accountability and decision-making, including location of information on land and other heritage items (e.g. option of supplementary disclosures, other GPFR.</p> <p>5. For intangible heritage, CP should identify two subcategories (knowledge-in-action and intellectual property) and discuss:</p> <p>(a) Whether knowledge-in-action can be assets for financial reporting purposes, since cannot be controlled by entity;</p> <p>(c) Whether intellectual property heritage items are heritage items, since have limited useful life (e.g. copyright); and</p> <p>6. Have CP’s discussion of heritage-related obligations apply the Conceptual Framework, not IPSAS 19.</p> <p>7. Revise draft Chapter 1 as follows:</p> <p>(a) Start with problem heritage presents for reporting;</p> <p>(b) Move Section 5 on heritage-related information needs into a separate chapter; and</p> <p>(c) Remove references to project outcomes.</p> <p>8. The heritage-related information chapter should:</p> <p>(a) Cover entities with different types of heritage responsibilities;</p> <p>(b) Discuss forward-looking information on funding availability linked to planning/budgeting rather than fiscal sustainability;</p>	<p>directions received and resubmitted to June IPSASB meeting.</p> <p>3. Done</p> <p>4. Draft chapters 2 to 4 developed as per directions and specifically:</p> <p>(a) Done;</p> <p>(b) Done; and</p> <p>(c) Done.</p> <p>(d) Done (Actions on chapters on (a) obligations and liabilities, and (b) heritage responsibilities and information for September meeting.)</p> <p>5. Draft Chapters 2, 3 and 4 reflect directions on intangible heritage.</p> <p>6. Done</p> <p>7. Draft Chapter 1 revised as directed and resubmitted to June IPSASB meeting.</p> <p>8. Done (See issue re. Chapter 6 in IPSASB’s September meeting papers.)</p>

Meeting	Instructions	Actions
	<p>(c) Drive the discussion of where information on heritage items should be reported using special characteristics of heritage; and</p> <p>(d) Address other types of information that GPFR users would need about heritage items, if they are not recognized as assets.</p>	
December 2015	<p>1. Apply Conceptual Framework asset definition to heritage items in the four UNESCO convention categories and discuss possible criteria applicable to asset existence.</p> <p>2. Develop the draft description of public sector activities related to heritage and possible information needs, focusing on information reported in the financial statements and link discussion to the Conceptual Framework.</p> <p>3. Apply the Conceptual Framework to obligations raised by heritage items. Specifically, discuss:</p> <p>(a) Different responsibilities and situations that could result in a present obligation for an entity, including whether there is a liability or just a generic, undefined commitment to preserve heritage in different situations.</p> <p>(b) Whether there is any difference between obligations related to heritage items (e.g. maintenance) and similar obligations related to non-heritage items.</p> <p>(c) Whether the special nature of a heritage item necessarily results in obligations of a special nature.</p>	<p>1. Done in March 2016 agenda paper.</p> <p>2. Done. (A revised description included in draft Chapter 1 for March 2016 meeting.)</p> <p>3. Done. (See March agenda paper for analysis of obligations to preserve heritage items, while draft Chapter 1 discussed other information that could be reported with respect to heritage preservation responsibilities.)</p>
September 2015	<p>1. Amend the proposed description of heritage items (in agenda item 13.1).</p> <p>2. Apply the working description of heritage items, as amended, in subsequent agenda papers.</p> <p>3. Begin by taking a wide, inclusive approach to types of heritage items.</p> <p>4. Apply the Conceptual Framework's asset definition to selection of heritage items.</p> <p>5. Consider whether heritage items could either (a) meet the definition of a liability, or (b) involve a related liability to preserve the item.</p> <p>6. Discuss arguments for and against reporting information on heritage items in a general purpose financial report (GPFR) or in another type of report.</p>	<p>1 and 2. Done.</p> <p>3. Done. Wide, inclusive approach taken.</p> <p>4. Done. See December 2015 paper.</p> <p>5. Done. See December 2015 and March 2016 papers.</p> <p>6. Done. See December 2015 papers and draft Chapter 1 for March 2016 meeting.</p>
June 2015	<p>1. Initiate a project on accounting for heritage, as per the approved project brief.</p> <p>2. Establish a Task Force that includes an expert in heritage valuation.</p>	<p>1. Done. Project initiated.</p> <p>2. Done. Task Force active from April 2016. Includes heritage valuation expert recommended by IVSC.</p>

**IPSASB Decisions—June 2016 meeting and earlier**

<b>Meeting</b>	<b>Decisions</b>
June 2016	<ol style="list-style-type: none"> <li>1. The CP should be named “Financial Reporting for Heritage in the Public Sector”.</li> <li>2. The description of “heritage items” should include “archaeological” and convey that heritage items are “held indefinitely” and “preserved”, rather than “preserved indefinitely”.</li> <li>3. The CP should discuss intangible cultural heritage.</li> </ol>
March 2016	<ol style="list-style-type: none"> <li>1. Rename the “Heritage Assets” project as the “Heritage” project.</li> <li>2. Have a separate chapter in the CP on heritage responsibilities and information needs.</li> </ol>
December 2015	<ol style="list-style-type: none"> <li>1. Support for a draft description of heritage related activities as useful background for reporting on heritage.</li> <li>2. The description of activities should include conservation, which is wider than preservation and includes activities such as restoration, reconstruction, rehabilitation and adaptation in addition to preservation.</li> <li>3. The working description of “heritage items” should remain focused on “preservation”, without reference to conservation.</li> <li>4. Heritage status reports are outside of this project’s scope.</li> <li>5. The CP should focus on reporting information about heritage items that are controlled and have the potential to be assets.</li> </ol>
September 2015	<ol style="list-style-type: none"> <li>1. Support for: <ol style="list-style-type: none"> <li>(a) Working description of heritage items, as per description used in subsequent agenda paper and draft CP.</li> <li>(b) Broad approach, with consideration of four categories of heritage items: cultural property heritage, underwater cultural heritage, natural heritage and intangible heritage, based on the UNESCO definitions of different heritage categories.</li> </ol> </li> </ol>
June 2015	Approved the “Heritage Assets” project brief.

**HERITAGE PROJECT ROADMAP**

<b>Meeting</b>	<b>Objective: IPSASB to consider:</b>
September 2015	<ol style="list-style-type: none"> <li>1. Description of heritage items</li> <li>2. Categories of heritage, approach to project's scope</li> <li>3. Heritage assets</li> </ol>
December 2015	<ol style="list-style-type: none"> <li>1. Heritage asset definition applied to categories of heritage</li> <li>2. Heritage activities, responsibilities and information needs</li> <li>3. Obligations and heritage items</li> </ol>
March 2016	<ol style="list-style-type: none"> <li>1. Draft Chapter 1: Introduction, including information needs</li> <li>2. Heritage assets</li> <li>3. Recognition of heritage assets</li> </ol>
June 2016	<ol style="list-style-type: none"> <li>1. Draft chapters 1 to 4</li> <li>2. Heritage items and categories of heritage</li> <li>3. Heritage resources as assets</li> <li>4. Recognition and measurement of heritage assets</li> </ol>
September 2016	<ol style="list-style-type: none"> <li>1. Review all chapters: Draft chapters 1 to 7</li> <li>2. Heritage assets—preliminary view (chapter 3)</li> <li>3. Heritage asset recognition and measurement (chapter 4)</li> <li>4. Obligations and liabilities related to heritage (chapter 5)</li> <li>5. Presentation of information on heritage (chapters 6 &amp; 7)</li> </ol>
December 2016	<ol style="list-style-type: none"> <li>1. Review draft CP</li> <li>2. Discuss PVs and specific matters for comment (SMCs)</li> <li>3. Approval of CP</li> </ol>
March 2017	Consultation Period
June 2017	
September 2017	<ol style="list-style-type: none"> <li>1. Review of Responses</li> <li>2. Initial discussion on issues raised</li> </ol>
December 2017	<ol style="list-style-type: none"> <li>1. Further discussion on issues raised by responses</li> </ol>
March 2018	<ol style="list-style-type: none"> <li>1. Review draft ED</li> <li>2. Discuss</li> </ol>
June 2018	Approve and issue ED
Sept 2018	Consultation Period
Dec 2018	
March 2019	Review of Responses
June 2019	Issue pronouncement (and/or revisions to existing IPSASs)



## Agenda Item 6.2.1

### **Draft Chapter 1, Introduction to Financial Reporting for Heritage in the Public Sector**

#### **Question**

1. Does the IPSASB agree with revisions made to draft Chapter 1 (agenda item 6.3.1), which give effect to the instructions listed in agenda item 6.1.1?

#### **Detail**

1. A marked-up version of Chapter 1 has been provided to support the IPSASB's review for approval. The review is expected to be on an exceptions basis.
2. The main revisions since June are:
  - (a) A new subsection (1.3) on GPFR users' information needs;
  - (b) The chapter is shorter; and
  - (c) To highlight Conceptual Framework quotes, the approach used in CP, *Social Benefits*, has been applied.
3. The Heritage Task Force (the Task Force) reviewed an earlier version of Chapter 1, and staff made revisions to address Task Force comments. The main change made was:
  - (a) Introduction of a distinction between "heritage significance" and "value", where "heritage significance" conveys the heritage aspect of heritage items, while the word "value" is used strictly to mean "value from a financial reporting perspective", such as economic benefits or service potential.

#### **Decision required**

4. The IPSASB is asked to approve Chapter 1.

**Draft Chapter 2, Descriptions and Definitions of “Heritage”****Questions**

1. Does the IPSASB agree with revisions made to draft Chapter 2 (agenda item 6.3.2) since June, which give effect to the instructions in agenda item 6.1.1?
2. In particular, does the IPSASB agree with:
  - (a) The new structure, which leads up to the draft Preliminary View on “heritage items”;
  - (b) The draft Preliminary View on a definition of “heritage items”; and
  - (c) Movement of detailed discussion of categories out of Chapter 2 and into an appendix.

**Detail**

5. A marked-up version of Chapter 2 has been provided to support the IPSASB’s review for approval.
6. The Task Force on Heritage (the Task Force) reviewed an earlier version of draft Chapter 2 and revisions were made to address Task Force comments. The main change was movement of detailed discussion of heritage categories out of chapter 2. (It is proposed that the CP will include an appendix, if necessary, with detailed discussion of different heritage categories.) (The Task Force recommended that detailed discussion of heritage categories in any subsequent chapters of the CP should also be moved into the same appendix. This mainly affected Chapter 3.)

*Preliminary View on Definition of “Heritage Items”*

7. The IPSASB approved a working description for “heritage items” in September 2015. The working description was revised in June 2016, when the IPSASB instructed staff to develop a draft preliminary view on “heritage items”. Paragraph 35 of Chapter 2 includes the following:

**Preliminary View 1—Heritage Items**

The IPSASB’s preliminary view is that the following definition captures the special characteristics that define heritage items and distinguish them from other phenomenon for the purposes of financial reporting:

Heritage items are items that, because of their rarity, importance and/or significance, are expected to be held indefinitely for the benefit of present and future generations and preserved. They are held and preserved for many different reasons including, and not limited to, their archeological, architectural, agricultural, artistic, cultural, environmental, historical, natural, scientific or technological importance.

**Decisions required**

8. The IPSASB is asked to approve:
  - (a) The preliminary view on a definition for “heritage items”; and
  - (b) Chapter 2.

**Draft Chapter 3, Heritage Items as Assets****Questions**

1. Does the IPSASB agree with revisions made to draft Chapter 3 (agenda item 6.3.3) since June, which give effect to the instructions in agenda item 6.1.1?
2. In particular, does the IPSASB agree with:
  - (a) The revised structure for Chapter 3;
  - (b) Alternatives identified with respect to whether heritage items are assets for the purposes of financial reporting; and
  - (c) The preliminary view on heritage items being assets for the purposes of financial reporting?

**Detail**

3. A marked-up version of Chapter 3 has been provided to support the IPSASB's review for approval.
4. The Task Force on Heritage (the Task Force) reviewed an earlier version of draft Chapter 3 and revisions were made to address Task Force comments.

*Preliminary View on Definition of "Heritage Items"*

5. The IPSASB approved a working description for "heritage items" in September 2015. The working description was revised in June 2016, when the IPSASB instructed staff to develop a draft preliminary view on "heritage items". Paragraph 35 of Chapter 2 includes the following:

**Preliminary View 2—Heritage Items as Assets**

The IPSASB's preliminary view is that:

- (a) Heritage items may be assets for the purposes of financial reporting; and
- (b) Those heritage items that meet the Conceptual Framework's definition of an asset (i.e. they are resources, presently controlled by the entity, as a result of a past event) should be considered assets for the purposes of financial reporting.

**Decisions required**

6. The IPSASB is asked to approve:
  - (a) The preliminary view on heritage items being assets for the purposes of financial reporting; and
  - (b) Chapter 3.

**Draft Chapter 4, Recognition and Measurement of Heritage Assets****Questions**

1. Does the IPSASB agree with draft Chapter 4 (agenda item 6.3.4) and its:
  - (a) Approach of focusing on the cost–benefit constraint to discuss heritage asset recognition;
  - (b) Alternative approaches for heritage asset recognition; and
  - (c) Four preliminary views on measurement and recognition of heritage assets?
2. What are the IPSASB comments on Chapter 4 in terms of:
  - (a) *Coverage*: Is the coverage sufficient? Is there additional coverage that should be included or unnecessary coverage that should be removed?
  - (b) *Structure*: Is the order of topics covered appropriate?
  - (c) *Comments*: Any other comments on the chapters coverage?

**Detail**

3. The IPSASB reviewed a first draft of Chapter 4 in June, 2016, after discussing heritage asset recognition in March. Since then, Chapter 4 has had major revisions to address the issues raised in June, include its set of recognition options and inclusion of four preliminary views.
4. The Heritage Task Force discussed recognition and measurement of heritage assets in August, with an earlier draft Chapter 4 as input for that discussion. The discussion focused mainly on recognition options and a possible preliminary view. There was fairly good support for:
  - (a) Preliminary view (4.1) on scope to measure heritage assets; and
  - (b) The need to capture all heritage assets in GPFRs, in order to ensure their stewardship.
5. Task Force members at the teleconference generally did not support recognition Options 1 or 2, which provide scope to not recognize some heritage assets. There were different views on measurement, with concerns about the measurability of some heritage assets. Staff revised the preliminary views and Chapter 4 to address Task Force comments. (Preliminary views in Chapter 4 are shown below and on the following page.)

**Decisions required**

6. The IPSASB is asked to provide instructions on:
  - (a) Chapter 4's structure and coverage;
  - (b) Other coverage that should be included in draft Chapter 4; and
  - (c) Preliminary views 4.1–4.4.

**IPSASB Preliminary View—4.1, Ability to Measure Heritage Assets**

The IPSASB has reached a preliminary view that:

- (a) A relevant monetary value will usually be able to be attached to heritage assets;
- (b) Measurement bases are available to measure heritage assets so that their measurement provides information that would be useful to users of GPFRs; and
- (c) A cost–benefit assessment may indicate that heritage assets should either:
  - (i) Not be recognized in the statement of financial position; or

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- (ii) Be measured (and then recognized) through the use of a simpler approach to measurement than that envisaged in the Conceptual Framework, such as use of a 1–unit value (also termed a symbolic value).

### IPSASB's Preliminary View—4.2, Recognition of Heritage Assets

The IPSASB has reached a preliminary view that:

All heritage assets that meet the definition of an asset and are able to be measured, applying the measurement bases identified in Preliminary View 4.3 should be recognized as assets in an entity's statement of financial position<sup>1</sup>.

### IPSASB's Preliminary View—4.3, Measurement Bases for Heritage Assets

The IPSASB's preliminary view on measurement bases for heritage assets is that they:

- (a) Depend on the:
  - (i) Category of heritage asset (for example, tangible versus intangible); and/or
  - (ii) Purpose for which the entity holds the heritage asset, for example:
    - a. To provide either heritage or non–heritage (operational) services; and/or
    - b. Held for the long–term versus or held ready for sale or exchange.
- (b) Should include, in addition to the measurement bases identified in the Conceptual Framework as applicable to asset measurement; use of a “1–unit entry value”, where specific conditions are met, as follows:
  - (i) A cost–benefit assessment indicates that the costs of using another measurement basis exceed the benefits; and
  - (ii) The heritage assets' sole purpose is to provide heritage services.

### IPSASB Preliminary View—4.4, Subsequent Measurement for Heritage Assets

The IPSASB's preliminary view on subsequent measurement for heritage assets is that the appropriate subsequent measurement of heritage assets will depend on:

- (a) The heritage assets' initial measurement and category of asset (for example, tangible or intangible); and
- (b) An assessment of the costs and benefits of carrying out a particular subsequent measurement approach, given the nature of the event giving rise to a value change.

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<sup>1</sup> Staff notes that Preliminary View 4.2 should be considered in combination with Preliminary View 4.3. When the two preliminary views are considered together they broadly support Option 4 in Chapter 4's Table 1, whereby some heritage assets are measured using the “1–unit entry value” measurement basis as a placeholder and historical cost surrogate.

**Draft Chapter 5, Heritage Items and Related Obligations****Questions**

7. With respect to draft Chapter 5, *Heritage Items and Related Obligations*, (agenda item 6.3.5) does the IPSASB agree with its:
  - (a) Structure;
  - (b) Completeness and balance with respect to:
    - (i) Alternative accounting approaches for heritage-related obligations; and
    - (ii) Discussion of those alternatives; and
  - (c) Preliminary view on recognition of liabilities for heritage preservation.

**Detail**

8. The IPSASB had a first discussion of obligations related to heritage items at its March 2016 meeting. Draft chapter 5 builds on the issues paper coverage and IPSASB views from March.
9. The Task Force reviewed an earlier version of draft Chapter 5 and revisions were made to address Task Force comments. Task Force views were broadly supportive of the approach taken in the earlier draft Chapter 5, while recommending revisions to improve the chapter and the preliminary view. Task Force members raised the issue of information on deferred maintenance and an entity's stewardship obligations. Draft Chapter 5 was revised to provide "sign-posting" to the effect that this will be discussed in Chapter 6, while also linking between Options 1 and 2 to planning for future expenditures and deferred maintenance.

*Preliminary View on Recognition of Liabilities for Heritage Preservation*

10. The IPSASB has not previously considered a view on recognition of liabilities for heritage preservation, although the IPSASB discussion in March appeared to indicate initial support for what Chapter 5 describes as "Option 3". The draft preliminary view provided below supports Option 3 and aims to reflect the IPSASB's initial discussion from March. Task Force views have been supportive of this approach.

**Preliminary View 5—Recognition of Liabilities for Heritage Preservation**

The IPSASB's preliminary view on recognition of heritage preservation liabilities is as follows:

An entity will have a recognizable liability related to preservation of a heritage item where it has carried out heritage preservation activities and the resulting binding and unavoidable obligations to pay contractors, employees or others for the preservation services provided by them have not yet been discharged, so the entity has little or no realistic alternative to avoid an outflow of resources.

**Decisions required**

11. The IPSASB is asked to review and confirm draft Chapter 5's:
  - (a) Selection and ordering of topics;
  - (b) Discussion of alternative accounting approaches; and
  - (c) Preliminary view on recognition of liabilities for heritage preservation.

### Draft Chapter 6, Presentation of Information on Heritage

#### Questions

12. With respect to draft Chapter 6, *Presentation of Information on Heritage*, (agenda item 6.3.6), what are the IPSASB's views on:
  - (a) Structure and completeness with respect to presentation of information on heritage;
  - (b) Whether Chapter 6 should (i) focus exclusively on the financial statements or (ii) consider presentation in both the financial statements and other GPFRs, to address presentation for a "mixed recognition scenario" with respect to heritage assets;
  - (c) Whether section 6.5 should be (i) included in Chapter 6, or (ii) treated as a separate chapter (i.e. included as the previously planned Chapter 7), or (iii) deleted on the basis that it is outside of the project's scope; and
  - (d) Preliminary views (6.1–6.4, provided below) on presentation of information on heritage.

#### Detail

13. The IPSASB has not previously discussed presentation of heritage-related information in the financial statements. Draft Chapter 6 is at an early stage. It aims to support the IPSASB's discussion of presentation. As discussed below, the boundary between Chapter 6 and a possible Chapter 7 is not clear. Furthermore, the content of this chapter may change, depending on yet-to-be determined IPSASB views on:
  - (a) Heritage-related asset and liability recognition and measurement, (see draft Chapters 4 and 5); and
  - (b) Staff's proposal to use a "mixed recognition scenario" to discuss presentation of heritage-related information.

#### *Demarcation between Chapter 6 and Previously Planned Chapter 7*

##### Heritage Assets Focus—Cover Presentation outside of the Financial Statements

14. In June, as part of its review of the CP's draft structure, the IPSASB directed that Chapter 6's coverage should be restricted to presentation in the financial statements, while Chapter 7 should cover presentation outside of the financial statements. During development of Chapter 6, staff reached a view that Chapter 6 needs to consider presentation as it applies to heritage assets (recognized and/or unrecognized), which involves discussion of presentation in both:
  - (a) The financial statements; and
  - (b) Another GPFR.
15. This issue was raised with the Heritage Task Force, which supported staff's proposed approach to Chapter 6's coverage.

##### Draft Chapter 7—Outside of Scope? Include in Chapter 6 as Context?

16. In June 2016, when the IPSASB reviewed the CP's draft structure it approved a planned Chapter 7 to address presentation outside of the financial statements. The original concept for Chapter 7 was Section 5 of draft Chapter 1, which the IPSASB considered in March 2016 and directed staff to develop into a separate, standalone, chapter. The original Section 5 aimed to explain that some heritage-related information was outside of the project's scope—for example

## Agenda Item

### 6.2.6

service performance information—although important as context for the CP's discussion, since such information could also support GPFR users' information needs.

17. During August, the Task Force reviewed draft Chapter 7, and considered the demarcation issue (between Chapter 6 and 7) identified above. One comment received was that Chapter 7 was outside of the project's scope and should be deleted. On balance Task Force members supported retaining Chapter 7, but recommended treating its coverage as context for the discussion in Chapter 6 and include it at the beginning of Chapter 6. Staff subsequently decided to include the coverage at the end of Chapter 6, where it appears as section 6.5.

*For Discussion: Preliminary Views on Presentation of Information*

18. The following preliminary views have been included in draft Chapter 6 to support the IPSASB's discussion of issues raised by presentation.

**Preliminary View 6.1—Heritage Assets**

The IPSASB's preliminary view is that:

Sufficient information should be presented in an entity's GPFRs to allow users to understand the full extent of an entity's heritage asset holdings.

**Preliminary View 6.2—Condition of Heritage Assets and Deferred Maintenance**

The IPSASB's preliminary view is that:

Information on the condition of heritage assets held by an entity and any deferred maintenance should be presented in either a supplementary schedule with the financial statements or in another GPFR.

**Preliminary View 6.3—Information on Unrecognized Heritage Assets**

The IPSASB's preliminary view is that:

Sufficient information on an entity's unrecognized heritage assets should be presented to allow users to hold the entity accountable for its stewardship of those heritage assets and make decisions on resources needed to preserve them. That information should include annually updated information on physical units of heritage assets, presented in either a supplementary schedule with the financial statements or in another GPFR.

**Preliminary View 6.4—Recognized Heritage Assets**

The IPSASB's preliminary view is that:

The amount and type of information presented in the financial statements with respect to recognized heritage assets should be similar to that presented on other, non-heritage assets (for example, property, plant and equipment or intangible assets) that are recognized in the statement of financial position.

**Decisions required**

19. The IPSASB is asked to provide instruction on:
  - (a) Chapter 6's structure and coverage;
  - (b) Other coverage that should be included in draft Chapter 6; and
  - (c) Preliminary views 6.1–6.4.



## CONSULTATION PAPER: ACCOUNTING FOR FINANCIAL REPORTING FOR HERITAGE IN THE PUBLIC SECTOR

### DRAFT CHAPTER 1, INTRODUCTION TO FINANCIAL REPORTING FOR HERITAGE IN THE PUBLIC SECTOR

#### 1.1—Introduction

1. The preservation of heritage is an important responsibility for governments and other public sector entities, particularly where they hold heritage items. ~~Governments' aims often also extend beyond preservation, to include restoration and improvement of heritage items, as well as the enhancement of communities' access to, and enjoyment of, their heritage.~~
- 1.2. ~~Many public sector entities hold heritage items. Paragraph 15 of the The Preface to The Conceptual Framework for General Purpose Financial Reporting by Public Sector Entities (the Conceptual Framework) identifies-describes theis holding of heritage items as a distinguishing feature of the public sector, and explains that:~~

“15. Governments and other public sector entities may hold items that contribute to the historical and cultural character of a nation or region—for example, art treasures, historical buildings, and other artifacts. They may also be responsible for national parks and other areas of natural significance with native flora and fauna. Such items and areas are not generally held for sale, even if markets exist. Rather, governments and public sector entities have a responsibility to preserve and maintain them for current and future generations<sup>4</sup>.”

3. Governments' responsibilities may extend beyond preservation to include restoration of heritage items and enhancement of communities' access to and enjoyment of their heritage.
2. ~~This CP considers whether a heritage item held by an entity represents a resource under the control of the reporting entity. It also considers whether heritage-related responsibilities result in obligations that the entity should report. Where an entity holds heritage items, it is responsible for their preservation, which can be conceived as an obligation to incur preservation expenses once they become due and payable, or an open-ended obligation to preserve the heritage items indefinitely.~~
3. ~~Some public sector entities, for example museums or departments responsible for laws to preserve and enhance a nation's heritage, may have heritage-related service performance responsibilities and collect information on a portfolio of heritage that goes beyond those items that the entity holds. This CP also briefly discusses this type of situation, although it is not the main focus of this CP.~~

#### 1.2—Challenges of Financial Reporting for Heritage

4. Financial reporting for heritage has been a challenging topic for the IPSASB and for national public sector accounting standard setters for many years. Worldwide there are different views on the definition of heritage items; whether heritage items are assets or liabilities for financial reporting

<sup>4</sup>—Paragraph 15 of the *Preface to the Conceptual Framework*.

purposes; whether they should be recognized in the financial statements; and, if recognized, how they should be measured. Standard setters have also had different views on the presentation of information about heritage items, where presentation covers both:

- (a) Enhanced disclosures in the financial statements; and,
- (b) Presentation of information in other general purpose financial reports (GPFRs) that provide information which enhances, complements, and supplements the financial statements.

#### *Heritage Items' Special Characteristics*

~~4.5. Accountants view heritage items as having special characteristics that raise both conceptual and practical issues for financial reporting. Heritage items' special characteristics are usually described, by public sector accounting standard setters, as including that the factors listed below<sup>2</sup>:~~

- ~~(a) Their heritage significance value in cultural, environmental, educational and historical terms may not be fully reflected, when a in-financial reporting perspective is applied and "value", relates to economic benefits and service potential for which a monetary -value may be able to be attributed terms;~~
- ~~(b) They are often irreplaceable;~~
- ~~(c) They are protected, preserved, kept unencumbered, cared for and/or conserved by public sector entities;~~
- ~~(d)(c) There are often ethical, legal and/or statutory restrictions or prohibitions that restrict or prevent sale, transfer or destruction by the holder or owner; and~~
- ~~(e)(d) They may have a long, possibly indefinite, useful life due to constant or increasing cultural, environmental, educational, natural scientific, technological, artistic or historical rarity, importance or significance; and~~
- ~~(f) Their value increases over time, where "value" is either monetary, community-based or both.~~

~~5.6. Financial reporting issues that accountants and stakeholders concerned to preserve heritage often identify as resulting from raised by these special characteristics heritage items include:~~

- ~~(a) Value: If assignment of monetary values does not convey the heritage significance of heritage items or their future claims on public resources, would users of GPFRs benefit more from non-financial information about heritage items, reported outside of the financial statements?~~
- ~~(a)(b) Preservation: If an entity's responsibility is to preserve heritage items rather than to earn revenue or generate cash flows from them, is a heritage item a resource or an obligation from the entity's perspective?~~
- ~~(b) Value: If monetary value does not convey the true value of a heritage item, should such items be valued in monetary terms and then reported in the financial statements?~~

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<sup>2</sup>—Based on the list of special characteristics in paragraph 6 of the South African Accounting Standards Board's (ASB—South Africa) GRAP 103, *Heritage Assets*, which captured characteristics described in other accounting standard setters' pronouncements and the academic literature on accounting for heritage.

- (c) *Restrictions on use*: Given restrictions on entities' ability to use, transfer or sell heritage items, should heritage items be shown as assets in the financial statements?
- (d) *Guardianship*: Can a reporting entity be said to control a heritage item for financial reporting purposes, when it holds the item for the benefit of current and future generations?

### **1.3 Users of GPFRs and their Information Needs**

- 7. Given these financial reporting challenges and the special characteristics of heritage, the question arises of what heritage-related information do users of GPFRs need for the purposes of accountability and decision making. Users could be viewed as needing information to:
  - (a) Hold entities accountable for their preservation of heritage items; and
  - (b) Make decisions on resources needed to support heritage stewardship.
- 8. The information that users need may depend on factors other than heritage items' special characteristics. For example, the purpose for which an entity holds heritage items could impact on the information that users of GPFRs need. Where an entity uses heritage items to provide non-heritage services or products, users may need information on those heritage items for decision making on the entity's operational capacity and cost of services. If an entity holds heritage items for the purpose of sale, then users may need information to assess the entity's financial capacity.
- 9. The inter-relationship between heritage-related information and information on an entity's overall situation is also a consideration, when discussing what information users need. Options for reporting information on heritage items and their related responsibilities could have implications for information available to users for the purposes of accountability and decision making related to the entity as a whole.
- ~~6. After discussing heritage items in terms of whether they could be assets for financial reporting purposes, this CP then discusses heritage-related responsibilities and whether they could result in liabilities. For example:~~
  - ~~(a) When, and in what circumstances, could an entity's stewardship over a heritage item that it holds indicate obligations and the possible existence of a liability?~~
  - ~~(b) Could some entities have obligations arising from their heritage preservation responsibilities, in addition to obligations that may arise more directly from their holdings of heritage items?~~

### **1.24—Background to the IPSASB's Heritage Project**

- ~~7. Accounting for heritage has been a challenging topic for the IPSASB and for national accounting standard setters for many years. Worldwide there are a range of different views on how to account for heritage items, including different perspectives on heritage definitions, whether such items are assets or liabilities for financial reporting purposes, whether they should be recognized and, if recognized, how they should be measured. Standard setters also have had different perspectives on heritage-related disclosures, which include both enhanced disclosures in the financial statements and provision of information on heritage items and heritage responsibilities in supplementary reports, outside of the general purpose financial report (GPFR) that includes the financial statements.~~

### IPSASs and IPSASB's 2006 Consultation Paper Background to the Project

8.10. The IPSASB first considered heritage accounting during development of IPSAS 17, *Property, Plant and Equipment* (IPSAS 17). IPSAS 17 includes paragraphs on accounting for heritage assets. They describe heritage assets and allow reporting entities to recognize them. If an entity chooses to recognize some or all of its heritage assets, then it needs to make the disclosures identified in the Standard. Entities are not required to apply IPSAS 17's measurement requirements. The Standard takes the approach of allowing for different heritage accounting practices, but supports transparency by specifying that measurement approaches should be disclosed, including, for example, whether or not the entity depreciates some or all of the heritage items that it has recognized as assets.

9.11. The IPSASB took a similar approach in IPSAS 31, *Intangible Assets* (IPSAS 31). IPSAS 31 includes paragraphs on accounting for intangible heritage assets, which are based on those in IPSAS 17. In effect, the IPSASB's approach in these two Standards acknowledged the difficult financial reporting issues raised by heritage items, and allowed preparers or national jurisdictions to determine their accounting for heritage until this topic could be considered in depth.

10.12. In 2004 the IPSASB commenced a heritage assets project in collaboration with the United Kingdom's Accounting Standards Board (the ASB—UK). A CP, *Accounting for Heritage Assets under the Accrual Basis of Accounting*, was published in February 2006. The CP consisted of a discussion paper developed and approved by the ASB—UK, with an introduction and preface developed by the IPSASB's Heritage Assets Subcommittee. After reviewing submissions in late 2006, the IPSASB decided to defer further work until its Conceptual Framework had been completed.

### National Standard Setters' Pronouncements

12. ~~The IPSASB's 2006 CP included two appendices with comprehensive summaries of national standard setters' accounting treatments relevant to heritage items. These have been updated for more recent developments<sup>3</sup> and are included as Appendix A and Appendix B of this CP. They demonstrate the wide range of different accounting approaches that exist at the national level for heritage items.~~

### IPSASB's Heritage Project

14.13. With completion of the Conceptual Framework, ~~published in November in late~~ 2014, the IPSASB had the conceptual toolkit to ~~once again~~ consider accounting for financial reporting for heritage in the public sector. Furthermore, the IPSASB constituents indicated, in response to the 2013–2014 strategy and work plan consultation, found that constituents agreed that accounting developing financial reporting guidelines for heritage should be an IPSASB priority.

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<sup>3</sup> ~~Question for IPSASB: The two appendices have not been updated, and IPSASB members will be asked to indicate whether these appendices should be included in the CP. If so, they will need to be updated. Staff is aware of heritage accounting developments that have occurred in several national jurisdictions since the 2006 CP was compiled, for example France, South Africa and the United Kingdom.~~

*Heritage Project from 2015, Task Force and Consultation Paper*

14. A project brief for the Heritage Project was approved in June 2015. The project's objectives include to develop a CP highlighting the main options to account for heritage.
15. A Task Force (the Task Force on Accounting for Heritage) was established in late January 2016, and began its contributions to the project in April 2016. The Task Force advises on heritage accounting issues, including measurement and valuation of heritage. Task Force members, their colleagues and technical advisors have provided invaluable support to this project.
16. This CP is the Heritage Project's first publication. Constituents' comments on the options and issues identified in this CP will be important input to the IPSASB's development of an exposure draft (ED) on heritage financial reporting guidelines, which is the next phase of this project.

**1.5—Accounting for Heritage and The Public Interest and Financial Reporting for Heritage**

17. As noted in paragraph 10 above, present IPSASs allow entities to report on heritage items using different accounting practices. The description of a “heritage asset” in present IPSASs also allows inconsistent practices with respect to categorization of assets as either heritage or non-heritage assets. This has negative consequences for the public interest because it impacts on the quality of information reported. There are costs for both preparers and users when financial reporting standards allow this type of discretion. Improved Development of new IPSASB financial reporting guidelines on accounting for heritage is are expected to enhance the quality of information that GPFs provide for users' needs, thereby improving accountability and decision making, which supports is in the public interest.
- 15.18. This work contributes further to the public interest by addressing problems experienced with respect to financial reporting for heritage. As noted in paragraphs 10 and 11 above, IPSAS presently allows public sector entities to report on heritage items using different financial reporting practices and, worldwide, there are inconsistent practices with respect to categorization of assets as either heritage or non-heritage. Heritage items may or may not be recognized in an entity's financial statements and a variety of different measurement approaches are used. Inconsistent financial reporting has negative consequences for the public interest because it impacts on the quality of information reported, reducing comparability. When financial reporting guidelines allow this level of discretion there may be higher costs for preparers and reduced benefits for users of GPFs.

*Task Force and the Project's First Phase—A Consultation Paper*

16. A project brief for the Heritage Project was approved in June 2015. The first IPSASB discussion occurred in September 2015.
17. A Task Force (the Task Force on Accounting for Heritage) was established in late January 2016, and began its contributions to the project in April 2016. The Task Force advises on heritage accounting issues, including measurement and valuation of heritage. Task Force members, their colleagues and technical advisors have provided invaluable support to this project. The Task Force consists of Amanda Botha (South Africa), Michel Camoin (France), Howard (Mike) Blake (Australia), Domenic Savini (United States of America), Bernard Schatz (Austria), Adriana Tiron Tudor (Romania), and David Tomback (United Kingdom).

~~18. The project's objectives include to develop a CP highlighting the main options for heritage accounting. This CP is the Heritage Project's first publication. Constituents' comments on the options and issues identified in this CP will be important input to the IPSASB's development of an exposure draft (ED) on heritage accounting guidelines, which is the intended next phase of this project.~~

## **1.6—Approach in this Consultation Paper**

### *A Broader, More Inclusive Approach*

~~19. In the past, most accounting standard setters have focused on heritage items as possible assets. They have not considered accounting issues raised by heritage responsibilities and possible liabilities. Furthermore, the focus has been on tangible, non-living heritage items such as historic buildings, artwork and museum collections. These heritage items have been described as "heritage assets". Starting with a heritage asset, accounting standard setters have considered whether such items should be recognized, how they should be measured, the type of information that should be reported, and whether information should be presented in the financial statements or disclosed elsewhere. The IPSASB's previous CP on this topic took this approach. However, the proposals in that CP did not gain support from IPSASB stakeholders. One concern was that it had not considered other types of heritage, particularly natural heritage.~~

~~20.~~ 19. This CP takes a broader, more-inclusive approach to both its description of heritage items and its consideration of heritage accounting issues. It discusses:

~~(a)~~ (a) A wide set of different types of heritage items, including intangible heritage and natural heritage;

~~(a)(b)~~ (b) Issues raised in relation to ~~by~~ heritage items as resources, which could be assets for financial reporting purposes;

~~(b)(c)~~ (c) The significance of heritage-related responsibilities for reporting ~~of~~ liabilities; and

~~(c)(d)~~ (d) Other types of information, outside of the financial statements, which reporting entities with significant heritage responsibilities may present.

~~20. The broad, inclusive approach used in this CP can be contrasted with a narrower approach that focuses on heritage items such as historic buildings, artwork and museum collections and describes them as "heritage assets". The IPSASB's previous CP on this topic took this approach. However, the proposals in that CP did not gain support from IPSASB stakeholders. One concern was that it had not sufficiently considered other types of heritage, particularly natural heritage.~~

~~21. This CP also considers a broad set of different types of heritage items. It starts with the four categories of heritage used in what this CP terms "the UNESCO definitions". These UNESCO definitions of heritage are enshrined in the UNESCO-developed international conventions for the protection of heritage<sup>4</sup>. The four categories are:~~

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<sup>4</sup> Article 1, 1954 Convention for the Protection of Cultural Property in the Event of Armed Conflict with Regulations for the Execution of the Convention defines "cultural property", as does Article 1 of the 1970 Convention on the Means of Prohibiting and Preventing the Illicit Import, Export and Transfer of Ownership of Cultural Property. Article 1 of the 1972 Convention on Protecting the World Cultural and Natural Heritage defines "cultural heritage" and "natural heritage". Article 1,



- ~~(a) Cultural heritage,~~
- ~~(a) Underwater cultural heritage~~
- ~~(b) Intangible cultural heritage, and~~
- ~~(c) Natural heritage.~~

~~Applying these UNESCO definitions, heritage items range from tangible items such as historic buildings, historic artifacts, shipwrecks and archeological areas to intangible items such as language and dance, which rely on continued use for their preservation. Heritage items may also include natural heritage, which covers nature reserves and parks that support combinations of living and non-living items including rare ecological systems and populations of rare animals.~~

- ~~22. Second, by first developing a description of “heritage items” rather than a definition of “heritage assets” this CP allows for separate discussion of whether and when different heritage items could be assets for the purposes of financial reporting. As discussed in Chapter 2, this CP proposes the following working description of “heritage items”:~~

~~Heritage items are items that, because of their rarity, importance and/or significance, are expected to be held for the benefit of present and future generations and preserved indefinitely. They are preserved for many different reasons including, and not limited to, their archeological, architectural, agricultural, artistic, cultural, environmental, historical, natural, scientific and technological importance.~~

#### *Application of the Conceptual Framework*

- ~~23-21. This CP applies the Conceptual Framework to discuss financial reporting for heritage in the public sector. It considers what heritage-related information ~~the special characteristics of heritage items, and discusses how to meet users’~~ of GPFRs needs for information about heritage items, given their special characteristics, and about heritage-related responsibilities ~~the purposes of accountability and decision making, where,~~ such information should achieve the qualitative characteristics of information reported in GPFRs<sup>5</sup>. This CP applies the Conceptual Framework’s coverage of element definition, recognition and measurement, to consider whether heritage items could result in elements that should be recognized in the financial statements. Financial statement presentation issues are discussed, applying the Conceptual Framework’s approach to presentation, whereby presentation in the financial statements encompasses both the display and disclosure of information. Although this CP’s primary focus is on information presented in the financial statements, it also notes scope to present information in other GPFRs, for example service performance information reported when an entity has heritage-related service performance objectives. It also takes into consideration the IPSASB’s policies with respect to IFRS convergence and reduction of unnecessary differences between IPSAS and GFS reporting guidelines.~~

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~~2001 Convention on Safeguarding the Underwater Cultural Heritage, defines “underwater cultural heritage”. Article 2, 2003 Convention on Safeguarding the Intangible Cultural Heritage, defines “intangible cultural heritage”.~~

<sup>5</sup> ~~The qualitative characteristics of information included in GPFRs are the attributes that make that information useful to users and support the achievement of the objectives of financial reporting. The qualitative characteristics are relevance, faithful representation, understandability, timeliness, comparability, and verifiability. (See paragraphs 3.1 and 3.2 of the Conceptual Framework.)~~

- ~~24. Application of the Conceptual Framework to the special characteristics of heritage items and to public sector entities' heritage preservation responsibilities is what drives this CP's discussion of users' information needs, element definition, recognition and measurement, and presentation (display and disclosure) of heritage-related information in both the financial statements and in GPFs that do not include the financial statements.~~
22. While application of the Conceptual Framework underpins this CP's development of financial reporting options, the IPSASB has also considered national standard setters' and the IPSASB's own pronouncements. In addition to IPSAS 17 and IPSAS 31, IPSAS 19, *Provisions, Contingent Assets and Contingent Liabilities* and the IPSASB's recommended practice guidelines (RPGs), which address information in other GPFs, have been considered for their relevance to this project.

### **1.7—Structure of this Consultation Paper**

23. This CP covers financial reporting for heritage in the following order:
- (a) Chapter 2 describes heritage items and discusses issues related to their identification;
  - (b) Chapter 3 discusses whether or not heritage items could be assets for financial reporting purposes;
  - (c) Chapter 4 discusses the recognition and measurement of heritage assets;
  - (d) Chapter 5 considers obligations related to heritage items and discusses their recognition and measurement; and
  - (e) Chapter 6 discusses presentation of information on heritage items in the financial statements and in other GPFs.

#### ~~*IPSASB Policies and Pronouncements, and Standard Setters' Views on Accounting for Heritage*~~

- ~~25. This CP also takes into account the following IPSASB documents:~~
- ~~(a) Process for Reviewing and Modifying IASB Documents;~~
  - ~~(b) Process for Considering GFS Reporting Guidelines during Development of IPSASs; and~~
  - ~~(c) Recommended Practice Guideline (RPG) 3, Reporting Service Performance Information.~~
26. The IPSASB's Heritage Project is not an IFRS convergence project. However, IFRS relevant to heritage accounting issues and a sample of for-profit national standard setters' accounting pronouncements have been reviewed so that proposals herein take into account private, for-profit practices with respect to accounting for heritage.
27. An overview of the IPSASB's previous considerations of heritage accounting and of national accounting standard setters' pronouncements on this topic are provided in Section 2 above and in the appendices to this CP. These have been reviewed to understand the special characteristics of heritage, as previously identified by accounting standard setters, and accounting approaches developed to address those characteristics.



## Overview of the Structure of this Consultation Paper

### *Chapters 2 and 3: Heritage Items, Resources and Assets*

28. Although this CP takes a broader approach than previous IPSASB considerations of accounting for heritage, the question of whether or not heritage items are assets for financial reporting purposes remains an important question. Two further questions about meaning lie beneath that question:

What do we mean by a “heritage item”?

What do we mean by an “asset” within the context of financial reporting?

The first question is discussed in the next chapter, Chapter 2, which proposes a working description of a heritage item, identifies and describes the four categories of heritage discussed in this CP, and then discusses how to identify a “heritage item”. That last point can also be described as an “accounting unit” question, because accounting often involves decisions about grouping things together into one larger unit or breaking them down into separate, smaller units in order to provide meaningful information to users of the financial reports.

29. Then Chapter 3 discusses the second question of whether or not heritage items are assets for financial reporting purposes. This is not a straightforward question within the context of financial reporting. Everyone agrees that heritage items are precious, valuable things. In common, everyday speech the word “asset” can be used to mean “something of value”. Applying this everyday meaning, most would agree that heritage items are assets, because they are either valuable or valued by the community or both. But does the same conclusion result if the financial reporting definition of an asset is applied?

30. This CP applies the Conceptual Framework’s definition of an asset to consider whether heritage items should be considered assets for financial reporting purposes. As will be discussed in Chapter 3, existence of an asset for financial reporting purposes involves two further words; “resource” and “control”. The Conceptual Framework has established guidance on the meaning of these two words within the context of financial reporting and the development of IPSASB pronouncements.

### *Chapters 4, 5 and 6: Financial Statement Recognition, Obligations and Liabilities, and Presentation*

31. The next three chapters—Chapters 4, 5 and 6—then apply the Conceptual Framework to other financial reporting issues raised by the special nature of heritage items. As for Chapter 3, these three chapters focus on heritage-related information in the financial statements. They apply the Conceptual Framework chapters that address definition, recognition and measurement within the context of information presented in the financial statements. Specifically, these three chapters address the following topics:

Chapter 4 considers the recognition of heritage assets, building on Chapter 3’s discussion of heritage items as assets for financial reporting purposes. This discussion focuses on asset measurement, which is an essential part of asset recognition.

Chapter 5 considers whether heritage-related obligations could result in liabilities and, if so, at what point (or in what circumstances) a heritage-related obligation would result in a liability that can or should be recognized in the financial statements.

Chapter 6 describes issues related to presentation of heritage information in the financial statements, which considers, for example, whether one or more separate line items should be

~~displayed on the face of the statements and what type of information should be disclosed in the notes. This chapter builds upon earlier chapters to explore presentation related to the recognition of heritage items as assets and related responsibilities as liabilities. Chapter 7 (see below) develops information presentation options raised by non-recognition of heritage items, while also considering a broader set of heritage-related information.~~

*~~Chapter 7, Other Information Needs—Reporting Outside of the Financial Statements~~*

~~Chapter 7 takes a broader look at heritage-related information. It describes public sector entities' heritage responsibilities, and discusses what heritage-related information should be made publicly available to support those responsibilities. The Conceptual Framework has established that users' needs could result in information reported outside of the GPFR that includes the financial statements. Applying that new approach the IPSASB has already developed three "recommended practice guidelines" (RPGs) that can be applied to such information. These address reporting of service performance information, information on the sustainability of public finances, and financial statements discussion and analysis. IPSAS 24, *Reporting Budget Information*, provides guidelines on how to present budget information in the financial statements.~~

- ~~32. Many national jurisdictions already report heritage-related information that is important for heritage preservation, important to the general public, but does not form part of a financial report. Such information is within the purview of heritage specialists. It is not "accounting information". Chapter 7 discusses the inter-relationship between these two areas of reporting, as they apply to reporting heritage-related information:~~
- ~~(a) *GPFR information*: Information for financial reporting purposes; and~~
  - ~~(a) *Other information*: Information outside of the GPFRs.~~
- ~~33. Chapter 7 discusses the boundary between these two types of information, as this applies to the issue of reporting heritage-related information.~~

~~[Appendices have not been updated for developments since the 2006 consultation paper]~~

# ~~APPENDIX A: DEFINITIONS OF HERITAGE ASSETS (EXCERPT FROM 2006 CONSULTATION PAPER)~~

~~As noted in Chapter 1 of this CP, financial reporting pronouncements generally address accounting for “heritage assets”, which is why the table below, developed for the 2006 consultation paper, focuses on heritage assets rather than heritage items.~~

Jurisdiction	Source	Definition	Other defining criteria/cited examples
ASB UK	FRS 15 <i>Tangible Fixed Assets</i>	No specific definition.	Refers to inalienable, historic and similar assets of particular historic, scientific or artistic importance.
UK	Charity Commission <i>2005 Charities SORP</i>	Assets of historical, artistic or scientific importance that are held to advance the preservation, conservation and educational objectives of charities and through public access contribute to the achievement of the purposes of such charities and include the land, buildings, structures, collections, exhibits or artefacts that are preserved or conserved and are central to the educational objectives of such charities.	Charities with preservation objectives may hold specified or historic buildings or a complex of historic or architectural importance or a site where a building has been or where its remains can be seen. Conservation charities may hold land relating to the habitat needs of species, or the environment generally, including areas of natural beauty or scientific interest. Museums and art galleries hold collections and artefacts to educate the public and to promote the arts and sciences.
UK	Chartered Institute of Public Finance and Accountancy <i>2005 SORP for local authorities</i>	No definition of heritage assets. Definition of community assets: ‘assets that the local authority intends to hold in perpetuity, that have no determinable useful life, and that may have restrictions on their disposal.’	Examples of community assets are parks and historic buildings.
UK	HM Treasury and devolved administrations <i>Government Financial Reporting Manual</i>	Assets that are intended to be preserved in trust for future generations because of their cultural, environmental or historical associations.	They are held by the entity in pursuit of its overall objectives in relation to the maintenance of the heritage. Non-operational heritage assets are those that are held primarily for this purpose. Operational heritage assets are those that, in addition to being held for heritage purposes, are also used by the entity for other activities or to provide other services (the most common example being buildings).
UK	English Heritage <i>Managing local authority heritage assets – some guiding principles for decision makers, June 2003</i>		Heritage assets include: scheduled monuments and other archaeological remains; historic buildings both statutorily listed and those of more local importance; conservation areas; historic

Jurisdiction	Source	Definition	Other defining criteria/cited examples
			landscapes, including registered parks and gardens, cemeteries and registered battlefields; and historic elements of the wider public realm, including publicly owned and managed spaces and recreational parks.
IPSASB	IPSAS 17 <i>Property, plant and equipment</i>	No generic definition. Notes that some assets are described as heritage assets because of their cultural, environmental, or historical significance.	Examples are historical buildings and monuments, archaeological sites, conservation areas and nature reserves, and works of art. Characteristics often displayed by heritage assets include: Cultural, environmental, educational and historical value unlikely to be fully reflected in a financial value based purely on market price; Legal/statutory obligations may impose prohibitions or severe restrictions on disposal by sale; Often irreplaceable and value may increase overtime even if physical condition deteriorates; Difficult to estimate useful lives which could be several hundred years.
FASB United States	FAS 116 <i>Accounting for contributions received and contributions made</i>	No generic definition	Reference to collections with the following characteristics: (a) held for public exhibition, education or research in furtherance of public service rather than financial gain (b) protected, kept unencumbered, cared for, and preserved (c) subject to an organizational policy that requires the proceeds from sales of collection items to be used to acquire other items for collections.
FASAB United States	SFFAS 29 <i>Heritage assets and stewardship land</i>	Property, plant and equipment unique for one or more of the following reasons: Historical or natural significance; Cultural, educational, or artistic (eg aesthetic) importance; or Significant architectural characteristics	Heritage assets consist of: <ul style="list-style-type: none"> <li>Collection type heritage assets, such as objects gathered and maintained for exhibition, eg museum collections, art collections and library collections; and</li> </ul>

Jurisdiction	Source	Definition	Other defining criteria/cited examples
			<ul style="list-style-type: none"> <li>Non-collection type heritage assets, eg parks, memorials, monuments and buildings</li> </ul> <p>Heritage assets are generally expected to be preserved indefinitely.</p> <p>Heritage assets may in some cases be used to serve two purposes - a heritage function and general government operations. In cases where a heritage asset serves two purposes, it should be considered a multi-use heritage asset if the predominant use of the assets is in general government operations. Heritage assets having incidental use in government operations are not multi-use heritage assets; they are simply heritage assets.</p>
GASB United States	Statement 34 <i>Basic financial statements – and managements’ discussion and analysis – for State and Local governments</i>	No generic definition. Reference to works of art and historical treasures.	Characteristics of collections defined as for FAS 116.
CICA Canada	Public Sector Handbook Section PS 3150, <i>Tangible Capital Assets</i>	No generic definition.	Works of art and historical treasures are property that has cultural, aesthetic or historical value that is worth preserving perpetually
CICA Canada	CICA Handbook Section 4440 <i>Collections held by not-for-profit organizations</i>	No generic definition.	Collections are works of art, historical treasures or similar assets that are (i) held for public exhibition or research; (ii) protected, cared for and preserved; and (iii) subject to an organizational policy that requires any proceeds from their sale to be used to acquire other items to be added to the collection or for the direct care of the existing collection.
ASB South Africa	GRAP 17 <i>Property, plant and equipment</i>	As IPSAS 17. ASB’s recent consultation included proposed definitions of heritage assets.	Heritage assets used for heritage purposes only are defined as inalienable and/or other items that are normally held for their unique cultural, environmental, historical, natural or artistic significance rather than for use in the day-to-day



Jurisdiction	Source	Definition	Other defining criteria/cited examples
			operations of the entity. Heritage assets used or held for multi purposes are defined as inalienable and/or other items that are normally held for their unique cultural, environmental, historical, natural or artistic significance, but are also used to generate future economic benefits or service potential.
FRSB New Zealand	FRS 3 <i>Accounting for property, plant and equipment</i> NZ IAS 16 <i>Property, plant and equipment</i>	Reference to heritage assets and community assets but no specific definitions.	Artefacts of cultural or historical significance.
New Zealand	<i>Valuation guidance for cultural and heritage assets. New Zealand Treasury, November 2002</i>	Cultural and heritage assets defined as assets that are held for the duration of their physical lives because of their unique cultural, historical, geographical, scientific, and/or environmental attributes. They assist holders of the assets to meet their objectives in regard to exhibition, education, research and preservation, all of which are directed at providing a cultural service to the community.	Cultural and heritage assets include, but are not limited to general collections in libraries; heritage collections in libraries; museum collections; art gallery collections; historical documents, historical monuments and heritage assets held in local authority trusts.
AASB Australia	The generic Standard AASB 116 <i>Property, Plant and Equipment</i> applies except when it conflicts with AAS 27 <i>Financial reporting by local governments</i> , AAS 29 <i>Financial reporting by government departments</i> and AAS 31 <i>Financial reporting by government and then those standards apply</i> .	AASs 29 and 31 explicitly refer to heritage assets and community assets but no specific definitions.	Examples of heritage assets are historical buildings and monuments. Examples of community assets are parks and recreational reserves.
France	Central Government Accounting Standards Standard 6 <i>Tangible Assets</i>	No generic definition. Reference to assets that have only historical or cultural uses with an unmeasurable service potential related	

Jurisdiction	Source	Definition	Other defining criteria/cited examples
		directly to their symbolic value, and works of art.	
Germany North Rhine Westphalia	Municipal accounting standards	No generic definition. Reference to movable assets for the maintenance of culture, works of art, exhibits and other moveable cultural objects, architectural monuments and archaeological monuments.	
UNESCO	<i>Convention concerning the protection of the world cultural and natural heritage, November 1972</i>	<p>The following shall be considered as “cultural heritage”:</p> <ul style="list-style-type: none"> <li>• monuments: architectural works, works of monumental sculpture and painting, elements or structures of an archaeological nature, inscriptions, cave dwellings and combinations of features, which are of outstanding universal value from the point of view of history, art or science;</li> <li>• groups of buildings: groups of separate or connected buildings which, because of their architecture, their homogeneity or their place in the landscape, are of outstanding universal value from the point of view of history, art or science;</li> <li>• sites: works of man or the combined works of nature and man, and areas including archaeological sites which are of outstanding universal value from the historical, aesthetic, ethnological or anthropological point of view.</li> </ul> <p>The following shall be considered as “natural heritage”:</p> <ul style="list-style-type: none"> <li>• natural features consisting of physical and biological formations or groups of such formations, which are of outstanding universal value from the aesthetic or scientific point of view;</li> <li>• geological and physiographical formations and precisely delineated areas which constitute the habitat of threatened species of animals and plants of outstanding universal value from the point of view of science or conservation;</li> <li>• natural sites or precisely delineated natural areas of outstanding universal value from the point of view of science, conservation or natural beauty.</li> </ul>	

**APPENDIX B: ACCOUNTING FOR HERITAGE** (*Appendix 2 in 2006 Consultation Paper*)

Jurisdiction	Standard	Recognition	Measurement	Disclosure	Notes
ASB UK	FRS 15 <i>Tangible Fixed Assets</i>	Requires recognition where heritage assets can be measured reliably and costs of doing so are not significant. Encourages but does not require retrospective capitalisation.	Cost. Donated assets measured at current value.	Requires disclosure of reasons for accounting treatment, and of the age, nature and scale of the assets and use made of them.	Standard's requirements supplemented by Charities SORP and Government Financial Reporting Manual.
IPSASB	IPSAS 17 <i>Property, plant and equipment</i>	Not required unless heritage assets meet definition of PPE.	For recognised heritage assets entity is permitted but not required to apply measurement requirements.	For recognised heritage assets, standard PPE disclosures are required.	Does not address treatment of un-recognised heritage assets.
FASB United States	FAS 116 <i>Accounting for contributions received and contributions made</i>	Permits non-recognition of donated works of art, historical treasures and similar assets if added to collections that are not capitalised and are held under specified conditions. Requires such contributions to be reported on face of statement of activities separately from revenues, expenses, gains and losses.	Fair value. In absence of quoted market prices then quoted market prices for similar assets, independent appraisals or valuation techniques.	For non-recognised collections requires description of collections, including relative significance and accounting and stewardship policies for collections. And for deaccessioned items, a description and fair value.	First time adoption encourages but does not require capitalisation of collections either retrospectively or prospectively.
	FAS 93 <i>Recognition of depreciation by not-for-profit organizations</i>	Permits policy of no depreciation for individual works of art or historical treasures* with extraordinarily long lives			* asset individually has cultural, aesthetic, or historical value that is worth preserving perpetually and holder has ability to protect and preserve essentially



Jurisdiction	Standard	Recognition	Measurement	Disclosure	Notes
					undiminished the service potential of the asset and is doing so.
FASAB United States	SFFAS 29 <i>Heritage assets and stewardship land</i>	Requires cost of acquisition, construction, reconstruction or improvement of heritage assets to be expensed. Donations are not recognised. Requires cost of acquisition, betterment or reconstruction of multi-use heritage assets* to be capitalised and depreciated.  * predominant use of heritage asset is in general government operations.	Expense measured at cost.  Donated multi-use heritage assets capitalised at fair value.	Requires detailed disclosures for heritage assets and multi-use heritage assets: Statement of how they relate to mission of entity, description of stewardship policies (concerning acquisition, maintenance, use and disposal), description of each major category, quantification in terms of physical units* for each major category: physical units held, acquisitions and withdrawals, fair value of donations if known and condition of assets.  * may be a collection or group of assets located at one facility.	SFFAS 29 issued July 2005 is effective for reporting periods beginning 30 September 2005 and replaces the reporting requirements for heritage assets set out in SFFAS 6, SFFAS 8 and SFFAS 16. Stewardship disclosures are essential to fair presentation.
GASB United States	GASBS 34 <i>Basic financial statements – and managements' discussion and analysis – for State and Local governments</i>	Requires capitalisation of historical treasures not held in collections. Encourages but does not require capitalisation of collections and additions to those collections (whether purchased or donated) if collection meets specified conditions.	Capitalised at cost or, where donated, at fair value. Depreciation not required for capitalised collections or individual items that are inexhaustible.	For collections not capitalised, description of collection and reasons for non-capitalisation. Usual fixed asset disclosures for collections that are capitalised.	

Jurisdiction	Standard	Recognition	Measurement	Disclosure	Notes
CICA Canada	Public Sector Handbook Section PS 3150, <i>Tangible Capital Assets</i>	Works of art and historical treasures would not be recognized as tangible capital assets in government financial statements because a reasonable estimate of the future benefit associated with such property cannot be made.		The nature of the works of art and historical treasures held by the government should be disclosed.	
CICA Canada	CICA Handbook section 4440 <i>Collections held by not-for-profit organizations</i>	Recognition of collection not required although it is not precluded (collection items are excluded from the definition of capital assets).	Not specified [by inference, works of art and historical treasures not held in collections are measured at cost if known and fair value if cost is not known]	Description of collection, accounting policies followed, details of any significant changes to the collection in the period, expenditures on collection items in the period, proceeds of sales of collection items in period and how the proceeds were used.	Only applies to works of art, historical treasures or similar assets held as part of a collection. If not held as part of a collection accounting requirements for PPE apply.
ASB South Africa	GRAP 17 <i>Property, plant and equipment</i>	Not required even though the definition and recognition criteria of PPE are met.  The recent discussion paper proposes that multi-purpose heritage assets should be recognised as an asset in accordance with PPE recognition requirements, and that the costs of acquisition, improvement,	For recognised heritage assets entity is not required to apply measurement requirements.  The recent discussion paper proposes that multi-purpose heritage assets should be measured in accordance with PPE measurement requirements.	For recognised heritage assets, standard PPE disclosures are required.  The recent discussion paper proposes the disclosure requirements in PPE be applied to multi purpose heritage assets. In addition, relevant and useful information disclosed in notes for both types of heritage assets.	Existing requirements based on IPSAS 17.

Jurisdiction	Standard	Recognition	Measurement	Disclosure	Notes
		reconstruction or renovation of assets used for heritage purposes only, be expensed when incurred.			
FRSB New Zealand	FRS-3 <i>Accounting for property, plant and equipment</i> NZ IAS 16 <i>Property, plant and equipment</i>	Requires recognition of all cultural and heritage assets that meet the definition of PPE and can be reliably measured.	Initial recognition at cost. Revaluation permitted using fair value, other market based evidence or depreciated replacement cost*. Donated assets measured at fair value.	No special requirements for heritage assets.	* Standard supplemented by valuation guidance issued by NZ Treasury for government bodies.
AASB Australia	The generic Standard AASB 116 <i>Property, Plant and Equipment</i> applies except when it conflicts with AAS 27 <i>Financial reporting by local governments</i> , AAS 29 <i>Financial reporting by government departments</i> and AAS 31 <i>Financial reporting by government</i> and then those standards apply.	Requires recognition providing it is probable future economic benefits arise and a cost or other value can be measured reliably.	Initial recognition at cost. Donated assets initially measured at fair value.	No specific disclosure requirements.	Standards supplemented by Government Finance Minister's Orders and similar orders made in each state and territory.
France	Central Govt Account Standards	Requires recognition to ensure consistency between physical and	Value at a non-revisable notional cost, or exceptionally at reproduction	Requires typical balance sheet note disclosures. Statement listing assets such	First time adoption: applies to assets with no directly observable market value and

Jurisdiction	Standard	Recognition	Measurement	Disclosure	Notes
	Standard 6 <i>Tangible Assets</i>	accounting inventories.	cost. Works of art must be recognised at a notional value. Market value for multi-purpose heritage assets.  For all heritage assets, subsequent additions recognised at acquisition cost. Donations recognised at market value.	as historical monuments.	with an unmeasurable service potential related directly to their symbolic value
Germany North Rhine Westphalia	Municipal accounting standards	Requires recognition on first time adoption.	For significant moveable heritage assets – actual or notional insurance value. Other works of art, exhibits and monuments – notional value (€1).  Subsequent additions recognised at cost.	No specific disclosure requirements. Accounting and valuation methods should be disclosed in a note.	Accruals based accounting standards are currently being introduced in the German Länder. Each Land may develop its own special regulations to apply to heritage assets.



**DRAFT CHAPTER 2, —DESCRIPTIONS AND DEFINITIONS OF HERITAGEDESCRIPTION OF A  
HERITAGE ITEM AND CATEGORIES OF HERITAGE**

**2.1—IntroductionOverview of Chapter**

1. People have different views on what is meant by the word “heritage” and, consequentially, what things should be identified as heritage items. This chapter proposes a working description for “heritage items” and describes the four categories of heritage items for discussion in this CP. It then discusses heritage item identification issues that arise when developing financial reporting guidelines applicable to heritage items. The chapter begins by highlighting the Conceptual Framework’s references to items that have what are commonly identified as heritage characteristics and to heritage assets. This chapter’s aim is to establish the CP’s scope, while also beginning to address the faithful representation of heritage phenomena, which begins with clear, consistent identification of heritage items. As paragraph 3.10 of the Conceptual Framework states:

“To be useful in financial reporting, information must be a faithful representation of the economic and other phenomena that it purports to represent. Faithful representation is attained when the depiction of the phenomenon is complete, neutral, and free from material error. Information that faithfully represents an economic or other phenomenon depicts the substance of the underlying transaction, other event, activity or circumstance—which is not necessarily always the same as its legal form.”

2. This chapter describes the different categories of heritage considered in this CP, discusses heritage identification issues, and proposes a definition of “heritage items”.

**2.2—Categories of Heritage Items**

*Basis for Categories of Heritage Considered in the CP*

3. This CP has used groups of heritage defined by United Nations Educational, Scientific and Cultural Organization (UNESCO) as its starting point for heritage identification, because:
  - (a) UNESCO definitions of heritage are developed by heritage experts dedicated to the protection of heritage;
  - (b) Most national governments have signed up to the international conventions so their approach to heritage identification is likely to be familiar to public sector entities responsible for heritage preservation; and
  - (c) Starting with these groups of heritage (and their related definitions and illustrative examples) supports a broader approach to heritage issues than would be the case if the CP focused exclusively on financial reporting categories such as “property, plant and equipment” or “intangibles”.
4. International conventions for the protection of heritage, developed by UNESCO, have definitions for four types of heritage:
  - (a) Cultural heritage (also called “cultural property”);
  - (b) Underwater cultural heritage;

- (c) Intangible cultural heritage; and
  - (d) Natural heritage<sup>1</sup>.
- 5. The UNESCO definitions convey that heritage is of great importance, of outstanding universal value or specifically designated as heritage. They may also add that heritage is old, for example, “more than one hundred years old”.
- 6. The heritage category descriptions below have adapted the UNESCO definitions so that they:
  - (a) Use a principles–based approach to identify heritage items across different categories;
  - (b) Allow heritage identification to occur at a national or local level as well as an international or universal level; and
  - (c) Support the discussion of accounting for heritage by expanding and aligning the descriptions to allow for financial reporting categories as well.

#### Categories of Heritage Considered

- 7. This CP considers “cultural heritage”, which includes both tangible and intangible cultural heritage. Then, intangible cultural heritage is described as including two subsets, called “knowledge–in–action” and “intellectual property” intangible cultural heritage. This CP also considers “natural heritage”. Descriptions of these categories of heritage are provided below.

#### Cultural Heritage—Tangible and Intangible

- 8. Cultural heritage consists of human–made heritage items that could be either tangible or intangible. Examples of tangible cultural heritage include monuments; archaeological sites, buildings of historical or artistic interest; heritage works of art; heritage scientific collections, important collections of books (as well as individual heritage books and manuscripts) and archives; and, culturally significant or historical vessels, aircraft and infrastructure. Cultural heritage includes cultural heritage items that have been partially or totally under water, for example, heritage buildings that are beneath the water, sunken ships and underwater sculpture.
- 9. Intangible cultural heritage consists of two broad types of intangible cultural heritage items: “knowledge–in–action” and “intellectual property”:
  - (a) Knowledge–in–action intangible cultural heritage means the practices, representations, expressions, knowledge, skills that are heritage items. Examples include oral traditions and expressions, including language as a vehicle of the intangible cultural heritage; performing arts; social practices, rituals and festive events; knowledge and practices concerning nature and the universe; and, traditional craftsmanship.

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<sup>1</sup> Article 1, 1954 *Convention for the Protection of Cultural Property in the Event of Armed Conflict with Regulations for the Execution of the Convention* defines “cultural property”, as does Article 1 of the 1970 *Convention on the Means of Prohibiting and Preventing the Illicit Import, Export and Transfer of Ownership of Cultural Property*. Article 1 of the 1972 *Convention on Protecting the World Cultural and Natural Heritage* defines “cultural heritage” and “natural heritage”. Article 1, 2001 *Convention on Safeguarding the Underwater Cultural Heritage*, defines “underwater cultural heritage”. Article 2, 2003 *Convention on Safeguarding the Intangible Cultural Heritage*, defines “intangible cultural heritage”.



(b) Intellectual property intangible cultural heritage means intangible heritage items such as intellectual property, and trademarks (including brand names and publishing titles), computer software, patents, copyrights, and rights over motion picture films. Examples include rights over recordings of significant historical events, rights to use historic or culturally significant films, rights to reproduce television series or other electronic media; rights over music titles; and rights to use the likeness of a significant public person or literary creation on, for example, postage stamps or collectible coins.

10. Cultural heritage includes natural history collections such as shells, insects, stuffed animals and mineral collections are related to natural heritage. Although such items were originally part of natural heritage (described below), they are treated as cultural heritage, because their collection, classification and presentation involves a human-made element and they no longer form part of a natural feature, area or site.

#### Natural Heritage

11. Natural heritage covers natural features, areas or sites that are heritage items. Examples of natural heritage include: natural features such as heritage mountains, naturally occurring rock formations, heritage bodies of water such as lakes, rivers and waterfalls; physical and biological formations or groups of such formations such as reefs; geological and physiographical formations such as hot spring areas; and, areas that constitute habitats, such as forests, swamps or desert areas.
12. Where natural heritage has been moved and shaped to create a human-made form it becomes cultural heritage. For example, buildings carved into a cliff or Stonehenge would be examples of cultural heritage rather than natural heritage.

#### The Conceptual Framework—Heritage Items and Heritage Assets

1. ~~Paragraph 15 of the Preface to the Conceptual Framework introduces the idea that public sector entities may “...hold items that contribute to the historical and cultural character of a nation or region—for example, art treasures, historical buildings, and other artifacts.” It then states that [public sector entities] “...may also be responsible for national parks and other areas of natural significance with native flora and fauna.” The paragraph concludes by stating that:~~

~~Such items and areas are not generally held for sale, even if markets exist. Rather, governments and public sector entities have a responsibility to preserve and maintain them for current and future generations.~~

2. ~~Paragraph 15 does not use the word “heritage”. However the idea of “items that contribute to the historical and cultural character of a nation or region—for example, art treasures, historical buildings, and other artifacts” is similar to the description of heritage assets in IPSAS 17’s paragraph 10, which states that:~~

~~Some assets are described as heritage assets because of their cultural, environmental, or historical significance. Examples of heritage assets include historical buildings and monuments, archaeological sites, conservation areas and nature reserves, and works of art.~~

3. ~~IPSAS 31, *Intangible Assets*, uses similar wording as follows:~~

~~Some intangible assets are described as intangible heritage assets because of their cultural, environmental, or historical significance.~~



4. Chapter 5 of the Conceptual Framework refers to heritage assets when it discusses the meaning of “resource” in the definition of an asset for financial reporting purposes. Paragraph 5.9 states that:

Public sector assets that embody service potential may include recreational, *heritage*, community, defense and other assets which are held by governments and other public sector entities, and which are used to provide services to third parties. Such services may be for collective or individual consumption. Many services may be provided in areas where there is no market competition or limited market competition. The use and disposal of such assets may be restricted as many assets that embody service potential are specialized in nature.

5. So the Conceptual Framework identifies heritage assets and gives examples of heritage assets, while also using the idea of such assets to illustrate some characteristics that public sector assets may exhibit. As noted in Chapter 1, one of the characteristics of public sector entities is that they hold heritage items and have a responsibility to preserve and maintain them for current and future generations.
6. The Conceptual Framework does not define a heritage item or a heritage asset. The description of a heritage item proposed below and the heritage categories described in this chapter aim to be consistent with the Conceptual Framework’s references to heritage.

### **The Conceptual Framework—Faithful Representation of Phenomenon**

7. Accounting for heritage involves identification of heritage-related phenomena, including both heritage items and heritage-related responsibilities and obligations. The Conceptual Framework states that:

To be useful in financial reporting, information must be a faithful representation of the economic and other phenomena that it purports to represent. Faithful representation is attained when the depiction of the phenomenon is complete, neutral, and free from material error. Information that faithfully represents an economic or other phenomenon depicts the substance of the underlying transaction, other event, activity or circumstance—which is not necessarily always the same as its legal form. [Paragraph 3.10.]

8. How to identify heritage-related phenomena so that the phenomenon can be faithfully represented is discussed in the last subsection of this chapter, within the context of objective identification of heritage items. Heritage-related responsibilities and obligations arise through entities’ responsibilities with respect to heritage items, which may arise either from an entity holding heritage items or through other arrangements, for example legislation that makes a public sector entity responsible for preserving a particular category of heritage items.

### **Working Description of “Heritage Item”**

9. This CP uses the following working description for “heritage items”:

Heritage items are items that, because of their rarity, importance and/or significance, are expected to be held for the benefit of present and future generations and preserved indefinitely. They are preserved for many different reasons including, and not limited to, their archeological, architectural, agricultural, artistic, cultural, environmental, historical, natural, scientific and technological importance.

10. In subsequent chapters of this CP, when accounting issues raised by heritage items are discussed, the term “heritage item” is used with the meaning given above.

### ~~Preserved for Present and Future Generations~~

11. ~~In this working description the phrase “preserved for present and future generations” has been used rather than the phrase “conserved for present and future generations”. Heritage-related legislation often uses the word “conserve” to describe what should occur with respect to heritage. Conservation involves both preservation and, where possible, improvement. Thus, for example, conservation of natural heritage lands could include activities that improve the biodiversity and long-term viability of such lands. Use of the word “preserved” establishes a lower threshold for identification of heritage items, by capturing items that are expected to be preserved, which also includes items that are conserved, since they are both preserved and improved.~~

### ~~Reasons to Preserve—Open-Ended List~~

12. ~~In this working description the list of reasons for preservation is open-ended. Reasons are “not limited to” those listed. The trend for heritage definitions has been towards longer lists of references to specific disciplines. (For example, a reference in one definition to items that are significant for their “historic, artistic and scientific interest” will, in later definitions, be expanded to include other reasons for significance, such as their “archeological, architectural, agricultural, military and technological” interest.) Furthermore, most definitions introduce an open-ended aspect by introducing their lists of reasons (or disciplines) with phrases such as “for example” or “including”. An open-ended approach allows for evolving views on why things might become heritage items. The idea is to future-proof the working description.~~

### ~~Sources Considered to Develop this Working Description of Heritage Items~~

13. ~~To develop this working description of heritage items, the following sources were considered:~~
- ~~(a) Dictionaries;~~
  - ~~(b) International conventions on the protection of heritage (UNESCO definitions);~~
  - ~~(c) IPSASB pronouncements, including the Conceptual Framework; and~~
  - ~~(d) Financial reporting and statistical accounting publications.~~
14. ~~These sources describe heritage items as being important, valuable, rare, significant, of interest, old, historical and handed down from generation to generation. Usually these sources also convey the idea that such items should be protected, preserved, maintained or conserved.~~
15. ~~Financial reporting definitions and descriptions usually focus on the term “heritage asset” and usually refer to characteristics relevant to asset recognition and measurement. For example, they may refer to the idea that heritage assets are difficult to value. This CP has not included that type of “special for financial reporting” characteristic into its working description of a heritage item. Instead, such characteristics are considered in subsequent chapters, where relevant to the financial reporting issue for discussion. (This issue is discussed further in the last section of this chapter.)~~

### ~~Dictionary Meanings for Heritage~~

16. ~~Three English language dictionaries were reviewed—the Cambridge (On-line) Dictionary, the Meriam Webster Dictionary and the Collins Dictionary. The meanings of heritage in these three dictionaries were consistent, with only minor variation in how the meaning was expressed and in the examples given. The dictionaries convey that heritage items:~~

- ~~(a) Are part of the culture and history of a group, nation or society.~~
- ~~(b) Were created in the past and still have historical importance.~~
- ~~(c) Have been transmitted from the past or handed down by tradition.~~
- ~~(d) Include things such as traditions, achievements, beliefs, languages, buildings and areas.~~

~~17. For example, the Meriam Webster Dictionary states that heritage means:~~

~~The traditions, achievements, beliefs, etc., that are part of the history of a group or nation.~~

~~Examples of heritage in a sentence: 1. Hospitality is a cherished Southern heritage. 2. This farm is my heritage from my father, as it was for him from his father.~~

~~Source: <http://www.merriam-webster.com/dictionary/heritage>~~

#### ~~UNESCO Definitions of Heritage~~

~~18. The United Nations Educational, Scientific and Cultural Organization (UNESCO) develops international conventions for the protection of heritage<sup>2</sup>. These conventions define four broad categories of heritage:~~

- ~~(a) Cultural heritage (originally called “cultural property”);~~
- ~~(b) Underwater cultural heritage;~~
- ~~(c) Intangible cultural heritage; and~~
- ~~(d) Natural heritage.~~

~~19. Appendix G provides the full text for these heritage definitions and the examples and commentary to explain them, as excerpts from the international conventions. The discussion below focuses on text relevant to development of the heritage items working description. For example, the first international convention on heritage protection, dated 1954, describes heritage property items as being “of great importance to the cultural heritage of every people”:~~

~~movable or immovable property of great importance to the cultural heritage of every people, such as monuments of architecture, art or history, whether religious or secular; archaeological sites; groups of buildings which, as a whole, are of historical or artistic interest; works of art; manuscripts, books and other objects of artistic, historical or archaeological interest; as well as scientific collections and important collections of books or archives or of reproductions of the property defined above;~~

~~20. The next two cultural heritage definitions focus on “importance” and “value”, as follows:~~

~~...property which, on religious or secular grounds, is specifically designated by each State as being of importance for archaeology, prehistory, history, literature, art or science...[1970 Convention]~~

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<sup>2</sup> Article 1, 1954 Convention for the Protection of Cultural Property in the Event of Armed Conflict with Regulations for the Execution of the Convention defines “cultural property”, as does Article 1 of the 1970 Convention on the Means of Prohibiting and Preventing the Illicit Import, Export and Transfer of Ownership of Cultural Property. Article 1 of the 1972 Convention on Protecting the World Cultural and Natural Heritage defines “cultural heritage” and “natural heritage”. Article 1, 2001 Convention on Safeguarding the Underwater Cultural Heritage, defines “underwater cultural heritage”. Article 2, 2003 Convention on Safeguarding the Intangible Cultural Heritage, defines “intangible cultural heritage”.

~~... [items] which are of outstanding universal value from the point of view of history, art or science [1972 Convention]~~

- ~~21. For natural heritage the idea of “outstanding universal value” is used. The conventions on underwater cultural heritage and intangible cultural heritage do not emphasize value or importance. The underwater cultural heritage uses an age-related approach, so that items that have been under the water for 100 years or more will be viewed as heritage. The intangible cultural heritage definition identifies items:~~

~~...that communities, groups and, in some cases, individuals recognize as part of their cultural heritage. This intangible cultural heritage, transmitted from generation to generation, is constantly recreated by communities and groups in response to their environment, their interaction with nature and their history, and provides them with a sense of identity and continuity, thus promoting respect for cultural diversity and human creativity.~~

- ~~22. These UNESCO definitions are designed to address different heritage protection situations. In a financial reporting context consistency of approach is important and, for that reason, this CP uses a single working description applied across all categories of heritage. The generic idea of the importance or significance of heritage items, which the UNESCO definitions convey, is evident in the working description.~~

#### Financial Reporting—National Standard Setters

- ~~23. Chapter 1 noted that Appendix A provides a comprehensive list of national standard setters’ descriptions and definitions of “heritage assets”, which was compiled for the 2006 IPSASB–ASB (UK) CP. As for definitions of heritage, these financial reporting definitions convey ideas of significance, importance or rarity, while linking this to ideas of history, culture and community or society’s interests in different areas of endeavor. These definitions also convey the ideas of preservation for future generations. After consideration of national standard setters’ definitions of heritage assets the 2006 CP then proposed the following definition of a heritage asset:~~

~~An asset with historic, artistic, scientific, technological, geophysical or environmental qualities that is held and maintained principally for its contribution to knowledge and culture and this purpose is central to the objectives of the entity holding it. [IPSASB–ASB (UK) CP, 2006]~~

- ~~24. This definition includes the objectives of the entity holding the heritage item as an important factor when deciding whether or not an item is a heritage asset. This would mean that the same item could change its classification from being non-heritage to heritage (or vice versa) if transferred between entities with different objectives.~~

- ~~25. This CP does not link its heritage items description to the holding entity. It focuses on the special characteristics of a heritage item, independent of the holding entity. However, this does not prevent subsequent consideration of whether special accounting for heritage items should depend on an entity’s objectives. For example, an approach could be used of requiring any public sector entity that does not have heritage preservation as a central objective to recognize all the heritage items that it holds (where they meet the definition of an asset and the asset recognition criteria), while an entity that does heritage preservation as its central objective would not be required to recognize its heritage items. The question arises, however, of whether and in what circumstances the Conceptual Framework envisages that an entity’s objectives should impact on how it reports.~~

### Statistical Accounting

26. ~~Three sources were reviewed to understand how statistical accounting, including Government Finance Statistics (GFS) reporting guidelines, describes and classifies heritage items. The sources reviewed were the:~~
- ~~(a) System Of National Accounts (SNA 2008);~~
  - ~~(b) Government Finance Statistics Manual (GFSM 2014); and~~
  - ~~(c) European System of Accounts (ESA 2010).~~
27. ~~Appendix D provides a summary of these sources and extracts from them, as of October 2015. Statistical accounting uses the following terms applicable to one or more type of heritage item:~~
- ~~(a) “Public monuments” and “valuables” in SNA 2008;~~
  - ~~(b) “Heritage assets” and “valuables” in GFSM 2014; and~~
  - ~~(c) “Heritage asset”, “historic monuments” and “valuables” in ESA 2010.~~
28. ~~The GFSM 2014 describes heritage assets as follows:~~
- ~~Heritage assets, which are assets that a government intends to preserve indefinitely because they have unique historic, cultural, educational, artistic, or architectural significance. (Paragraph 7.11, page 173)~~
29. ~~The ESA 2010 mentions heritage assets as follows:~~
- ~~Some assets are more specific to government: heritage assets, like historic monuments; infrastructure assets, such as roads and communications facilities; and equity stakes in public corporations that are without private equivalent. (Paragraph 20.144, page 20)~~
30. ~~The heritage items working description above encompasses these descriptions and is consistent with them, although it widens the basis on which items could be considered heritage items.~~

### Categories of Heritage Items

31. ~~This CP discusses accounting for heritage, where heritage items and heritage responsibilities are considered in light of four categories of heritage:~~
- ~~(a) Cultural heritage;~~
  - ~~(b) Underwater cultural heritage;~~
  - ~~(c) Intangible cultural heritage; and~~
  - ~~(d) Natural heritage.~~
32. ~~These categories are described as follows:~~
33. ~~Cultural heritage: Cultural heritage means movable or immovable property that is a heritage item<sup>3</sup>. This category covers tangible, non-living, human-made heritage items that are not underwater. Examples include monuments of architecture, art or history, whether religious or secular;~~

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<sup>3</sup> Here, and in the descriptions for the other three categories of heritage, the phrase “heritage item” applies the working description from paragraph 10 of this chapter, so “heritage item” means an item that is expected, because of its rarity, importance and/or significance, to be held for the benefit of present and future generations and preserved indefinitely.

~~archaeological sites; buildings of historical or artistic interest; works of art; manuscripts, books and other objects of artistic, historical or archaeological interest; as well as scientific collections and important collections of books or archives of the property defined above.~~

~~34. Underwater cultural heritage: Underwater cultural heritage means cultural heritage items that have been partially or totally under water, periodically or continuously for long enough to be considered habitually underwater. This category covers underwater tangible, human-made heritage items. Examples of underwater heritage items include (i) sites, structures, buildings, artefacts and human remains; (ii) vessels, aircraft, other vehicles or any part thereof, their cargo or other contents; and (iii) objects of prehistoric character.~~

~~35. Intangible cultural heritage: Intangible cultural heritage covers two broad subcategories of intangible heritage items; “knowledge in action” and “intellectual property” intangible cultural heritage.~~

~~(a) Knowledge in action intangible cultural heritage means the practices, representations, expressions, knowledge, skills that are heritage items. Examples include oral traditions and expressions, including language as a vehicle of the intangible cultural heritage; performing arts; social practices, rituals and festive events; knowledge and practices concerning nature and the universe; and, traditional craftsmanship.~~

~~(b) Intellectual property intangible cultural heritage means intangible heritage items such as intellectual property, and trademarks (including brand names and publishing titles), computer software, patents, copyrights, and rights over motion picture films. Examples include rights over recordings of significant historical events, rights to use historic or culturally significant films, rights to reproduce television series or other electronic media; rights over music titles; and rights to use the likeness of a significant public person or literary creation on, for example, postage stamps or collectible coins.~~

~~36. Natural heritage: Natural heritage means natural features, areas or sites that are heritage items. Natural heritage includes natural features consisting of physical and biological formations or groups of such formations; geological and physiographical formations and precisely delineated areas which constitute habitats; and, natural sites or precisely delineated natural areas.~~

#### ~~Discussion of Cultural Heritage and its Relationship to Other Categories of Heritage~~

~~37. The first category, cultural heritage, includes items that are related to the other three categories of heritage. For example,~~

~~(a) Musical instruments, craft tools and sacred spaces are related to the knowledge in action subcategory of intangible cultural heritage, however they would either be treated as ordinary physical items (non-heritage) or included in cultural heritage, if they are heritage items, because they are tangible items.~~

~~(b) Historic celluloid films, heritage audiotapes, heritage photographs, historic computers and film projectors are related to the intellectual property subcategory of intangible cultural heritage, however they would either be treated as ordinary physical items (non-heritage) or included in cultural heritage, if they are heritage items, because they are tangible items.~~

~~(c) Natural history collections such as shells, insects, stuffed animals and mineral collections are related to natural heritage, however they would be treated as cultural heritage, because they no longer form part of a natural feature, area or site.~~

~~(d) Artifacts from shipwrecks and shipwrecks themselves become cultural heritage items once they have been moved from under the water and included as land exhibits.~~

~~38. The classification of land, as a heritage item, is discussed in the last section of this chapter, where further discussion of the intellectual property subcategory of intangible cultural heritage is also provided.~~

#### *~~Basis for these Four Categories of Heritage~~*

~~39. These four categories of heritage are based on four categories identified in UNESCO-developed international conventions for the protection of heritage. The UNESCO categories have been used as a starting point because:~~

- ~~(a) They were developed by heritage experts dedicated to the protection of heritage;~~
- ~~(b) Most national governments have signed up to the international conventions so their approach to categories is likely to be familiar to public sector entities responsible for heritage preservation; and~~
- ~~(c) Starting with these categories (and their related definitions and illustrative examples) supports a broader approach to heritage issues than would be the case if the CP focused exclusively on financial reporting categories such as “property, plant and equipment” or “intangibles”.~~

~~40. However, these UNESCO definitions have been adapted to:~~

- ~~(a) Use a more consistent, principles-based approach to identify heritage items across the different categories;~~
- ~~(b) Allow heritage identification to occur at a national or local level rather than an international or universal level; and~~
- ~~(c) Support the discussion of accounting for heritage by expanding and aligning the descriptions to allow for financial reporting categories as well.~~

~~41. The next subsection describes the main changes made to adapt each UNESCO category to be useful for this CP’s discussion of heritage accounting issues.~~

#### *~~Changes to Adapt the UNESCO Categories~~*

##### *~~Consistent Use of “Heritage Items” instead of Various Descriptors~~*

~~42. As mentioned earlier, the UNESCO definitions used for these four categories use a variety of descriptors to convey the importance of heritage items. These range from “of universal importance” to “have been under the water for 100 years or more”. This CP consistently applies the “heritage item” working description to each category, which means that descriptors such as “of universal importance” have been removed and replaced with reference to heritage items.~~

##### *~~Exclude Surroundings and Other Items that are not Heritage Items~~*

~~43. The consistent use of the heritage item working description results in two further, category-specific changes. The first one is that the following two sets of items, included under UNESCO’s definition of cultural heritage, have been excluded from the CP’s description of cultural heritage:~~



- ~~(a) Buildings whose main and effective purpose is to preserve or exhibit the movable cultural heritage property and refuges intended to shelter, in the event of armed conflict, the movable cultural heritage property;~~
- ~~(b) Centers containing a large amount of cultural property, known as ‘centers containing monuments’.~~

~~44. This ensures that items that are not “heritage items” are excluded from this category. The buildings covered by point (a) may be new or temporary buildings with no cultural significance, which do not meet the heritage item description. “Centers containing monuments” could include a mixture of old and new buildings. The 1954 Convention includes these two things in its definition because effective protection of cultural heritage requires protection of structures that house or otherwise hold such property. However, the financial reporting context requires a consistent, principled approach to identify heritage items by their heritage characteristics.~~

#### ~~Include Dual-Use Items that are Heritage Items~~

- ~~45. For underwater cultural heritage, the exclusion of “dual-use” heritage items has been removed. In this CP, dual-use heritage items, which also occur in other categories of heritage, are still considered heritage items. For underwater cultural heritage, the UNESCO definition highlights dual-use underwater cultural heritage as including (a) pipelines and cables placed on the seabed, and (b) other installations that are still in use. To be heritage items these would still need to meet the heritage item description, i.e. the items would need to be “...expected, because of their rarity, importance and/or significance, to be held for the benefit of present and future generations and preserved indefinitely”.~~
- ~~46. Subsequent discussions in this CP may lead to a conclusion that dual-use heritage items should be accounted for differently from other heritage items. Rather than attempt to define such items to be “non-heritage”, this issue can be explicitly considered within the context of accounting for heritage items.~~

#### ~~Link to Financial Reporting and its Focus~~

- ~~47. Two changes have been made to link descriptions to a financial reporting perspective. First, the ideas of “tangible” and “non-living” have been included in the description of cultural heritage. Some accounting standard setters use the term “property, plant and equipment” while others use the term “tangible, fixed assets”. The word “property” is already included in the original definition, and these extra words provide a further link to financial reporting ideas relevant to this type of heritage item.~~
- ~~48. Second the description of intangible cultural heritage has been revised to include reference to intangible items usually considered in a financial reporting context. The revised description has both the original set of heritage items, which this CP has called “knowledge in action” intangible cultural heritage, and also something called “intellectual property” intangible cultural heritage. The description of this second group is based on descriptions in IPSAS 31, which provides examples of “intangible resources” and “intangible heritage assets”, as follows:~~
- ~~(a) *Intangible resources* are:...resources such as scientific or technical knowledge, design and implementation of new processes, or systems, licences, intellectual property, and trademarks (including brand names and publishing titles). Common examples of items encompassed by these broad headings are computer software, patents, copyrights, motion picture films, lists~~



~~of users of a service, acquired fishing licences, acquired import quotas, and relationships with users of a service. [paragraph 17]~~

- ~~(b) *Intangible heritage assets:* Some intangible assets are described as intangible heritage assets because of their cultural, environmental, or historical significance. Examples of intangible heritage assets include recordings of significant historical events and rights to use the likeness of a significant public person on, for example, postage stamps or collectible coins. [Paragraph 12]~~

### *Natural Heritage*

- ~~49. This CP applies the UNESCO approach of focusing on biological formations, areas, sites and habitats when considering natural heritage. That approach to natural heritage can be contrasted with alternatives such as focusing on either (a) populations of living organisms or an ecosystem, or (b) individual living organisms (plants and animals). The description of this category has not been adjusted, other than to incorporate the term heritage item, as for the other three categories.~~

- ~~50. Although there is an IPSAS that addresses living organisms (IPSAS 27, *Agriculture*) and which includes coverage of “biological assets” such as forests and herds of animals, that Standard focuses on accounting for plants and animals within a commercial, agricultural context. The IPSASB discussed whether individual organisms, for example a redwood tree or a lion, could be viewed as heritage items. While the IPSASB acknowledged the importance of protecting individual organisms and noted that some living organisms can live for very long periods of time, even hundreds of years, the IPSASB decided that individual living organisms are not “heritage items”, because they all have finite lives and cannot, therefore, be expected to be preserved indefinitely. Only in exceptional circumstances does a living organism live long enough to be appreciated by more than one or two generations. The norm is for such organisms to live and die during one generation.~~

- ~~51. Populations of living organisms (for example) whales or bald eagles can be preserved and could, therefore be viewed as heritage items. However, this approach to natural heritage, which differs from the UNESCO definition, also does not work well within a financial reporting context. A reporting entity can be held accountable for the area of land that it manages and report information on how it is carrying out its responsibilities with respect to that land and its role in protecting endangered species inside that area. But groups of animals (whales or bald eagles, for example) cannot be held or controlled, when living in the wild. Therefore, this CP describes natural heritage items as areas, sites, or habitats, using the same approach as used in the UNESCO definition.~~

### *Heritage Item Subcategories and Accounting*

- ~~52. Subsequent chapters in this CP will discuss accounting for heritage items. Those chapters are likely to identify subcategories of particular relevance to accounting issues such as whether heritage items should be:~~

- ~~(a) Disclosed in supplementary schedules;~~  
~~(b) Recognized as assets in the financial statements; and/or~~  
~~(c) Depreciated, revalued or impaired;~~

~~53. For example, discussions of whether a resource exists and whether an entity controls that resource (relevant to existence of an asset for financial reporting purposes) is likely to differ between different categories of heritage and between different subsets within the same category. Heritage land, for example, raises different accounting issues from heritage buildings. Resource existence could be more difficult to determine when looking at underwater cultural heritage or an archeological site, by contrast to collections of artifacts in a museum.~~

## **2.3—Heritage Item Identification Issues**

~~54.13. This subsection considers other hH~~ heritage item identification ~~raises a number of~~ issues, ~~and specifically This section considers~~ whether:

- (a) Heritage items can be identified objectively; ~~and~~
- ~~(b) Heritage items should be described partly by reference to the special financial reporting problems that they raise;~~
- ~~(b) Expenditures on heritage items are also heritage items.;~~

~~55.14. Appendix A discusses issues raised by particular groups of heritage items, and specifically:~~

- (a) ~~Whether L~~land should be considered a heritage item; and
- (b) There exist examples of intellectual property with heritage characteristics.

### *Can Heritage Items be Identified Objectively?*

~~56.15. As discussed noted~~ above, definitions ~~and descriptions~~ of heritage items emphasize the importance, significance or value of heritage items. They may also emphasize heritage item's<sup>1</sup> sacred or historic nature and their rarity. These characteristics prompt the following questions:

- (a) What number of people or proportion of the total group should ~~value cherish~~ an item before it should be treated as “significant” or “valuable” and therefore recognized as a heritage item?
- (b) How old does something have to be in order to be “historic”?
- (c) Is it possible to identify relatively new items as heritage items, because a nation or community views them as special, important, significant and therefore part of their heritage, which should be preserved for ~~present and~~ future generations?

~~57.16. Underneath Beneath~~ these questions lies the more fundamental issue of how to objectively and consistently identify heritage items. Some argue that objective identification is not possible, because heritage is like beauty, it is in the eye of the beholder. Others move to the opposite extreme and argue that only a narrow set of heritage items—those specifically identified in national legislation—should be counted as heritage. This issue is important to any discussion of ~~accounting reporting on~~ heritage items.

### *Faithful Representation of Heritage Items*

~~58. Financial reporting needs a clear, objective boundary between heritage items and non-heritage items. Users of GPFRs expect consistent classification of heritage items by different GPFR preparers, so that information reported will meet the qualitative characteristics of financial reporting. Classification of heritage should provide representationally faithful information, which reflects the substance of the heritage phenomenon rather than its legal form.~~

~~59. This would be particularly important, if financial reporting requirements are different for heritage items by comparison to other, non-heritage items. But even just the separate display of a line item for heritage items would require a clear boundary between heritage and non-heritage items, so that the separate line item provides useful information for GPFR users. With respect to presentation of information, the Conceptual Framework states:~~

~~All material transactions, events, and other items reported are presented in a manner that conveys their substance rather than their legal or other form so that the qualitative characteristics of relevance and representational faithfulness are achieved. [Paragraph 8.29]~~

~~60. The working description for heritage items does not, in itself, provide an objective way to distinguish between heritage and non-heritage items. It states that heritage items are rare, significant or important. How are those characteristics to be assessed? Can they be assessed objectively?~~

#### Principles-Based Approach or Official Lists of Heritage Items?

~~61.17.~~ National jurisdictions have developed different ways to objectively identify heritage items. For example, some use:

- (a) Schedules or lists enshrined in legislation or regulation;
- (b) Criteria or principles enshrined in legislation or regulation;
- (c) A defined review and approval process, involving expert recommendation and independent review; or
- (d) A combination of two or more of the three approaches above.

~~62.18.~~ Where legislation identifies specific items as heritage, ~~Th~~is ensures that heritage items are identified in a very objective way, such that there would be little if any need for professional judgment by preparers, when they classify items as heritage items.

~~19. From a financial reporting perspective there appear to be two problems with relying on~~However, the use of heritage legislation as the sole means by which heritage items are identified presents two potential problems related first to the purpose of heritage legislation and second to its relatively static, slow-changing nature.

~~63.20.~~ First, such~~The purpose of heritage legislation could result in either exclusion of items that are, in substance, heritage items, or the reverse, i.e. inclusion of items that are not, in substance, heritage items. Heritage legislation may officially list~~ does not have a financial reporting purpose. Its role will be related to heritage preservation. To fulfil that role, it may be that only a small subset of heritage items is identified, for example, only those that warrant special funding or a special level of protection. Within one national jurisdiction there may be several different pieces of legislation that define heritage. One may describe the penalties for when heritage items are damaged or vandalized, while: ~~A~~nother piece of legislation may explain when heritage items warrant special government funding for their protection. The two lists of heritage items may be different, giving rise to the question-: Does either list fully reflect all heritage items, so that the substance of the heritage phenomenon is captured? Furthermore, does either list necessarily focus exclusively on items that are, in substance, heritage items?

~~21. That problem of legislative purpose is evident in the UNESCO definition of cultural property. The 1954 Convention for the Protection of Cultural Property in the Event of Armed Conflict includes~~

“centers containing a large amount of cultural property” within its definition of cultural property. That definition makes sense when attempting to protect heritage buildings in the event of armed conflict but could have the effect of classifying a whole city as heritage. Protection of the city is necessary to protect the heritage items that exist within the city.

64.22. The relatively static, slow-changing nature of legislation means that an official list of heritage items, embedded in legislation, may not remain up-to-date from year to year. A second problem is that reporting entities may encounter heritage items that have not yet been reviewed, and which are not included on any official list. “New” heritage items, not included on any official list, may appear because they are:

- (a) Purchased or received through donation from other governments or private collectors;
- (b) Discovered, for example through excavations that uncover previously unknown heritage items or through reassessments of items that were not viewed as heritage items;
- (c) Created, as in the construction of iconic buildings or creative works of art; or
- (d) Come to be appreciated by society or particular groups within society to such a degree that they meet the description of heritage items because people have recognized the rarity, importance or significance of such items.

23. Either of these two problems could mean that heritage items are excluded from coverage (or non-heritage items included), so that information reported in a GPFR does not faithfully represent an entity’s heritage portfolio.

24. Given the problems described above with (for example) the use of legislated lists of heritage items, this CP proposes that a principles-based approach rather than a rules-based approach should be used to identify heritage items. However, a principles-based approach can be supported through reference to national heritage legislation, guidelines involving the use of criteria and/or formally established processes.

(e) —

65. The first problem also runs the risk that items that, in substance, are not heritage items may nonetheless be included in the definition. That problem is evident in the UNESCO definition of cultural heritage property, where whole cities can be labelled heritage property, because protection of the city is necessary to protect the heritage items that exist within the city. The 1954 Convention for the Protection of Cultural Property in the Event of Armed Conflict includes “centers containing a large amount of cultural property” within its definition of cultural property. That definition makes sense when attempting to protect heritage buildings in the event of armed conflict, but it is not a useful approach for financial reporting purposes.

#### Development of Objective Criteria—Part of Project’s Next Stage Use of National and Local Sources

25. If special characteristics of heritage items are their rarity, importance and/or significance, an objective evaluation of whether an item is a heritage item will depend on access to verifiable information on the rarity, significance and/or importance of the item. At the national or local level the following sources could provide verifiable information on these three characteristics:

- (a) Expert knowledge;
- (b) Historical studies, research writings and media reports;

- (c) Legislation; regulation and/or heritage items formally identified through application of a process outlined in legislation or regulation; and
- (d) Policies, systems and/or structures that an entity has established, which indicate that it expects to preserve the item for present and future generations as a heritage item.

26. Point 25(c) above highlights that, despite the problems identified earlier in this chapter with respect to use of legislation to identify heritage items, there could still be scope to use national or local guidelines, including legislation, as a basis for identification of heritage items for financial reporting purposes. Where legislation establishes a set of principles, general criteria to consider or a process by which heritage items can be identified, it is more likely to provide a helpful basis for identification of heritage items. Therefore, lists of heritage items enshrined in legislation could be a starting point for identification of heritage items, with consideration then of whether “new” heritage items exist that have not yet been included in the legislated list. This CP does not attempt to develop specific, objective (and auditable) criteria to distinguish between heritage and non-heritage items. That task is treated as something for the next stage of the Heritage Project, when guidelines on accounting for heritage are planned for development. Instead this CP applies an assumption that such criteria can be developed, while noting that identification of heritage items should generate information that meets the qualitative characteristics of financial reporting. Whether or not items have been identified as heritage items by legislation, regulation or the completion of a legislated process is likely to be relevant to such identification, but not conclusive. The focus should be on the substance of the heritage phenomenon rather than a reliance on whatever legal form is available in a particular national jurisdiction.

*Should the description of “heritage items” include special financial reporting characteristics?*

66. Accounting standard setters often link their descriptions of heritage items to characteristics of particular importance for financial reporting. For example, the value of heritage items can be very difficult to measure in monetary terms. Thinking ahead to such issues a description of heritage items could include one or more of these characteristics, for example:

Heritage items are items for which meaningful measurement is impossible. Their value increases rather than decreases over time, which makes depreciation inappropriate.

67. This CP has not used this approach for its description of heritage items. Instead it attempts to keep separate what are essentially two different issues:

- (a) Identification of heritage items; and
- (b) Discussion of the financial accounting issues raised by heritage items.

*Are New Investments in Expenditures on Heritage also Heritage items?*

68-27. Public sector entities may expend large amounts on heritage. Examples of the types of New expenditures made in order to preserve or conserve heritage items, or to expand public access to heritage items, include:

- (a) Repairs and restoration such as Rreplacement of the roof, foundation or other parts of a heritage building;
- (b) Replacement or reinforcement of large sections of a heritage edifice such as the Eiffel Tower;

- ~~(c)~~(b) Cleaning of a heritage painting;
- ~~(d)~~(c) Development of databases and electronic media for heritage (e.g. access to high quality electronic representations of historic paintings and collections of other heritage items and virtual tours of museums or art galleries);
- ~~(e)~~(d) Construction of a new security system or a new air conditioning system for a historic building or a new pedestal for an important sculpture;
- ~~(f)~~(e) Building of new structures, for example:
  - (i) Structures to ensure safe access by the public (barriers, viewing platforms, protection from the risk of falling stones),
  - (ii) Gift shops,
  - (iii) Security fences, or
  - (iv) Parking lots (for museums, or historic buildings or other heritage sites; and
- ~~(g)~~(f) Construction of fire breaks, flood protection or other security arrangements for national parks and other natural heritage items.

~~69-28. Some expenditures investments clearly create items that are separate from existing not heritage items and do not exhibit the special characteristics associated heritage items, e.g. expenditures may be used to building a separate gift shop or a parking lot. This CP proposes that where this is the case Arguably such items fall outside of the scope of this CP should be classified as ordinary, non-heritage property, plant and equipment for financial reporting purposes. Subsequent chapters include discussion of In other cases the expenditures investment augments that apply to the existing asset-heritage item (for example, replacing the roof of an historic building or restoring a heritage painting), and arguably could be viewed as part of the heritage item, even though the expenditure is new and the financial reporting challenges usually associated with heritage items (e.g. measurability) do not apply.~~

~~70. This CP proposes that:~~

- ~~(a) Investments separate from a heritage item (e.g. parking lot for an historic building) should be considered non-heritage items; while,~~
- ~~(b) Investments in a heritage item (e.g. a new roof for an historic building) should be considered heritage items.~~

~~71. Then Chapter 4, which discusses the general issue of whether heritage items can be recognised as assets for financial reporting purposes, also discusses arguments for and against recognizing new investments in heritage items (e.g. the new roof example) as assets for financial reporting purposes.~~

#### ~~Is Land a Heritage Item?~~

~~72. There appear to be four situations where land could be viewed as a heritage item:~~

- ~~(a) Land underneath and around a heritage item (for example, land under an historic building);~~
- ~~(b) A particular open space (for example, a town square, a piazza or space related to cultural practices of importance);~~

~~(c) Land underneath or forming natural heritage (e.g. a park, conservation area, or land beneath a heritage forest or other type of natural habitat); and~~

~~(d) Land forming a natural formation (e.g. land component of a heritage mountain).~~

~~73. In each case land seems to be an integral part of the heritage item, without which the heritage item cannot exist or survive. Thus, for example, take away the land and there is no place for the historic building to stand or for the town square or natural habitat to exist. In some cases, it is true, a historic building can be moved to another location, so that the land underneath it is available for alternative uses. This is the case in marginal or exceptional cases, rather than the norm.~~

~~74. There also appear to be situations where governments possess land without classifying it as a natural park. The land could be described as wilderness. It is held by a public sector entity, but is either unmanaged or unmanageable. It may be viewed as without value, when considered from an environmental, scientific study, species protection, ecological or tourism perspective. It may also be viewed as having no (or very little) commercial value.~~

~~75. The land's role as an integral part of the heritage item is an argument in favor of treating heritage-related land as either a heritage item in itself or as part of the overall heritage item. Whether or not heritage land is an asset for financial reporting purposes, and other financial reporting issues could then be applied to this subcategory of heritage land.~~

~~76. An argument against viewing land as a heritage item is that land does not appear to involve active preservation. Heritage items are "...expected to be held for the benefit of present and future generations and preserved indefinitely." But land will usually continue indefinitely, without the need for human intervention.~~

~~77. There are two further perspectives, however, that suggest that heritage land does need to be preserved. First the land's role as *heritage* may need to be preserved. For example, if the land area of national parks is steadily decreasing over time, because it is being sold for commercial forestry needs, housing or other non-heritage uses, then the "heritage land" is not being preserved. A second argument is that land can be threatened in other ways. Preservation of the land underneath and around a heritage building (or nature reserve) can be an essential part of protecting the building (or nature reserve). Coastal erosion threatens many historic buildings in the United Kingdom, for example, and the costs of protecting those buildings by preserving the land upon which they stand are very high. Land may also require restoration after earthquakes or protection from mining or other underground activity such as subway construction or laying of infrastructure (electricity, water supply, etc.).~~

~~78. This CP allows that land can be a heritage item.~~

#### ~~*Intangible Cultural Heritage—Intellectual Property*~~

~~79. This subsection provides examples of the different types of intellectual property that public sector entities create. It discusses:~~

~~(a) Connections between intellectual property and heritage items; and~~

~~(b) Whether there could be examples of intellectual property that are heritage items.~~

~~80. Intellectual property deals with intangible rights, rather than the physical item in which they are embodied. For example, the right to reproduce the Beatles' music and the right to reproduce the~~



~~book *To Kill a Mockingbird* are intangible items. By contrast original copies of the music or the original manuscript of the book are tangible items and, given their historic and cultural significance would likely be viewed as heritage items.~~

#### ~~Public Sector Entities Create Intellectual Property and Have Rights~~

~~81. Governments and other public sector entities have long been involved in the creation of intangible intellectual property rights. This is a natural consequence of public sector entities' involvement in many areas, including areas such as:~~

- ~~(a) Education, where they develop textbooks and other educational material that they develop;~~
- ~~(b) Public broadcasting, where they develop films, radio and television broadcasts, which could involve news, documentaries, speeches by historically important people, poetry readings or music; and~~
- ~~(c) Citizenship, where they develop databases of identity information such as births, deaths and marriages documentation.~~

~~82. In each case, the public sector entity responsible for development of the intellectual property is likely to own the copyright or reproduction rights over that property.~~

~~83. Public sector entities may have naming rights that relate to tangible heritage items. For example, the French Government owns rights over the culturally significant name "Le Louvre" and has the ability to earn revenue from those rights, as it has already done. Trademarks such as Le Louvre have an indefinite useful life, so they can be preserved for future generations and the question that arises is whether the name itself is a heritage item.~~

#### ~~84. Intellectual Property Rights over Heritage Items~~

~~85. These intellectual property rights can relate to tangible heritage items, with the result that the rights themselves could be regarded as heritage items. Similarly, a national reference library or national art museum may create electronic records relevant to their heritage collections of documents and art, in order to provide the public with better access to their collections. The entity will have rights over the individual records and the system (database, or searchable website that acts as a database) by which those records are presented to the public.~~

~~86. Where an entity holds reproduction rights over heritage items, but is not actively managing such rights, this could remove important heritage from easy access by the public. If the relevant public sector entity does not appreciate that it holds reproduction rights, then it could effectively prevent reproduction.~~

~~87. Public sector entities may acquire intellectual property rights of special significance, whereby the entity may aim to protect those rights against commercialization or commodification. For example, if an entity gains agreement from a community to record their traditional skills, songs and dances on the basis that the resulting recording will be used respectfully, there may be ways to restrict access indefinitely, if legislation allows for this. Rights to reproduce cultural heritage are the focus of a major research project, the Intellectual Property Issues in Cultural Heritage (IPinCH) project<sup>4</sup>. This~~

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<sup>4</sup> See the following website for more information: <http://www.sfu.ca/ipinch/>



~~is a seven-year international research initiative based at Simon Fraser University, in British Columbia, Canada, which finishes in 2016.~~

#### ~~Does Intellectual Property Always have a Limited Life?~~

- ~~88. The working description of heritage items includes the idea that such items are expected to be preserved for current and future generations. Can an entity preserve intellectual property for current and future generations? As noted above, intellectual property in the form of trademarks have indefinite useful lives, while a database will also be owned indefinitely, although it is likely to become obsolescent over time and then replaced, the collection of information could be viewed as having an indefinite useful life and something to be preserved for future generations.~~
- ~~89. Rights over many types of intellectual property arguably have a limited life, because they cannot be owned forever by one entity. The length of time before a right moves into the public domain is usually established by national jurisdiction with input from international guidelines. For example, a copyright could enter the public domain 70 years (or 100 years) from the end of the author's life. Copyrights over many culturally significant and historic works, such as the plays of Shakespeare, books of Tolstoy or writings of Miguel de Cervantes, are already in the public domain.~~
- ~~90. From another perspective, such rights continue to exist after they enter the public domain, and public sector entities could still have a role in their preservation. Furthermore, intellectual property laws are complex and evolving.~~

#### ~~This CP concludes that intangible cultural heritage includes intellectual property that fulfils the description of heritage items.~~ **2.4—Definition of Heritage Items**

##### Development of a Definition of Heritage Items

- ~~29. The following sources were considered to develop a description of “heritage items” for use in this CP and as a basis for guidelines on financial reporting on heritage in the public sector:~~
- ~~(a) Dictionaries;~~
  - ~~(b) International conventions on the protection of heritage (UNESCO definitions);~~
  - ~~(c) IPSASB pronouncements, including the Conceptual Framework; and~~
  - ~~(d) Financial reporting and statistical accounting publications.~~
- ~~30. These sources describe heritage items as being important, valuable, rare, significant, of interest, old, historical and handed down from generation to generation. Usually these sources also convey the concept that such items are expected to be protected, preserved, maintained or conserved.~~
- ~~31. To develop a definition of heritage items the IPSASB also considered the issues discussed below.~~

##### Protected, Preserved or Conserved?

- ~~32. Heritage-related legislation and international conventions may use the word “protected”, “preserved” or “conserved” to describe what should occur with respect to heritage. “Protected” and “preserved” are similar in meaning. “Preserved” is the word commonly used in existing financial reporting literature when referring to heritage items, including the Conceptual Framework’s~~

reference noted in Chapter 1 of this CP<sup>5</sup>. Conservation involves both preservation and, where possible, improvement. Thus, for example, conservation of natural heritage lands could include activities that improve the biodiversity and long-term viability of such lands. A definition of heritage items that captures all items that are expected to be preserved will also capture items that are conserved, since conservation involves both preservation and improvement. While conservation may be an ideal for what should happen with respect to heritage, use of the word “preserved” to identify heritage items establishes a lower threshold for identification of heritage items. This is why the definition of heritage items proposed below uses the word “preserved” rather than “conserved”.

#### Reasons to Preserve—Open-Ended List

33. The trend for heritage definitions has been towards longer lists of references to specific disciplines. (For example, a reference in one definition to items that are significant for their “historic, artistic and scientific interest” will, in later definitions, be expanded to include other reasons for significance, such as their “archeological, architectural, agricultural, military and technological” interest.) Furthermore, most definitions introduce an open-ended aspect by introducing their lists of reasons (or disciplines) with phrases such as “for example” or “including”. An open-ended approach allows for evolving views on why things might become heritage items, and aims to future proof the description. This is why the definition of heritage items proposed below has a list of reasons for preservation which is open-ended; reasons are “not limited to” those listed.

#### Financial Reporting Specific Issues Part of Heritage Items Definition?

34. When defining heritage items, financial reporting definitions and descriptions usually focus on the term “heritage asset” and usually refer to characteristics relevant to asset recognition and measurement. For example, a financial reporting definition of heritage may state that heritage assets are difficult to value. The CP’s definition of heritage items should not make assumptions about financial reporting issues that will be discussed in subsequent chapters. This is why the definition of heritage items proposed below does not refer to financial reporting characteristics.

#### Preliminary View 1—Heritage Items

35. The IPSASB’s preliminary view is that the following definition captures the special characteristics that define heritage items and distinguishes them from other phenomena for the purposes of financial reporting:

Heritage items are items that, because of their rarity, importance and/or significance, are expected to be held indefinitely for the benefit of present and future generations and preserved. They are held and preserved for many different reasons including, and not limited to, their archeological, architectural, agricultural, artistic, cultural, environmental, historical, natural, scientific or technological importance.

91.—

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<sup>5</sup> Paragraph 15 of the preface to the Conceptual Framework, referred to in paragraph 2 of this CP’s Chapter 1.

## APPENDIX C: CULTURAL HERITAGE—EXCERPTS FROM UNESCO CONVENTIONS

- G1. Excerpts are provided in date order, starting with the first Convention, signed in 1952. The order indicates that UNESCO member states, and UNESCO itself, progressively extended the type of heritage for consideration. The first conventions focused on cultural heritage (first termed “cultural property”), which consists of physical, human-made, non-living heritage. That focus expands to cover first natural heritage in 1972, then underwater cultural heritage in 2001, and intangible cultural heritage in 2003.
- G2. The explicitly noted disciplines/topics for cultural heritage have expanded over time as well, which is evident from a comparison of the examples for “cultural property” in 1952 Convention with those for “cultural heritage” in 1970. (That expansion does not change the substance of cultural heritage, since listed examples are illustrative rather than exhaustive.)

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### EXCERPTS

#### Cultural Property

Excerpt from the 1954 Convention for the *Protection of Cultural Property in the Event of Armed Conflict with Regulations for the Execution of the Convention*

Article 1. Definition of cultural property: For the purposes of the present Convention, the term ‘**cultural property**’ shall cover, irrespective of origin or ownership:

- (a) movable or immovable property of great importance to the cultural heritage of every people, such as monuments of architecture, art or history, whether religious or secular; archaeological sites; groups of buildings which, as a whole, are of historical or artistic interest; works of art; manuscripts, books and other objects of artistic, historical or archaeological interest; as well as scientific collections and important collections of books or archives or of reproductions of the property defined above;
- (b) buildings whose main and effective purpose is to preserve or exhibit the movable cultural property defined in sub-paragraph (a) such as museums, large libraries and depositories of archives, and refuges intended to shelter, in the event of armed conflict, the movable cultural property defined in sub-paragraph (a);
- (c) centers containing a large amount of cultural property as defined in sub-paragraphs (a) and (b), to be known as ‘centers containing monuments’.

Excerpt from the 1970 Convention on the *Means of Prohibiting and Preventing the Illicit Import, Export and Transfer of Ownership of Cultural Property*

Article 1. For the purposes of this Convention, the term ‘**cultural property**’ means property which, on religious or secular grounds, is specifically designated by each State as being of importance for archaeology, prehistory, history, literature, art or science and which belongs to the following categories:

- (a) Rare collections and specimens of fauna, flora, minerals and anatomy, and objects of palaeontological interest;
- (b) property relating to history, including the history of science and technology and military and social history, to the life of national leaders, thinkers, scientists and artist and to events of national importance;

- ~~(c) products of archaeological excavations (including regular and clandestine) or of archaeological discoveries;~~
- ~~(d) elements of artistic or historical monuments or archaeological sites which have been dismembered;~~
- ~~(e) antiquities more than one hundred years old, such as inscriptions, coins and engraved seals;~~
- ~~(f) objects of ethnological interest;~~
- ~~(g) property of artistic interest, such as:
  - ~~(i) pictures, paintings and drawings produced entirely by hand on any support and in any material (excluding industrial designs and manufactured articles decorated by hand);~~
  - ~~(ii) original works of statuary art and sculpture in any material;~~
  - ~~(iii) original engravings, prints and lithographs;~~
  - ~~(iv) original artistic assemblages and montages in any material;~~~~
- ~~(h) rare manuscripts and incunabula, old books, documents and publications of special interest (historical, artistic, scientific, literary, etc.) singly or in collections;~~
- ~~(i) postage, revenue and similar stamps, singly or in collections;~~
- ~~(j) archives, including sound, photographic and cinematographic archives;~~
- ~~(k) articles of furniture more than one hundred years old and old musical instruments.~~

### **Cultural and Natural Heritage**

Excerpt from the 1972 Convention on *Protecting the World Cultural and Natural Heritage*

#### **I. Definitions of the cultural and the natural heritage,**

Article 1. For the purposes of this Convention, the following shall be considered as **`cultural heritage'**:

~~monuments: architectural works, works of monumental sculpture and painting, elements or structures of an archaeological nature, inscriptions, cave dwellings and combinations of features, which are of outstanding universal value from the point of view of history, art or science;~~

~~groups of buildings: groups of separate or connected buildings which, because of their architecture, their homogeneity or their place in the landscape, are of outstanding universal value from the point of view of history, art or science;~~

~~sites: works of man or the combined works of nature and of man, and areas including archaeological sites which are of outstanding universal value from the historical, aesthetic, ethnological or anthropological points of view.~~

Article 2. For the purposes of this Convention, the following shall be considered as **`natural heritage'**:

~~natural features consisting of physical and biological formations or groups of such formations, which are of outstanding universal value from the aesthetic or scientific point of view;~~

~~geological and physiographical formations and precisely delineated areas which constitute the habitat of threatened species of animals and plants of outstanding universal value from the point of view of science or conservation;~~

~~natural sites or precisely delineated natural areas of outstanding universal value from the point of view of science, conservation or natural beauty.~~

### **Underwater Cultural Heritage**

~~Excerpt from the 2001 Convention on Safeguarding the Underwater Cultural Heritage~~

~~Article 1—Definitions: For the purposes of this Convention:~~

- ~~1. (a) “Underwater cultural heritage” means all traces of human existence having a cultural, historical or archaeological character which have been partially or totally under water, periodically or continuously, for at least 100 years such as:~~
  - ~~(i) sites, structures, buildings, artefacts and human remains, together with their archaeological and natural context;~~
  - ~~(ii) vessels, aircraft, other vehicles or any part thereof, their cargo or other contents, together with their archaeological and natural context; and~~
  - ~~(iii) objects of prehistoric character.~~
- ~~(b) Pipelines and cables placed on the seabed shall not be considered as underwater cultural heritage.~~
- ~~(c) Installations other than pipelines and cables, placed on the seabed and still in use, shall not be considered as underwater cultural heritage.~~

### **Intangible Cultural Heritage**

~~Excerpt from 2003 Convention, Safeguarding the Intangible Cultural Heritage~~

~~Article 2—Definitions: For the purposes of this Convention:~~

- ~~1. The “intangible cultural heritage” means the practices, representations, expressions, knowledge, skills—as well as the instruments, objects, artefacts and cultural spaces associated therewith—that communities, groups and, in some cases, individuals recognize as part of their cultural heritage. This intangible cultural heritage, transmitted from generation to generation, is constantly recreated by communities and groups in response to their environment, their interaction with nature and their history, and provides them with a sense of identity and continuity, thus promoting respect for cultural diversity and human creativity. For the purposes of this Convention, consideration will be given solely to such intangible cultural heritage as is compatible with existing international human rights instruments, as well as with the requirements of mutual respect among communities, groups and individuals, and of sustainable development.~~
- ~~2. The “intangible cultural heritage”, as defined in paragraph 1 above, is manifested inter alia in the following domains:~~
  - ~~(a) oral traditions and expressions, including language as a vehicle of the intangible cultural heritage;~~
  - ~~(b) performing arts;~~
  - ~~(c) social practices, rituals and festive events;~~
  - ~~(d) knowledge and practices concerning nature and the universe;~~

(e) ~~traditional craftsmanship.~~

## **APPENDIX D: STATISTICAL ACCOUNTING REFERENCES TO HERITAGE ITEMS**

### **Introduction**

D1. This appendix provides a summary and extracts from the following sources relevant to statistical accounting, including sources that form part of GFS reporting guidelines, as of October 2015.

- System of National Accounts (SNA 2008)
- Government Finance Statistics Manual (GFSM 2014)
- European System Of Accounts (ESA 2010)

### **Overview of Sources**

D2. Where the SNA and GFS reporting guidelines refer to items that, applying financial accounting descriptions, are examples of heritage assets, those items are expected to be recognized and measured at current value. The relevant categories are:

- “Public monuments” and “valuables” in SNA 2008;
- “Heritage assets” and “valuables” in GFSM 2014; and
- “Historic monuments” and “valuables” in ESA 2010.

D3. This review of the sources included the SNA’s coverage of natural resources, including land. That coverage does not make separate reference to natural resources such as national parks, conservation land and natural reserves.

#### **SNA 2008**

D4. The SNA 2008 does not use the term “heritage”. Instead it refers to “public monuments” and “valuables”, which are distinctly different categories of assets. Both categories include items that, applying present financial reporting definitions of heritage assets, would be examples of heritage items.

D5. In the case of public monuments arguably all items contained in this set would be heritage items. In the case of valuables, some items would be heritage items (e.g. precious jewels with historical significance or artwork with cultural or historical significance), while others would not (e.g. precious jewels that do not have historical significance).

#### **GFSM 2014**

D6. The Government Finance Statistics Manual 2014 (GFSM 2014) describes “heritage assets”, using a description similar to those used in financial reporting. It also refers to the “valuables” category of assets.

#### **ESA 2010**

D7. ESA 2010 refers to “heritage assets”, giving “historic monuments” as an example, and also uses the “valuables” asset category, implying that this is a separate category from that of heritage assets.

## **Access to Sources**

D8. ~~IMF (2014) Government Finance Statistics Manual—GFSM 2014 at:~~

~~<https://www.imf.org/external/Pubs/FT/GFS/Manual/2014/gfsfinal.pdf>~~

D9. ~~Eurostat (2010) European System of Accounts—ESA 2010 at:~~

~~<http://ec.europa.eu/eurostat/documents/3859598/5925693/KS-02-13-269-EN.PDF>~~

D10. ~~IPSASB Consultation Paper, *IPSASs and Government Finance Statistics Reporting Guidelines*, at:~~

~~<https://www.ifac.org/system/files/publications/files/IPSASs%20and%20GFS%20Guidelines%20FINAL%20October%2016%202012.pdf>~~

## **Government Finance Statistics Manual—GFSM 2014**

D11. ~~The GFSM 2014 includes a brief description of heritage assets:~~

~~Heritage assets, which are assets that a government intends to preserve indefinitely because they have unique historic, cultural, educational, artistic, or architectural significance. (paragraph 7.11, page 173)~~

D12. ~~There were no further references to heritage assets, as shown by an electronic search through GFSM 2014, using the words “heritage” and “specialized”.~~

## **Eurostat (2010) European System of Accounts—ESA 2010**

D13. ~~The ESA 2010 mentions heritage assets as follows:~~

~~Some assets are more specific to government: heritage assets, like historic monuments; infrastructure assets, such as roads and communications facilities; and equity stakes in public corporations that are without private equivalent. (Paragraph 20.144, page 20)~~

D14. ~~That is the only reference to heritage assets in the ESA 2010.~~

## **IPSASB Consultation Paper, IPSASs and GFS Reporting Guidelines**

D15. ~~The IPSASB Consultation Paper, *IPSASs and GFS Reporting Guidelines*, notes that:~~

~~2008 SNA has aligned guidance on the valuation of non-cash-generating assets. The revaluation options in IPSAS 16, *Investment Property*, IPSAS 17, *Property, Plant & Equipment* and IPSAS 31, *Intangible Assets* are aligned with the SNA's use of current market price. IPSAS 17 and IPSAS 31 options to recognize heritage assets allow entities to choose a treatment that is the same as the SNA's recognition of heritage assets. (page 23)~~

## **SNA 2008—Does not use the term “heritage assets”**

D16. ~~SNA 2008 has been searched for the word “heritage” and it does not appear. However, the SNA is clear that “valuables” such as works of art (and others) should be recognized:~~

~~Intermediate consumption does not include expenditures by enterprises on valuables consisting of works of art, precious metals and stones and articles of jewellery fashioned out of them. Valuables are assets acquired as stores of value: they are not used up in production and do not deteriorate physically over time. Expenditures on valuables are recorded in the capital account. Intermediate consumption also does not include costs incurred by the gradual using up of fixed assets owned by the enterprise: the decline in their value during the accounting period is~~



~~recorded as consumption of fixed capital. However, intermediate consumption does include the rentals paid on the use of fixed assets, whether equipment or buildings, that are leased from other institutional units under an operating lease, and also fees, commissions, royalties, etc., payable under licensing arrangements, as explained above.~~

~~9.57 Final consumption expenditure excludes expenditure on fixed assets in the form of dwellings or on valuables. Dwellings are goods used by their owners to produce housing services. Expenditure on dwellings by households, therefore, constitutes gross fixed capital formation. When dwellings are rented by their owners, rentals are recorded as output of housing services by owners and final consumption expenditure by tenants. When dwellings are occupied by their owners, the imputed value of the housing services enters into both the output and final consumption expenditure of the owners. Valuables are expensive durable goods that do not deteriorate over time, are not used up in consumption or production, and are acquired primarily as stores of value. They consist mainly of works of art, precious stones and metals and jewellery fashioned out of such stones and metals. Valuables are held in the expectation that their prices, relative to those of other goods and services, will tend to increase over time, or at least not decline. Although the owners of valuables may derive satisfaction from possessing them, they are not used up in the way that consumption goods, including consumer durables, are used up over time.~~

~~**10.13 Valuables are produced goods of considerable value that are not used primarily for purposes of production or consumption but are held as stores of value over time.**~~

~~Valuables are expected to appreciate or at least not to decline in real value, nor to deteriorate over time under normal conditions. They consist of precious metals and stones, jewellery, works of art, etc. Valuables may be held by all sectors of the economy.~~

~~**3. Acquisitions less disposals of valuables**~~

~~The asset boundary~~

~~10.149 Valuables include precious metals and stones, antiques and other art objects and other valuables. However, not all items that may be described by one of these titles should necessarily be included as a valuable in the balance sheet of the owner. The intent of the heading is to capture those items that are often regarded as alternative forms of investment. At various times, investors may choose to buy gold rather than a financial asset and pension funds have been known to buy "old master" paintings when the prices of financial assets were behaving in a volatile manner. Individuals (households in SNA terminology) may also choose to acquire some of these items knowing that they may be sold if there is a need to raise funds.~~

~~Valuation~~

~~10.150 Costs of ownership transfer, such as valuers' and auctioneers' margins, are often incurred when valuables are exchanged. As with other non-financial assets, these costs are treated as gross capital formation and included in the value of the items when recorded in the balance sheet.~~

~~Transactions in valuables~~

~~10.151 A possible categorization of valuables is: precious metals and stones; antiques and other art objects; and other valuables. This list should be regarded as indicative and supplementary rather than a standard breakdown. The context of each category is described to assist in identifying and valuing valuables.~~

### *Precious metals and stones*

~~10.152 Precious metals and stones are treated as valuables when they are not held by enterprises for sale or use as inputs into processes of production nor are held as monetary gold and are not held as a financial asset in the form of unallocated metal accounts.~~

### *Antiques and other art objects*

~~10.153 Paintings, sculptures, etc., recognized as works of art and antiques are treated as valuables when they are not held by enterprises for sale. In principle, museum exhibits are included under valuables.~~

### *Other valuables*

~~10.154 Other valuables not elsewhere classified include such items as collections of stamps, coins, china, books etc. that have a recognized market value and fine jewellery, fashioned out of precious stones, and metals of significant and realizable value.~~

### *Valuables*

~~13.42 Given their primary role as stores of value, it is especially important to value works of art, antiques, jewellery, precious stones and metals at current prices. To the extent that well-organized markets exist for these items, they should be valued at the actual or estimated prices that would be paid for them to the owner were they sold on the market, excluding any agents' fees or commissions payable by the seller, on the date to which the balance sheet relates. On acquisition they are valued at the price paid by the purchaser including any agents' fees or commissions.~~

~~13.43 An approach in the absence of organized markets is to value these items using data on the values at which they are insured against fire, theft, etc., to the extent information is available.~~

## **2. Non-produced assets**

### *Natural resources*

#### *Land*

~~13.44 In principle, the value of land to be shown under natural resources in the balance sheet is the value of land excluding the value of improvements, which is shown separately under fixed assets, and excluding the value of buildings on the land which is also to be shown separately under fixed assets. Land is valued at its current price paid by a new owner, excluding the costs of ownership transfer which are treated, by convention, as gross fixed capital formation and part of land improvements and are subject to consumption of fixed capital.~~

~~13.45 Because the current market value of land can vary considerably according to its location and the uses for which it is suitable or sanctioned, it is essential to identify the location and use of a specific piece or tract of land and to price it accordingly.~~

~~13.46 For land underlying buildings, the market will, in some instances, furnish data directly on the value of the land. More typically, however, such data are not available and a more usual method is to calculate ratios of the value of the site to the value of the structure from valuation appraisals and to deduce the value of land from the replacement cost of the buildings or from the value on the market of the combined land and buildings. When the value of land cannot be separated from the building, structure, or plantation, vineyard, etc. above it, the composite asset should be classified in the category representing the greater part of its value. Similarly, if the value of the land improvements (which include site clearance, preparation for the erection of buildings or planting of crops and costs of ownership transfer) cannot be separated~~

~~from the value of land in its natural state, the value of the land may be allocated to one category or the other depending on which is assumed to represent the greater part of the value.~~

~~13.47 It is usually much easier to make a division between land and buildings for the total economy than for individual sectors or subsectors. Separate figures are needed for studies of national wealth and environmental problems. Fortunately, combined figures are often suitable for purposes of analysing the behaviour of institutional units and sectors.~~

~~13.48 Land appears on the balance sheet of the legal owner except when it is subject to a financial lease as may most often occur in connection with a financial lease over a building or plantation on the land. By convention, an exception is made for cases where the legal owner of a building is not the legal owner of the land on which the building stands but the purchase price of the building includes an upfront payment of rent on the land beneath without any prospect of further payments being due in future. In such a case, land is recorded on the balance sheet of the owner of the building on the land.~~

#### ~~*Mineral and energy resources*~~

~~13.49 The value of subsoil mineral and energy resources is usually determined by the present value of the expected net returns resulting from the commercial exploitation of those resources, although such valuations are subject to uncertainty and revision. As the ownership of mineral and energy resources does not change frequently on markets, it may be difficult to obtain appropriate prices that can be used for valuation purposes. In practice, it may be necessary to use the valuations that the owners of the assets place on them in their own accounts.~~

~~13.50 It is frequently the case that the enterprise extracting a resource is different from the owner of the resource. In many countries, for example, oil resources are the property of the state. However, it is the extractor who determines how fast the resource will be depleted and since the resource is not renewable on a human time scale, it appears as if there has been a change of economic ownership to the extractor even if this is not the legal position. Nor is it necessarily the case that the extractor will have the right to extract until the resource is exhausted. Because there is no wholly satisfactory way in which to show the value of the asset split between the legal owner and the extractor, the whole of the resource is shown on the balance sheet of the legal owner and the payments by the extractor to the owner shown as rent. (This is therefore an extension of the concept of a resource rent applied in this case to a depletable asset.)~~

#### ~~*Non-cultivated biological resources, water resources and other natural resources*~~

~~13.51 Non-cultivated biological resources, water and other natural resources are included in the balance sheet to the extent that they have been recognized as having economic value that is not included in the value of the associated land. As observed prices are not likely to be available, they are usually valued by the present value of the future returns expected from them.~~

## DRAFT CHAPTER 3, HERITAGE ITEMS AS ASSETS

### 3.1—Introduction

1. This chapter considers whether heritage items could be assets for financial reporting purposes. This has been a difficult question for many years. On the one hand there is general agreement that heritage items are valuable. There is also a general view that valuable things should be considered assets. But financial reporting uses the word “asset” with a technical meaning, which may not apply to some or all heritage items.
2. ~~To address this question, this chapter applies the Conceptual Framework’s definition of an asset to heritage items and discusses whether they could be assets for financial reporting purposes. Paragraphs 5.6 to 5.13 of the Conceptual Framework address the definition of an asset. Paragraph 5.6 states:~~

An asset is: A resource presently controlled by the entity as a result of a past event.

- ~~2.3. This chapter discusses each of the three criteria that form this definition, applied to heritage items and their special characteristics. Then issues raised by categories and subcategories of heritage items are considered in light of points arising from the more general discussion. First, however, a brief discussion of (a) the relationship between asset existence and recognition of an asset in the financial statements; and (b) the information that users of GPFs need, when considering whether heritage items could be assets for financial reporting purposes.~~

#### *Relationship between Asset Existence and Asset Recognition*

- ~~3.4. Frequently accountants and other stakeholders consider that the existence of an asset means, almost inevitably, that the asset will be recognized in the financial statements. These two things—(asset existence and asset recognition)—are related, but the first does not inevitably lead to the second. In brief, even where an asset exists it must also meet the recognition criteria of measurability, before it can be recognized. For some categories of asset, measurability can be viewed as unproblematic, a hurdle to recognition that is very easily leapt. That is not necessarily the case for heritage items.~~
- ~~4.5. This chapter only discusses asset existence, i.e. the question of whether heritage items could be assets for financial reporting purposes. Chapter 4 discusses recognition of heritage assets. Questions about whether heritage items, if they are assets, should be recognized, which include the question of whether the benefits of measuring heritage items in monetary terms justify the costs, are considered in Chapter 4, which will discuss whether heritage assets can be measured and/or should be recognized. That discussion will include, for example, consideration of the cost–benefit constraint. The benefits of reporting information arising from heritage asset recognition should justify the costs imposed<sup>1</sup>.~~

<sup>1</sup> Paragraph 3.39 of the Conceptual Framework introduces the cost–benefit constraint by stating that: “Financial reporting imposes costs. The benefits of financial reporting should justify those costs. Assessing whether the benefits of providing information justify the related costs is often a matter of judgment, because it is often not possible to identify and/or quantify all the costs and all the benefits of information included in GPFs.”

Objectives of GPFRs, Information Needs of GPFR Users (Accountability and Decision-Making)

6. Consideration of whether heritage items are assets takes place in the over-arching context of the objectives of GPFRs, which are to provide useful information to users of GPFRs. Information is used for the purpose of holding a reporting entity accountable and making decisions, including decisions on resource usage and service performance. As noted in Chapter 4 of this CP, the Conceptual Framework's measurement objective, when considering the recognition of elements in the financial statements, emphasizes the importance of providing information that is useful for the assessment of:
  - (a) Costs of services;
  - (b) Operational capacity; and
  - (c) Financial capacity.
7. There appears to be general agreement that public sector entities holding heritage items should be held accountable for those items. Members of the public need to know whether heritage items are being cared for and whether resources applied are adequate to ensure heritage items' security, protection and preservation. But does information for accountability involve monetary information about heritage items? Should information be included in the financial statements or is there scope to meet users' accountability and decision-making needs through presentation of information in other GPFRs?
8. There are different views on whether treating heritage items as assets for financial reporting purposes will result in information that would support the appropriate type of accountability and decision-making needed for heritage items. One view is that recognition of heritage items as assets for financial reporting purposes is a necessary starting point for effective management, stewardship and accountability, and generates sufficient benefits to justify the costs. An alternative view is that representing heritage items as assets in the financial statements diverts GPFR users' attention away from what should be the primary concern, which is to preserve heritage items for present and future generations. Furthermore, some argue that publishing information on the monetary value of heritage items could either misrepresent their heritage significance (i.e. the reasons to cherish them) or convey an erroneous impression that they are available for sale, when heritage items are expected to be held indefinitely for the benefit of present and future generations and preserved. From this second perspective, information reported on heritage items should:
  - (a) Treat any monetary value presented as "symbolic" of the heritage item's heritage significance, rather than indicative of its value as a resource; and
  - (b) Focus primarily on (i) qualitative information about heritage (rather than quantitative, monetary measurement) and (ii) information that is useful to evaluate the extent to which heritage items are being preserved, including (for example) information on the extent of any deferred maintenance and whether expenditure budgeted for heritage preservation is sufficient and has been applied according to the budget.

**3.2—Heritage Items as Resources Conceptual Framework's Definition of an Asset**

5. Chapter 5 of the Conceptual Framework, and specifically paragraphs 5.6 to 5.13, address the definition of an asset. To be an asset for financial reporting purposes, a heritage item needs to:
  - (a) Be a resource that is...

~~(b) — Presently controlled by the entity, as a result of....~~

~~(c) — A past event.~~

Meaning of “Resource” in the Conceptual Framework Resource

9. Paragraph 5.7 of the Conceptual Framework describes states that:

~~aA resource as is~~ an item with service potential or the ability to generate economic benefits. Physical form is not a necessary condition of a resource. The service potential or ability to generate economic benefits can arise directly from the resource itself or from the rights to use the resource. Some resources embody an entity’s rights to a variety of benefits including, for example, the right to:

- ~~(a) Use the resource to provide services<sup>2</sup>;~~
- ~~(b) Use an external party’s resources to provide services, for example, leases;~~
- ~~(c) Convert the resource into cash through its disposal;~~
- ~~(d) Benefit from the resource’s appreciation in value; or~~
- ~~(e) Receive a stream of cash flows.”~~

10. Then paragraph 5.8 of the Conceptual Framework states:

Service potential is the capacity to provide services that contribute to achieving the entity’s objectives. Service potential enables an entity to achieve its objectives without necessarily generating net cash inflows.

11. Paragraph 5.10 of the Conceptual Framework states:

Economic benefits are cash inflows or a reduction in cash outflows. Cash inflows (or reduced cash outflows) may be derived from, for example:

- ~~(d)(a)~~ An asset’s use in the production and sale of services; or
- ~~(e)(b)~~ The direct exchange of an asset for cash or other resources.

6. ~~Chapter 5 of the Conceptual Framework also notes that some resources embody an entity’s rights to a variety of benefits including, for example, the right to:~~

- ~~(a) — Use the resource to provide services;~~
- ~~(b) — Use an external party’s resources to provide services, for example, leases;~~
- ~~(c) — Convert the resource into cash through its disposal;~~
- ~~(d) — Benefit from the resource’s appreciation in value; or~~
- ~~(e)(c) Receive a stream of cash flows.~~

7.12. ~~As noted earlier in this CP, P~~paragraph 5.9 of the Conceptual Framework refers to heritage assets when it states that:

Public sector assets that embody service potential may include recreational, heritage, community, defense and other assets which are held by governments and other public

<sup>2</sup> The Conceptual Framework includes a footnote here (footnote number 6) which states that “References to “services” in the Conceptual Framework encompass “goods”.”

sector entities, and which are used to provide services to third parties. Such services may be for collective or individual consumption. Many services may be provided in areas where there is no market competition or limited market competition. The use and disposal of such assets may be restricted as many assets that embody service potential are specialized in nature. [Underline added.]

### *Control of a Resource*

8. ~~Chapter 5 of the Conceptual Framework explains that control of a resource means that the entity is able to use the resource so as to derive the benefit of the service potential or economic benefits embodied in the resource in the achievement of its service delivery or other objectives. When considering whether the entity has control over a heritage item the following four indicators of control, identified in Chapter 5, should be considered:~~

- ~~(a) Legal ownership;~~
- ~~(b) Access to the resource or ability to deny or restrict access to the resource;~~
- ~~(c) The means to ensure that the resource is used to achieve its objectives; and~~
- ~~(d) The existence of an enforceable right to service potential or the ability to generate economic benefits arising from a resource.~~

9. ~~Paragraph BC5.12 notes an issue related to heritage assets when it states that:~~

~~Therefore, the ability to access a resource must be supplemented by the ability to deny or restrict the access of others to that resource—for example, (a) an entity might decide whether to set an entrance fee to a museum and restrict access to those who do not pay the fee, ...~~

### *Presently Controlled as a Result of a Past Event*

10. ~~The reporting entity must presently control the resources, as a result of a past event. The Conceptual Framework describes the type of past event, including a transaction, that could indicate control:~~

~~...Entities can obtain assets by purchasing them in an exchange transaction or developing them. Assets may also arise through non-exchange transactions, including through the exercising of sovereign powers. The power to tax or to issue licenses and to access or restrict or deny access to the benefits embodied in intangible resources, like the electromagnetic spectrum, are examples of public sector-specific powers and rights that may give rise to assets. In assessing when an entity's control of rights to resources arise the following events may be considered: (a) a general ability to establish a power, (b) establishment of a power through a statute, (c) exercising the power to create a right, and (d) the event which gives rise to the right to receive resources from an external party. An asset arises when the power is exercised and the rights exist to receive resources. [paragraph 5.13, Conceptual Framework]~~

11. ~~The next section considers whether heritage items generally could meet this definition of an asset, i.e. could be resources that a public sector entity presently controls as a result of a past event.~~



## **Definition of an Asset applied to Heritage Items**

### **Are Heritage Items Resources? in the Form of Economic Benefits**

### **Do Heritage Items Generate Economic Benefits?**

13. ~~Some H~~Heritage items ~~can be viewed may as be~~ able to generate economic benefits for the reporting entity. Economic benefits could arise through one or more of the following:
  - (a) Sale of tickets to view the heritage items;
  - (b) Sale of related merchandising;
  - (c) Loan or rent of the item to other entities; and
  - (d) Sale of the item itself.
14. With respect to point (b) it should be noted that the economic benefits from merchandising ~~may should~~ accrue to ~~entities other than the public sector the reporting~~ entity that holds the heritage item. There are cases where the existence of a heritage item allows other entities to generate economic benefits. For example, statuettes of the ~~Statue of Liberty, the Eiffel Tower or the Taj Mahal,~~ may be ~~produced and~~ sold by ~~other entities~~merchants who have no connection with the ~~entity that holds or controls the Eiffel Tower,~~ which ~~The receive~~ economic benefits received by those merchants do not represent economic benefits for the reporting entity responsible for the Eiffel Tower. from the heritage item, without incurring any of the costs that the reporting entity incurs with respect to preserving and maintaining the item.
15. With respect to point (d), despite restrictions that prevent the sale of many heritage items, some heritage items can be sold, so long as they remain inside the national jurisdiction. There are also heritage items that can be sold to entities outside of the national jurisdiction. History shows that, in times of significant economic distress, a government may ~~also~~ decide to sell (or rent out) heritage items that ordinarily would be expected to remain fully under the control of the national, state or local government.
16. There are several problems with this view of heritage items as capable of generating economic benefits. First, for many or even most heritage items there are likely to be very high costs involved in preserving them. ~~As a result the situation is one of negative cash flows for t~~The cash outflows that the entity incurs to preserve a heritage item are not necessarily equaled by cash inflows raised by, or on behalf of, the heritage item—for example, funding from government agencies, private donors, or cash flows generated through charging for access, where appropriate—with the result that i.e.no net economic benefits are generated. Some heritage items, for example ruined castles or archeological sites, do not have charges to access them and the only cash flows associated with them relate to the outflows required to preserve them. Similarly, many heritage sites and artwork (for example, parks, piazzas or squares, fountains, sculptures and stairways) are either public space or decorate a public space, so that the public has almost entirely free, untrammelled access to them.
17. ~~A second problem is that h~~Heritage items are not usually held by a public sector entity ~~in order to use them to for the purpose of~~ generating economic benefits. ~~Even where, for example, a heritage building also provides office space, the Ministry or other public sector entity occupying the heritage building may be able to secure better accommodation, at a lower cost (given the high costs of maintaining a heritage building). On balance the heritage building may appear to convey no~~



~~economic benefits for the entity that occupies it.~~ Although some heritage items can be sold, many cannot or, if legally able to ~~sell them be sold~~, their special nature as heritage items is such that sale or other monetary gains from holding the heritage items is extremely unlikely. For example, a government ~~may own a owned~~ national park, which consists of land and ~~the a~~ complex ecosystem sustained by the land and its water systems, ~~for the purpose of is held in perpetuity and made~~ making it accessible to the public as part of the nation's heritage ~~and to conserve rare living organisms that use that ecosystem~~. ~~Given that purpose, the heritage item (the national park) is expected to be held in perpetuity and sale or other monetary gains from holding the heritage items are extremely unlikely.~~ Where an entity uses a heritage item for non-heritage purposes (for example, a heritage building used to provide office space) the higher costs of maintaining the heritage item may have the effect that no net economic benefit results for the entity that occupies the heritage building.

18. ~~So, many (and arguably most) heritage items cannot or will not be sold, may be inalienable, access to them by members of the public is usually either free or, if there is a charge, the cost of access is below the entity's cost to preserve the heritage item.~~

#### ~~Resources in the Form of De Heritage Items Have Service Potential?~~

18. Heritage items are generally considered to have service potential. Arguably the special characteristics of heritage items—what makes them what they are—indicates their service potential. Heritage items are rare, important and/or significant. They are held for the benefit of present and future generations. They are preserved because of their importance to particular communities, to the nation as a whole, and to the public. Their preservation is a public service and their existence provides a public service.
19. A heritage item may contribute directly to an entity's objectives as a provider of heritage services. For example, heritage paintings directly contribute to a public art gallery's service performance objectives, where the art gallery's objective is to allow the public to enjoy, appreciate and gain access to heritage paintings. A heritage item may also contribute either directly or indirectly to an entity's non-heritage objectives. For example, heritage paintings held by a Ministry of Finance to decorate the Ministry's head office, provide a sense of history and purpose related to the function of that part of government, while also educating and impressing visitors. Therefore, they indirectly contribute to the Ministry's non-heritage objectives. Similarly, the Ministry's headquarters' building may be a fulfils a non-heritage (or "operational") purpose, despite being a heritage building, in which case the building is a resource for the Ministry, providing both similar benefits similar to those provided by heritage paintings, while also providing and accommodation space that otherwise would need to be rented or purchased.
20. Governments and other public sector entities usually may hold heritage items to provide services to third parties. For example, a national, provincial or city art gallery holds paintings to provide a service to the public, by providing access to, and celebrating, art and a community's heritage. The Conceptual Framework explains, in paragraph 5.9, that when an entity holds an item to provide services to third parties, the item still has service potential for the reporting entity<sup>3</sup>. This is part of

<sup>3</sup> Paragraph 5.9 of the Conceptual Framework states that: "Public sector assets that embody service potential may include recreational, heritage, community, defense and other assets which are held by governments and other public sector entities, and which are used to provide services to third parties. Such services may be for collective or individual consumption. Many services may be provided in areas where there is no market competition or limited market

what makes public sector entities special and distinguishes them from commercial, profit-oriented entities; they operate on behalf of and provide services to others, especially the public as a whole, as well as particular groups within the public<sup>4</sup>.

~~21. Arguably the special characteristics of heritage items—what makes them what they are—indicates their service potential. Heritage items are rare, important and/or significant. They are held for the benefit of present and future generations. They are preserved because of their importance to particular communities, to the nation as a whole, and to the public. Their preservation is a public service, while their existence provides a public service. It could be said that, by definition, heritage items have service potential.~~

#### Dual Use Operational Heritage Items as Resources

21. There are many situations in which heritage items are primarily held for purposes other than to provide heritage services, i.e. for non-heritage, “operational” reasons, and their heritage characteristics are (arguably) of lesser importance. This may have been their original purpose and only subsequently, with the passage of time, has the item come to meet the description of a heritage item~~acquired heritage status~~. That is the situation for many historic buildings, ~~for~~ infrastructure such as historic harbor fronts, and ~~or~~ even quite specialized and relatively recent constructions such as ~~a~~ historic water treatment plant or power generation station<sup>5</sup>.

22. There are also situations where a planned construction aims to fulfill two purposes from the beginning. For example, a flood control system investments can may be designed to also operate as a wildlife reserves or as recreational park, which sits at the top of the system and provides, when necessary, space for collection and absorption of flood waters.~~s~~. Rivers may be covered over and an extensive park created in the newly created land above where the river used to be. In these dual use situations the heritage items provides both a heritage service and another non-heritage “operational” service. The public sector entity may also use ~~the a~~ heritage item to generate cash flow, by charging for the non-heritage aspect of the heritage item’s services.

23. Arguably, in dual usage where heritage items provide non-heritage “operational” services, there is an additional basis upon which to should be considered assets that they are resources. due to their Such “operational heritage items” have the ability to generate not only heritage services but also other non-heritage services and, potentially, economic benefits.

24. There may be scope to separate out a heritage component of the overall item and then account for that component differently, due to its special heritage characteristics. For example, in the case of a flood control system that includes a park above the extensive drainage system below ground level, perhaps 95% of the structure has the purpose of flood control while only the top 5% operates to provide heritage services and has a-heritage item characteristics. Then the flood control component

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competition. The use and disposal of such assets may be restricted as many assets that embody service potential are specialized in nature.

<sup>4</sup> While paragraphs 20 and 21 provide examples of works of art in order to illustrate that heritage items can have service potential, this does not preclude other heritage items being similarly considered, for example museum collections of archeological artifacts, parks and reserves, etc.

<sup>5</sup> The R.C. Harris Water Treatment Plant in Toronto, for example, was constructed in the first half of the 20<sup>th</sup> century. It was architecturally significant when first constructed and has become more significant as a heritage item subsequently. It continues to operate as a water treatment plant and is responsible for more than 30% of Toronto's water.

(95% of the structure) would still be integral to the heritage item, but would be considered a resource (and possibly therefore an asset) for financial reporting purposes.

*Doubts about Existence of a Resource*

25. There are situations where the existence of a resource may be in doubt, because the existence of a heritage item is in doubt. For example, the importance of an archeological site may be unclear, until excavations have been carried out or further information collected. Similarly, whether a donated collection (of books or stamps or historic documents) is worth preserving for present and future generations may be unclear and, until further investigation is done, both the existence of a heritage item and existence of a resource is unclear. Doubts about the existence of both a heritage item and a resource may also arise due to the, previously mentioned, subjective nature of “heritage”. For example, some may view modern artworks, including graffiti by renowned graffiti artists, as heritage items, while others disagree. Statues (or flags) that glorify past rulers may be viewed by some as heritage items and by others as symbols of tyranny.
26. There are situations where a heritage item exists, but its resource nature could, nonetheless, be in doubt. For example, the cost of gaining access to underground cultural heritage may not justify either (a) raising the heritage item to above the ground, or (b) constructing another way to give access to it. In that situation it would appear that there is no resource, because the heritage item (in its present state) does not have service potential or future economic benefits. There have been situations where subway or tunnel excavations discover heritage items and either economics or the higher priority of completing the infrastructure project means that excavation of the items and their preservation is not possible. In other cases the foundation of a building may include one or more older, more historic buildings, and the costs of making those heritage items accessible to people is, again, viewed as too high to justify the expenditure. In that case the heritage item does not appear to be a resource.
27. A similar situation can arise with underwater cultural heritage. For example, even where a sunken ship is historic in nature and could be considered a heritage item, the costs of raising the ship so that people (experts or the public) have access to it may be too high to justify doing so. Even after a decision has been made to raise the ship, doubts about the existence of a resource may continue to exist until after the ship has been successfully raised. On the other hand, it may be the case that a sunken ship has service potential, while remaining underwater, through scope either to dive down to the ship or to view it from a nearby, submerged viewing structure.
28. An item’s ability to generate future economic benefits must also be considered. Where there are doubts about the heritage nature of an item, with consequential doubts about whether it has service potential involving provision of heritage services, the item may nonetheless be able to generate future economic benefits. For example, land that is marginal with respect to its importance as natural heritage may have the ability to generate future economic benefits through, for example, its mineral resources or through other abilities with respect to commercial development.

*Inaccessible Heritage Items—No Service Potential and no Future Economic Benefits?*

- 24-29. Heritage items may be inaccessible to the general public due either to physical barriers that prevent access or a lack of knowledge or appreciation. Where heritage items are inaccessible the question arises of whether they have service potential or the ability to generate economic benefits. There may be a sort of notional service potential, on the basis that the item is part of the nation’s

heritage, even though no one ever visits the heritage item and/or no one other than a very small group of experts in a particular field know of (or care about) the heritage item's existence. For example, cave paintings from prehistoric times may be located in inaccessible caves. A rare mud worm may be viewed as important by experts, but unknown by the general public. Arguably, in this type of situation, the heritage items do not have service potential, even though they are heritage items, and would not generate future economic benefits. A parallel view is that although such heritage items have service potential, nonetheless the amount is very low and costs to realize their service potential outweigh the benefits<sup>6</sup>.

### **3.3—An Entity's Ability to Control a Heritage Resource**

30. The Conceptual Framework states that: "Control of the resource entails the ability of the entity to use the resource (or direct other parties on its use) so as to derive the benefit of the service potential or economic benefits embodied in the resource in the achievement of its service delivery or other objectives<sup>7</sup>."

31. Paragraph 5.12 of the Conceptual Framework explains that:

In assessing whether it presently controls a resource, an entity assesses whether the following indicators of control exist:

- Legal ownership;
- Access to the resource, or the ability to deny or restrict access to the resource;
- The means to ensure that the resource is used to achieve its objectives; and
- The existence of an enforceable right to service potential or the ability to generate economic benefits arising from a resource.

While these indicators are not conclusive determinants of whether control exists, identification and analysis of them can inform that decision.

32. Paragraph BC5.12 of the Basis for Conclusions for Chapter 5 notes an issue related to heritage assets when it states that: "Therefore, the ability to access a resource must be supplemented by the ability to deny or restrict the access of others to that resource—for example, (a) an entity might decide whether to set an entrance fee to a museum and restrict access to those who do not pay the fee, ..."

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<sup>6</sup> These examples of heritage items that do not appear to be resources, because they do not have service potential, raise a further issue of whether GPFR users could need information about heritage items, even where such items are not assets for the purposes of financial reporting. That question is noted in Chapter 7 when it discusses heritage status reports, although Chapter 7 suggests that Heritage Status reports would not be GPFRs. Later in Chapter 3 there is discussion of knowledge-in-action intangible cultural heritage, which concludes that heritage items of that type cannot be assets for financial reporting purposes, because they cannot be controlled. Yet governments and international organizations do report on the status of such heritage items, with the status of endangered languages being one example of such reporting.

<sup>7</sup> Paragraph 5.11 of the Conceptual Framework.

Present Control over Heritage Items' Special Characteristics and Control as a Result of a Past Event

25-33. Where a public sector entity holds a heritage item for the benefit of the community and has to allow free, public access, some argue that the entity doesn't really own or control the heritage item. From this perspective, the heritage item really belongs to the nation as a whole, or to the people, or perhaps to the national government rather than that particular entity. Arguments against the ability of an entity to really control a heritage item are:

- (a) An entity's use of a heritage item is restricted by law, statute or practice.
- (b) There is no scope to sell or otherwise dispose of the item.
- (c) The entity does not have ownership (or proprietorship), because its role *vis a vis* the heritage item is that of guardian or steward, and the item is held on behalf of the community.
- (d) There should be public access to heritage assets, so that the entity has little ability to restrict access to the items.

26-34. In brief, in these situations, a holding entity can only decide on the management and (within limits) use of heritage items. The holder does not have other economic rights such as usufruct, alienation and destruction, which are associated with control over non-heritage assets.

35. Paragraph 5.9 of the Conceptual Framework explains that (a) the use and disposal of public sector assets may be restricted, and (b) such assets may be held by public sector entities to provide services to third parties, where services may be for collective consumption. Therefore the special characteristics of heritage items listed above do not appear to present barriers to them being assets controlled by an entity.

Where an Entity Delegates Stewardship to another Entity

36. Point 33(c) above suggests the possibility of situations where one entity (for example, a national government) delegates responsibility for guardianship or stewardship over heritage items to another entity (for example, a national museum) while appearing otherwise to control them. This type of arrangement appears to be common for national parks, which are managed by a particular government department, but "belong" to the national government, which holds them on behalf of the nation. The entity with delegated authority may manage a stream of funds to maintain the heritage items, but those funds may be held in trust and dedicated solely to preservation of the heritage items. That type of principal-agent arrangement raises the question of what type of information should be presented in the GPFRs of each entity, in order to meet the needs of users of GPFRs. Chapter 6 discusses presentation of information, which includes presentation within the context of Chapter 4's discussion of alternative approaches for recognition.

27-37. The issue of entities' ability to control those heritage items that they hold is explored further below.

Indicators of Control and Heritage Items

28-38. Given the importance and value of heritage items it is usually possible to establish which entity controls them. The indicators of control listed above, identified in the Conceptual Framework (and noted above in paragraph 31) in paragraph 10 would be considered to-in makinge such a determination, i.e.; legal ownership, access to the resource or ability to deny/restrict access to the resource, an entity's ability to ensure that the resource is used to achieve its objectives, and

existence of an enforceable right to service potential or the ability to generate economic benefits from the resource.

39. Control over a heritage item is often indicated via legal ownership, although an entity's ability to control and restrict access to the heritage item, and the use of the heritage item to achieve its objectives, will also be important. The past event that gives present control may arise in various ways, including purchase, transfer involving non-exchange or other types of transactions, or discovery.
40. For example, a provincial museum may legally own three collections of ancient artifacts. One collection may have been purchased from another museum, one collection acquired when a wealthy individual donated his/her collection of ancient artifacts, while the third collection has been acquired through discoveries by the museum's own team of archeologists, funded by the museum to do archeological digs in locally significant areas. The museum is able to restrict access to the three collections through its decision on opening hours for the museum and through decisions about either showing items in each collection or placing them in storage. The collections are used by the museum to provide services consistent with the museum's objections. There is scope for sale of individual collection items and/or loans to other museums. In any event, while under the entity's control, it is responsible, and must be accountable, for the stewardship of these items.

#### Heritage Public Spaces and Control—Ability to Restrict Access

41. Some cultural heritage items ~~are~~, as noted above, are either in public spaces or are themselves public space. Although the entity responsible for the heritage item generally will not restrict access, it ~~is able to can~~ do this ~~in exceptional circumstances if necessary~~. (For example, when the space is being renovated or prepared for a special event, a public square can be fenced off so that only workmen are allowed to gain access.) It is also able to ensure that the heritage item is Heritage public spaces and heritage items are used to achieve ~~the an~~ entity's objectives, which means that the entity has the power to keep the space open, to keep it unencumbered by private, commercial interests and is able to prevent others from misusing the space in ways that undermine its character. For example, the entity that owns a public square such as the Red Square in Moscow or the Piazza Venezia in Rome is able to manage access to the area. If maintenance or security require that the public be excluded from the area, then the responsible entity can do this. The entity ~~can also is able to~~ ensure that the space is freely available to the public for their enjoyment by, for example, prohibiting its use by other entities for commercial purposes such as operation of stalls to sell food, etc. Creating and preserving such public spaces furthers the objectives of the responsible public sector entity, whether a city council or national government.

#### Other types of Access

42. The ability to or ability to deny or restrict access to a resource is not only about physical access. For example, an entity may have the ability to deny others access to an intangible heritage item, such as the right to use a heritage brand name.

#### Control over a Heritage Item Resides with another Entity

43. An entity may hold a heritage item on behalf of another entity. For example, a museum may temporarily hold heritage items that belong to another museum as part of a current exhibit. Although one or more of the control indicators could be fulfilled (for example, the entity uses the



item to achieve its objectives and can deny access to it), the heritage item is only on loan and is not controlled by the museum, with the relevant agreement or document establishing the facts of the case.

44. ~~Where a heritage item belongs to the national government, but is used by a subsidiary of that government, the question arises of whether the item is controlled by one or both of those two entities. In some cases an entity may hold heritage items under a long-term loan arrangement. For example, a national museum may have the loan of a heritage collection from a wealthy patron. Legal ownership resides with the patron and this is normally clear in the loan agreement. The patron normally retains the right to remove the collection from the museum's guardianship. The patron may choose to take back the collection and sell it. In this case the indicators of control appear to show that the heritage collection is still controlled by the patron.~~
45. ~~Where a heritage item belongs to the national government, but is used (or held) by a subsidiary of that government, the question arises of whether the item is controlled by one or both of those two entities. This answer to such questions may depend on the arrangement between the two entities and their assessment of the indicators of control listed in paragraph 31.~~

#### Situations where an Entity's Control over a Heritage Item is Unclear

- 29.46. ~~For some heritage items a particular criterion of Ccontrol over particular heritage items may be unclear. For example, legal ownership may be unclear, due to the long history involved where records have been lost or other evidence about past agreements or understandings is open to challenge. The history of a particular heritage item may include theft, other types of misappropriation, or acts that are morally repugnant such that they provide a basis to challenge the proprietary rights of the ostensible owner. While these situations can arise, they are not the norm so much as the exception. a basis for arguing against the possibility of control so much as acknowledgement that in exceptional cases control is unclear.~~

#### Some Specific Asset Existence Issues

31. ~~The discussion above indicates that heritage items can be resources that are presently controlled by an entity as a result of a past event. In other words, heritage items can be assets for financial reporting purposes. The discussion focuses on examples such as historic buildings, paintings and heritage public spaces, for which asset existence is a relatively straightforward issue. The next section describes asset existence issues raised by particular categories and subcategories of heritage items. It identifies heritage items that cannot be assets for financial reporting purposes. It also describes situations where the existence of an asset is more debatable.~~

#### **Categories and the Definition of an Asset**

##### Doubts about Existence of a Resource

34. ~~There are situations where the existence of a resource may be in doubt, which also suggest that the existence of a heritage item is in doubt. For example, the importance of an archeological site may be unclear, until excavations have been carried out or further information collected. Similarly, whether a donated collection (of books or stamps or historic documents) is worth preserving for present and future generations may be unclear and, until further investigation is done both the existence of a heritage item and existence of an asset is unclear. Doubt about the existence of both a heritage item and a resource may also arise due to the, previously mentioned, subjective nature~~

of “heritage”. For example, some may view modern artworks, including graffiti by renowned graffiti artists, as examples of heritage, while others disagree. Statues (or flags) that glorify past rulers may be viewed by some as heritage and by others as symbols of tyranny.

35. There are also situations where a heritage item exists, but its resource nature is, nonetheless, in doubt. For example, the cost of gaining access to underground cultural heritage may not justify either (a) raising the heritage item to above the ground, or (b) constructing another way to give access to it. In that situation it would appear that there is no resource, because the heritage item (in its present state) does not have service potential. There have been situations where subway or tunnel excavations discover heritage items and either economics or the higher priority of completing the infrastructure project means that excavation of the items and their preservation is not possible. In other cases the foundation of a building may include one or more older, more historic buildings, and the costs of making those heritage items accessible to people is, again, viewed as too high to justify the expenditure. In that case the heritage item does not appear to be a resource.
36. A similar situation can arise with underwater cultural heritage. For example, even where a sunken ship is historic in nature and could be considered a heritage item, the costs of raising the ship so that people (experts or the public) have access to it may be too high to justify doing so. Even after a decision has been made to raise the ship, doubts about the existence of a resource may continue to exist until after the ship has been successfully raised.
37. Arguably, underwater cultural heritage raises issues similar to those raised by oil and gas exploration. There is a discovery aspect, where the value of what is discovered is initially unknown. There is also a project aspect, where the project of exploration or excavation may involve significant costs over a long period of time. There is hope that the project will find important heritage items, but no certainty that this will happen. The cost of raising a shipwreck could either be viewed as similar to that of constructing a building (i.e. capitalize the expenditure as an investment) or as similar to research (i.e. expense the expenditure on the basis that the resource nature of the ship cannot be fully established until the ship has been successfully raised).

#### *Doubts about Control*

39.47. Some situations where control over a heritage item may be in doubt have already been mentioned earlier in this chapter. Two further situations are where control over a heritage item may be in doubt are:

- (a) Multiple-entity trustee arrangements that exist over, for example an area that either crosses national boundaries or involves a complex set of intersecting responsibilities with respect to access, usage, guardianship and/or management; and
- (b) Sacred sites that are viewed as people, who cannot unable to be owned or controlled because the concept of legal ownership and control over them is viewed as inappropriate or culturally offensive<sup>8</sup>.

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<sup>8</sup> The concern is included here because it could be a factor in some jurisdictions. A real-world example discussed by the IPSASB in December 2015 identified a mountain where the concept of ownership was culturally offensive. In that case the mountain (or land involved) had nonetheless been recognized as an asset in the government's financial statements on the basis that the government controls, but *does not own*, the mountain for the purpose of financial reporting. Control was viewed



## Lack of Control over Knowledge-in-Action Intangible Cultural Heritage

40.48. As explained in Chapter 2 one subcategory of intangible cultural heritage called “knowledge-in-action intangible cultural heritage”, consists of heritage items such as traditional skills, languages, story-telling, dance, religious or societal behaviors. These heritage items require continued use or enactment by living people to exist and be preserved for future generations. They fall into the description of a heritage item, but they cannot be controlled by a single entity. This is because an entity cannot gain legal ownership over people’s on-going enactment of this type of cultural heritage, cannot restrict or deny access, cannot use the resource to achieve its objectives (except in the sense that something such as a shared language is a resource for everyone’s use) and it is impossible to hold an enforceable right to service potential or the ability to generate economic benefits arising from this type of heritage item. Knowledge-in-action intangible cultural heritage is “owned” by a whole community. Therefore, this type of intangible cultural heritage does not meet the definition of an asset, because it cannot be controlled by an entity.

## Control over Natural Heritage Items

49. The description of natural heritage in Chapter 2 focuses on areas, sites, habitats, natural features or geological and physiographical formations and precisely delineated areas which constitute the habitat of threatened species of animals and plants. A focus on the physical area rather than groups of living plants and animals makes it possible to say that a particular entity could control a natural heritage item.

## 3.4—Heritage Items and Present Control as Result of a Past Event

50. Paragraph 5.13 of the Conceptual Framework describes the type of past event that could indicate that the entity presently controls a resource:

The definition of an asset requires that a resource that an entity presently controls must have arisen from a past transaction or other past event. The past transactions or other events that result in an entity gaining control of a resource and therefore an asset may differ. Entities can obtain assets by purchasing them in an exchange transaction or developing them. Assets may also arise through non-exchange transactions, including through the exercising of sovereign powers. The power to tax or to issue licenses and to access or restrict or deny access to the benefits embodied in intangible resources, like the electromagnetic spectrum, are examples of public sector-specific powers and rights that may give rise to assets. In assessing when an entity’s control of rights to resources arise the following events may be considered: (a) a general ability to establish a power, (b) establishment of a power through a statute, (c) exercising the power to create a right, and (d) the event which gives rise to the right to receive resources from an external party. An asset arises when the power is exercised and the rights exist to receive resources.

51. Events that may give an entity control over a heritage item include:

(a) Purchase from an external party;

(b) Receipt through a non-exchange transaction such as donation, confiscation or nationalization; and

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as an acceptable concept while also reflecting the government’s management responsibilities and its ability to control access to the area.

(c) Passing of legislation and/or signing of treaties (supported by international law) that establish a government's rights to heritage items, including rights over otherwise unclaimed lands of natural significance or otherwise contested lands, waterways and/or bodies of water.

52. Heritage items do not appear to present special, heritage-related issues with respect to the past event and the related timing of control. There may be doubt about the existence of control (as discussed in the previous subsection), but it appears that an assessment of whether or not a past event has occurred will follow a similar approach to that used to assess the presence of control for other, similar assets that are not heritage items. On that basis no further discussion of this criterion is provided here.

### **3.5 Three Approaches to the Issues of Heritage Items as Assets**

53. The IPSASB has considered the following three approaches to the issue of whether heritage items could be assets for the purposes of financial reporting:

Approach 1: Heritage items cannot be assets for the purposes of financial reporting;

Approach 2: Only certain heritage items can be assets for the purposes of financial reporting, for example, operational heritage items; or

Approach 3: Heritage items are assets for the purposes of financial reporting, where they meet the Conceptual Framework's three criteria (resource, control and past event).

54. The main arguments usually presented by commentators to support Approach 1 have been described above in paragraph 33. However, these arguments are not compelling when reviewed against the Conceptual Framework's discussion of public sector assets, as discussed earlier in this chapter.
55. With respect to Approach 2, while particular heritage items raise issues about the existence of a resource or the existence of control by the entity, there does not appear to be a strong argument to create new criteria (in addition to those in the Conceptual Framework's definition of an asset) in order to assess whether or not heritage item are assets for financial reporting purposes. For example, the need for control to exist indicates that intangible cultural heritage in the "knowledge-in-action" subset will not be assets for the purposes of financial reporting. That conclusion can be reached without creation of a new criterion, although clear identification of that subset provides an efficient way to discuss asset issues for intangible cultural heritage.
56. If both operational heritage items and those heritage items that only provide heritage services are resources for the entity, then both have the potential to be assets, and this will depend on establishing that control presently exists as the result of a past event.
57. In conclusion then, application of the Conceptual Framework's definition of an asset to examples of heritage items and the special characteristics of such items appears to support Approach 3. The IPSASB's view is that the Conceptual Framework's definition of an asset can be applied to heritage items and, despite their special characteristics, heritage items that meet that definition should be considered assets for the purposes of financial reporting.

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## **6—Other Points Relevant to the Discussion of Heritage Items as Assets**

### *Objectives of GPFRs, Information Needs of GPFR Users (Accountability and Decision-Making)*

42. Arguments about whether heritage items are assets take place in the over-arching context of the objectives of GPFRs, which are to provide useful information to users of GPFRs. Information is used for the purpose of holding a reporting entity accountable and making decisions, including decisions on resource usage and service performance. As discussed in Chapter 4, the measurement objective, in the context of elements recognized in the financial statements, emphasizes the importance of providing information that is useful for the assessment:

- (a) Costs of services;
- (b) Operational capacity; and
- (c) Financial capacity.

43. There is general agreement that public sector entities holding heritage items should be held accountable for those items. Members of the public need to know whether heritage items are being cared for and whether resources applied are adequate to ensure heritage items' security, protection and preservation. Management of heritage items should allow for an appropriate amount of public access, so that a community gains the many educational, inspirational and other benefits of holding such items.

There is disagreement on whether reporting financial information on the value of heritage items should be provided in a GPFR. There are different views on whether that would support the appropriate type of accountability and decision-making needed for heritage items. One view is that recognition of heritage assets is a necessary starting point for good management, and generates significant benefits in terms of information for users of GPFRs. An alternative view is that representing heritage items as assets in the financial statements directs attention away from what should be the primary concern, which is to preserve and maintain these items for present and future generations. Furthermore publishing information on the financial value of heritage items conveys the misleading impression that they are "up for sale". As discussed in Chapter 4, there are also significant issues with respect to the measurement of heritage items, such that some would argue that it is not possible to measure heritage items (or particular categories or subcategories of heritage items) in a way that meets the Conceptual Framework's asset measurement criteria.

### **Preliminary View—2 Heritage Items as Assets**

The IPSASB's preliminary view is that:

- (a) Heritage items may be assets for the purposes of financial reporting; and
- (b) Those heritage items that meet the Conceptual Framework's definition of an asset (i.e. they are resources, presently controlled by the entity, as a result of a past event) should be considered assets for the purposes of financial reporting.

44.58. As noted in the introduction to this chapter, even where heritage items meet the definition of an asset and can be considered "heritage assets", there remains an issue of whether or not they can (or should) be recognized in the financial statements. Chapter 4 discusses arguments for and against recognition of heritage assets, and identifies alternative accounting treatments. Then,

Chapter 6 considers presentation of information on heritage assets, taking into account the alternative views on whether heritage assets should be recognized, identified in Chapter 4. Chapter 6 identifies presentation options that encompass presentation of information on heritage assets in (a) the financial statements, (b) in schedules presented with the financial statements, and/or (c) information presented in another GPFR.

## **DRAFT CHAPTER 4, RECOGNITION AND MEASUREMENT OF HERITAGE ASSETS**

### **4.1 Introduction**

1. This chapter discusses whether heritage assets meet the recognition criteria for assets. The meaning of “recognition”, in the context of financial reporting, is that a monetary value is included in the total amounts reported in the financial statements. If heritage assets meet the recognition criteria in the Conceptual Framework then, being assets, a monetary value for those heritage assets would be included in an entity’s statement of financial position, in the relevant asset totals.

#### *Measurement of Heritage Assets, and the Cost–Benefit Constraint*

2. This chapter applies the Conceptual Framework’s guidelines on asset recognition. It focuses on measurement, considering whether measurement would achieve the qualitative characteristics of information in GPFRs, while taking into account the constraints on such information. It proposes that the critical question for recognition of heritage assets is whether the benefits of measurement are likely to justify the costs. If the answer to that question is “yes”, then heritage assets should be recognized. If “no” then heritage assets should not be recognized. This chapter attempts to identify factors that are relevant to an assessment of costs and benefits. It focuses on the following two factors:
  - (a) An entity’s purpose when holding a heritage asset, because this may impact on the benefits to users of the GPFRs of recognizing a heritage asset; and
  - (b) Ease of measurement with respect to a heritage asset.
3. Particular types of heritage items may be either easier or harder to measure. Factors external to the type of heritage item, such as whether a heritage item has been purchased recently, could also impact on ease of measurement for a particular heritage asset.
4. Depending on different views about the costs and benefits of heritage asset measurement, it could be the case that one reaches a view that either:
  - (a) No heritage assets should be recognized;
  - (b) Some heritage assets should be recognized while others should not; or
  - (c) All heritage assets should be recognized.
5. The cost–benefit constraint always applies when presenting information in GPFRs, and one approach to accounting guidelines for reporting on heritage in the public sector could be to provide greater clarity around factors likely to impact on assessments of costs and benefits. This chapter also raises the possibility of applying a less costly approach to measurement of heritage assets.

#### *Applicable Measurement Bases and Subsequent Measurement*

6. After considering factors that impact the cost–benefit assessment for recognition, this chapter then discusses applicable measurement bases and proposes that the appropriate measurement basis for application depends on factors such as:

- (a) The category of heritage asset (for example, tangible versus intangible); and
  - (b) The purpose for which the heritage asset is held (for example, long-term use to provide either heritage or non-heritage (operational) services or held as an investment or otherwise available for transfer or exchange).
7. This chapter also briefly discusses issues with respect to subsequent measurement of heritage assets, after initial recognition, which covers revaluations, depreciation, impairment, deferred maintenance and treatment of subsequent expenditures on heritage assets.

#### **4.2 The Conceptual Framework and Measurement of Assets**

8. Paragraph 6.2 of the Conceptual Framework, states that, for recognition of elements in the financial statements, the recognition criteria are that:
- (a) An item satisfies the definition of an element; and
  - (b) Can be measured in a way that achieves the qualitative characteristics and takes account of constraints on information in GPFRs.
9. This chapter focuses on the second recognition criteria, i.e. whether heritage assets can be measured in a way that achieves the qualitative characteristics and takes account of the constraints on information in GPFRs. Chapter 3 discussed whether heritage items could satisfy the Conceptual Framework's definition of an asset. The IPSASB's preliminary view is that heritage items may be assets for financial reporting purposes.
10. The qualitative characteristics of information included in GPFRs of public sector entities are relevance, faithful representation, understandability, timeliness, comparability, and verifiability. Pervasive constraints on information included in GPFRs are materiality, cost-benefit, and achieving an appropriate balance between the qualitative characteristics. For measurement, the Conceptual Framework highlights the importance of relevance and representational faithfulness, although all of the qualitative characteristics apply. For heritage assets, understandability and the cost-benefit constraints are also particularly important<sup>1</sup>.

#### **Relevance—Assessment of Financial Capacity, Operational Capacity and Cost of Services**

11. Users of GPFRs need information about the resources controlled by the entity. That information is relevant for the purposes of accountability and decision-making. Within the context of measurement of elements, including assets, for recognition in the financial statements, the Conceptual Framework highlights decisions such as the assessment of financial capacity, operational capacity and cost of services. Monetary information on heritage assets provides a

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<sup>1</sup> For this identification of recognition alternative for heritage assets the cost-benefit constraint has been treated as the major distinguishing factor, with an implicit assumption that, while still important, consideration of the qualitative characteristics and GPFR users' information needs would provide fairly equal support for recognition of heritage assets, and not act to distinguish between those heritage assets that (arguably) should be recognized and those that should not. The appendix to this chapter discusses GPFR users' information needs (accountability and decision making) and the qualitative characteristics, including representational faithfulness, in more detail, as they apply to recognition of heritage assets.

measure of resources, and is relevant to users' assessments of an entity's financial capacity, operational capacity and cost of services.

12. Information on the monetary value of heritage assets may be less relevant for assessment of an entity's financial capacity, because heritage assets are not generally expected to be used to generate funds. However, an entity may sell (or consider selling) heritage assets, without placing their preservation at risk, if sale is to another entity with heritage preservation objectives.
13. Monetary values for heritage assets are relevant to users' assessments of an entity's operational capacity whenever heritage assets are used operationally:
  - (a) To deliver heritage services;
  - (b) As a multi-use asset (also termed an "operational asset"), which provides non-heritage services; or
  - (c) As an asset that enhances or supports the delivery of non-heritage services.
14. This is because such information provides a more complete picture of the entity's total operational capacity. Heritage assets do not necessarily result in depreciation expenses (discussed later in this chapter) and, on that basis, one can argue that their recognition is less relevant to assessments of service costs. However, there are likely nonetheless to be service cost impacts from holding heritage items. Where heritage assets are not recognized, capital expenditures related to them may be expensed when incurred even though they are, in essence, investments in a heritage asset or investments in a collection of heritage assets. This would distort information in the statement of financial performance and reduces the ability of users to assess the costs of services.

#### Understandability of Monetary Information on Heritage Assets

15. An entity is accountable for the preservation of heritage assets that it holds. Information about their asset values is relevant to holding an entity accountable for that stewardship role and for decision making about resources need for heritage preservation. Information on heritage assets places into context other information about an entity's revenue and expenses. For example:
  - (a) Are there sufficient funds available and what, if any, additional funds could be needed to preserve heritage assets and, if deferred maintenance exists, to address backlogs of maintenance with respect to heritage assets, given the extent and significance of an entity's heritage holdings?
  - (b) Are the annual expenses incurred by the entity appropriate to the heritage preservation responsibilities that it has?
16. Although market value and historical cost do not necessarily convey the full heritage significance of a heritage item, it does place financial value on the item and faithfully represent the significance of such assets to the entity as resources. Representing heritage items held by an entity as assets reflects their economic substance, which is that they are resources that have service potential and may also be able to generate future cash flows. A monetary value can help to signal that a heritage asset is worth preserving because, at a minimum, it has economic value.
17. However, assigning monetary values to heritage assets arguably could mislead users of financial statements, by implying that heritage assets are for sale, when instead many heritage assets have restrictions on their sale. Although there is scope to present further information in the financial

statements to emphasize that restricted assets are not available for sale, detail on the face of the financial statements and/or note disclosures may not be sufficient to change the impression that heritage assets contribute to an entity's financial capability in the sense that they are available for sale. This raises the issue of whether monetary values for heritage assets will be understandable to GPFR users.

#### Costs of Heritage Asset Valuations

18. In some situations and for some heritage assets the costs of carrying out valuations could be so high as to bring into play the cost–benefit constraint, whereby information should not be present in a GPFR if the costs are greater than the benefits. This issue is discussed further below, in the context of factors that could impact on measurability. In brief, while costs of valuation could be excessively for some and perhaps many heritage assets, it appears unlikely to be the case for all heritage assets. There are subsets, described below, where deriving either historical cost or market value is either a straightforward, low cost task or involves some costs, but nothing so extreme as to present a barrier to recognition by invoking the cost–benefit criteria. Is it the case then, that those measurable heritage assets should be recognized? And, for heritage assets for which a market value or historical cost is (arguably) too costly to justify measurement is there some way to, nonetheless, provide GPFR users with information about those heritage assets, so that they appreciate the extent of heritage resources that an entity holds?

#### Less Costly Approach to Measurement: “Symbolic Value” (or “1-Unit Entry Value”)

19. Some national jurisdictions that apply historic cost to value heritage assets have used “symbolic value” to value very old heritage assets for which no historic cost information is available. Symbolic value measures a heritage asset at 1 currency unit (1 CU). This ensures that the heritage asset is recognized and (therefore) is captured in the entity's financial information system. The symbolic value approach to measurement and recognition has several benefits:
- (a) Subsequent expenditure related to that heritage asset can be capitalized against the original entry, if relevant accounting guidelines indicate that they should be capitalized;
  - (b) Presentation of other information (outside the financial statements or in supplementary schedules) on those heritage assets captured through the use of “1-unit entry value” is facilitated, where such presentation could either be in the notes to the financial statements or in supplementary reports outside of the financial statements; and
  - (c) If circumstances change such that a “1-unit entry value” heritage asset should be measured using a market value, the heritage asset is already recognized and in the information system.
20. In these cases “symbolic value” might be better described as a “1–unit entry value”.

#### Experience of National Jurisdictions

21. The experience of national jurisdictions is relevant to the cost–benefits question. Some national jurisdictions, for example New Zealand and Australia, aim to measure and recognize all heritage assets. Other national jurisdictions, for example France, recognize many or even most heritage assets in the public sector, although many of those heritage assets will be measured at a symbolic value of 1 currency unit, which helps to address the problem of costly measurement when measuring heritage assets. Standard setters in other national jurisdictions, for example the Federal



Accounting Standards Advisory Board in the United States, may recognize a subset of heritage assets, for example those that also provide operational services. Instead of recognizing heritage assets in the financial statements non-monetary information (physical units and qualitative information about condition) is presented on heritage assets, including natural heritage such as stewardship lands, which include (for example) national parks.

22. Table 1 below classifies a selection of different pronouncements into these three groups.

Table 1 Recognition in National Standard Setters' Pronouncements on Heritage

Pronouncement	No recognition	Partial Recognition	Full Recognition	Comments
France—Standard 17			✓	May use different measurement bases
South Africa, GRAP 103			✓	Measurement at cost of fair value. Rebuttable assumption that fair value is possible.
Australia AASB 116			✓	Measure initially at cost or fair value for donated assets
UK—FRS 30		✓		Recognize if information available. Do not if cost or value not available & cost exceeds benefits
USA—FASAB SFFAS 29		✓		Multi-use heritage assets are recognized, but not donated or other heritage
USA—GASB GASBS 34		✓		Recognize if not in collections. Encourages but does not require recognition of assets in collections.
Canada—Canada PS 3150	✓			Estimate of future benefits not possible

23. Factors that national standard setters refer to as important for their choice of recognition approach include:
- (a) Ability and cost of measuring heritage assets;
  - (b) Whether asset:
    - (i) Measurement/valuation information is readily available;
    - (ii) Is donated or purchased;

- (iii) Is multi-use or used exclusively for heritage uses; and
  - (iv) Is in a heritage collection.
24. When considering the financial reporting practices of different jurisdictions it is important to note that jurisdictions are responsible for different “portfolios” of heritage. The heritage assets held by the national governments of, for example, France, Italy or Egypt, will be different from those held by Australia or South Africa.

#### Heritage Assets and First Adoption of Accrual Accounting

25. Where entities are recognizing all their assets for the first time, because they are moving to account on an accrual basis, the cost of recognizing their physical assets (including, for example, infrastructure assets, military assets, and other types of property, plant and equipment) can seem very large. In addition, the entity may need to consider different approaches to its valuation of assets, including (for example) its decisions on capitalization thresholds. A common problem for first-time adopters of accruals accounting is to attempt to set capitalization thresholds too low for effective financial reporting. This raises two further considerations when grappling with the cost of valuing heritage assets:
- (a) *First time adoption:* Does a perception of very large costs to measure heritage assets arise, partly or wholly, because a public sector entity has not reported on an accruals basis before and must recognize all its heritage assets for the first time, with the result that major one-off costs must be incurred to recognize its heritage assets portfolio?
  - (b) *Lower cost valuation approach:* Is there a lower cost valuation approach that provides a representationally faithful measurement of a heritage asset portfolio through the use of (for example) estimates and/or sampling, so that the perceived cost of valuation is higher than what would actually be the case?

#### *IPSASB Preliminary View—4.1, Ability to Measure Heritage Assets*

Based on an initial survey of present practice with respect to measurement of heritage assets and expert views by those responsible for determining a monetary value for heritage items, the IPSASB has reached a preliminary view that:

- (a) A relevant monetary value will usually be able to be attached to heritage assets;
- (b) Measurement bases are available to measure heritage assets so that their measurement provides information that would be useful to users of GPFs; and
- (c) A cost-benefit assessment may indicate that heritage assets should either:
  - (i) Not be recognized in the statement of financial position; or
  - (ii) Be measured (and then recognized) through the use of a simpler approach to measurement than that envisaged in the Conceptual Framework, such as use of a 1-unit entry value (also termed a symbolic value).

### 4.3 Alternative Approaches to Recognition

26. This section describes five options for recognition of heritage assets. Table 2 below provides an overview of those five options<sup>2</sup>.

Table 2: Options for Recognition of Heritage Assets

Measurement of Heritage Assets	Option 1	Option 2	Option 3	Option 4	Option 5
<i>A. Costs could be more than benefits</i>	Do not recognize	Do not recognize	Do not recognize	Recognize- “1–unit entry value”	Recognize
<i>B. Benefits more than costs</i>	Do not recognize	Do not recognize	Recognize	Recognize	Recognize
<i>C. Operational Heritage Assets (Benefits more than costs)</i>	Do not recognize	Recognize	Recognize	Recognize	Recognize

#### *Factors that could Impact on Assessments of Cost–Benefit*

27. These options are based on factors that could impact on the cost–benefit of presenting monetary values for heritage assets in the financial statements.

#### Information for Measurement Readily Available—Lower Costs to Measure

28. In some cases heritage asset measurement information that achieves the qualitative characteristics could be readily available. When the following factors apply this would be the case:
- (a) Recent purchases of heritage assets, where the transaction cost information is available to measure the asset’s historical cost;
  - (b) Recent replacements of components of heritage assets, where transaction cost information is available to measure the asset’s historical cost of that component which could, arguably, be recognized as an asset applying a componentization approach;
  - (c) Active market for similar heritage assets provides market values for the heritage assets held, which could be indicated either by reference to prices available from market transactions or the entity’s own buying and selling of heritage assets to expand or improve its collection.

<sup>2</sup> There is some scope to generate further options. For example, the use of a “1–unit entry value” to hold a place for unrecognized heritage assets could be applied to all situations in the table that presently are described as “Do not recognize”. The benefits of holding a place in this way, which are described later in this section, argue in favor of that adjustment to the table. Presently the table is simplified to highlight a strong “do not recognize” approach on the left and then adjust towards a strong “recognize” approach on the right.

## Benefits of Measurement Higher—Three Groups of Heritage Assets

29. There are also situations where the benefits of measurement (and subsequent recognition) appear to be higher than would otherwise be the case. Benefits relate to the measurement objective and information for the assessment of financial capacity, operational capacity and cost of services<sup>3</sup>. Factors that could impact on benefits include whether or not heritage assets are:
- (a) Operational heritage assets;
  - (b) Available for sale, exchange or transfer (a non-exchange transaction); and/or
  - (c) Available for alternative, non-heritage uses.
30. These three groups of heritage assets are described below.

### Group 1—Operational Heritage Asset

31. An operational heritage asset (also called dual use or multi-use heritage assets) is one that is used operationally to deliver non-heritage services, so that it provides both heritage benefits and operational capacity for the entity. Examples of operational heritage assets are:
- (a) Historic buildings used as office space, as schools, universities, hospitals, water treatment plants, railway stations and for other non-heritage functions.
  - (b) Historic infrastructure that still functions to deliver infrastructure services, e.g. rail routes, canals, harbor enclosures, bridges, water treatment plants, power stations, sewerage systems, etc.
  - (c) Heritage items in or around buildings that are used operationally to deliver non-heritage services, e.g. paintings, sculptures, historic windows, staircases, floors, porticos, gardens, pathways, gates, etc. that are integral to (for example) the head office of a government department or the administrative building of a university.
32. Given their operational use, information on the monetary value of operational heritage assets appears more than normally relevant to users' assessments the entity's cost of services and its operational capacity. In some cases information on these assets could also be viewed as relevant to assessment of an entity's financial capability, because they could (or are) being leased out to other entities or generating steady positive cash flows from their use.
33. Operational heritage assets include those that:
- (a) *Original, non-heritage use continues*: Still broadly function according to their original use. (For example, heritage buildings that continue to provide accommodation and/or office space; artwork that decorates a functional area, infrastructure (roads, railway stations, airports,

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<sup>3</sup> This discussion has focused on information for assessments of financial capacity, operational capacity and cost of services because it focuses on applying the Conceptual Framework's chapter on measurement, where these three uses are highlighted. The question arises of whether broader issues of information for accountability and decision-making should also be considered here. Chapter 6 on Presentation, argues in favor of information on all heritage assets (recognized and unrecognized) on the basis that they are all resources and GPFR users need information about resources. The flow through (or down) of information needs from general needs (relevant to all GPFRs) to particular needs (relevant to the financial statements and element recognition) may need to be reviewed for the whole CP.

water systems, sewage system, harbor buildings, etc.) that continues to function as originally intended.) (By contrast, examples of heritage assets that only provide heritage-related services would include a painter's house that now operates as a tourist attraction instead of providing accommodation; artwork that is held purely to be viewed in an art gallery; the ruins of a castle; and a collection of prehistoric household utensils.)

- (b) *Multi-use*: Have multiple uses, whereby the entity uses them for both their heritage character and one or more other operational uses. (For example, (a) a government building that continues to operate as such while also being viewed as a tourist attraction because it is of great historic significance, (b) natural heritage land that provides other uses, for example grazing land, flood protection, or water treatment.)

#### Group 2—Heritage Assets Available for Sale, Exchange or Transfer

- 34. Heritage assets that are available for sale, exchange or transfer (a non-exchange transaction) include those heritage assets that an entity (a) has decided or is presently considering for sale, exchange or transfer; or (b) has, in the past, classified for sale, exchange or transfer.
- 35. Once an entity has reviewed this possibility for a heritage asset, this indicates that, from a GPFR users' perspective, there are higher benefits arising from recognition in the financial statements, which would provide increased transparency around this group of heritage assets. (For example, (a) an art gallery may have identified a group of paintings that are less central to its mission and which can be exchanged or sold in order to better align the art gallery's overall collection with its mission; (b) a national government may have discussed sale of part of a national park to generate economic benefits; and (c) a city government may have plans to sell land that has previously been part of its designated "parks and reserves" land.)

#### Group 3—Heritage Assets Available for Alternative, Non-Heritage Uses

- 36. Heritage assets that are available for alternative, non-heritage uses include those heritage assets that an entity:
  - (a) Has decided could provide alternative, non-heritage uses; or
  - (b) Is either presently considering for alternative, non-heritage uses or has, in the past, considered for alternative, non-heritage uses.
- 37. For example:
  - (a) A national government may have considered commercial forestry or mining as additional uses for one of its national parks;
  - (b) An art gallery may be considering renting out its premises for events, to earn additional funds; and
  - (c) An historic building and its surrounding garden area may be in process of renovation to allow it to be used as concert space.
- 38. The question arises of whether the existence of a possibility (indicated by either its active consideration or its consideration in the past) is sufficient to increase the benefits to GPFR users of heritage asset recognition to the point where the benefits of measurement justify their costs, and heritage asset recognition should occur. The argument would be that increased transparency

(provided through asset recognition) is important as soon as an entity considers alternatives to how it uses a heritage asset. Transparency becomes more important when an entity is actively considering (for example) sale of a heritage asset. But once sale has been considered in the past, that option remains alive, at least in some sense of the word, even if the entity subsequently decides against that option.

#### *Description of Five Recognition Options*

##### **Option 1: No Recognition**

39. Under Option 1 no heritage assets would be recognized. This provides a consistent recognition treatment for all heritage assets. This option applies the principle that heritage assets should not be recognized, not only due to the costs of measurement, but also because of their special nature as heritage. Heritage assets should not be shown as assets in the statement of financial position, because GPFR users do not need monetary information about heritage items (i.e. no benefits to users from presenting such information). Alternatively, the idea could be that any monetary value for heritage assets will not meet the qualitative characteristics, for example, it will not be relevant, understandable and/or representationally faithful.
40. For Option 1 an entity's ability to measure the heritage resource is viewed as irrelevant to its recognition as an asset for financial reporting purposes. Even where measurement is fairly straightforward, the heritage asset would not be recognized. For example, recently purchased heritage assets would not be recognized. Also, if an operational asset is also a heritage asset then it would not be recognized. Being an operational (or multi-use) heritage assets would not be a basis for recognizing the heritage asset.

##### **Option 2, Recognize Operational Heritage Assets Only**

41. Option 2, Recognize Operational Heritage Assets, is similar to Option 1 in that ease of measurement would not be a consideration for recognition of heritage assets. Under Option 2, heritage assets would generally not be recognized. The basis for non-recognition would be that heritage assets' special characteristics (e.g. restrictions on sale), mean that users of GPFRs do not need the type of information generated by asset recognition. For the only exception, operational (dual-use) heritage assets recognition would apply because users need such assets to be recognized, so that they have full information on the entity's operational capacity and service costs. For this option there is an implication that even where the costs of measuring an operational heritage asset are relatively high, the benefits of recognition are assumed to be higher, so that the operational heritage asset should be recognized.

##### **Option 3, Recognize where Benefits High and/or Costs Low**

42. Option 3 takes the approach that the cost-benefit issue drives recognition decisions. Where a heritage asset can be measured, such that the benefits of measurement are less than the costs, it should be recognized. This approach could be considered to take a simple approach to application of the Conceptual Framework. Information about assets is important information for users of the financial statements. But recognition requires that assets can be measured so that the resulting information achieves the qualitative characteristics, while taking into accounting the constraints, including the cost-benefit constraint. If the cost-benefit constraint does not prevent recognition, then

the heritage asset should be recognized (assuming other constraints do not apply and no specific concerns about achievement of the qualitative characteristics.)

#### Option 4, Recognize, Including Use of “1 Unit Entry Value”

43. Option 4 allows for the possibility that consideration of the costs and benefits may result in a conclusion that a heritage asset cannot be measured applying the measurement bases identified in the Conceptual Framework. However, in that situation Option 4 introduces use of a “placeholder”, i.e. a 1–unit entry value or, what is called in some jurisdictions a “symbolic value” of 1 currency unit, for those heritage assets, so that they are still recognized. The 1–unit placeholder could be viewed as a type of historical cost for the heritage asset, when that information has been lost and the heritage asset is very old so that it can be safely assumed that its historical cost is very small. Alternatively it could be viewed as a very low cost way to measure the heritage asset, which delivers the benefits described below.
44. The use of a 1–unit placeholder would provide the following benefits for financial reporting of heritage assets:
  - (a) If subsequent expenditure occurs for which capitalization of expenditure is appropriate, the heritage asset has already been included in the information system.
  - (b) The entry allows the accounting information system to provide support for:
    - (i) Disclosures in notes to the financial statements (about assets that have not been recognized);
    - (ii) Information presented in another GPFR (information displayed or disclosed), e.g. a supplementary report on heritage assets held by the entity, if material for the entity, given the extent of assets held;
    - (iii) Reporting service performance information on heritage preservation, where an entity reports such information. (This will not apply to the majority of public sector entities. It will be relevant to those entities that have heritage preservation service performance objectives.)
  - (c) If the cost–benefit assessment of the heritage asset’s measurability changes in the future, then the heritage asset could be revalued and its measurement in the information system could be adjusted.

#### Option 5, Recognize all Heritage Assets

45. Option 5 would require that all heritage assets should be recognized and measured using a measurement base identified in the Conceptual Framework as applicable to assets. This option seems to apply an assumption that the benefits of heritage asset recognition will always outweigh the costs of providing the information. In effect, Option 5 applies the principle that users of GPFRs need to know all resources under the control of the entity, including any heritage assets that the entity controls and have a monetary value for those resources, included in the statement of financial position.

#### **4.4 Discussion of Alternative Approaches to Recognition**

46. These five recognition options for heritage assets can be grouped into just three broad recognition approaches:
- (a) No recognition, i.e. Option 1;
  - (b) Mixed recognition, i.e. Options 2 and 3; and
  - (c) Full recognition, i.e. Options 4 and 5.
47. Appendix B<sup>4</sup> analyses each broad recognition approach through application of the Conceptual Framework, focusing on GPFR users' needs for information for the purposes of accountability and decision making and achievement of the qualitative characteristics.
48. The discussion in Appendix B highlights that users of GPFRs need information on heritage assets for the purposes of accountability and decision making. Such information should be presented in an entity's GPFRs. There are arguments that support recognition of all heritage assets in the statement of financial position, so that users' of GPFRs are able to more easily derive information about all heritage resources, within the context of an entity's other resources, and consider related financial impacts.

#### *IPSASB's Preliminary View—4.2, Recognition of Heritage Assets*

49. After considering these five options and arguments for and against the three broad recognition approaches, the IPSASB has reached a preliminary view that:
- All heritage assets that meet the definition of an asset and are able to be measured, applying the measurement bases identified in Preliminary View 4.3, should be recognized as assets in an entity's statement of financial position.
50. This preliminary view should be considered in combination with Preliminary View 4.3, which allows for use of the "1–unit entry value" measurement base, when the benefits of measurement may not justify the costs of measurement. When the two preliminary views are considered together they broadly support Option 4 in this chapter's Table 1.

#### **4.5 Measurement, Measurement Bases and Measurement Objective**

##### *Conceptual Framework and Measurement*

51. Paragraph 6.7 of the Conceptual Framework explains that:

In order to recognize an item in the financial statements, it is necessary to attach a monetary value to the item. This entails choosing an appropriate measurement basis and determining whether the measurement of the item achieves the qualitative characteristics, taking into account the constraints on information in GPFRs, including that the measurement is sufficiently relevant and faithfully representative for the item to be recognized in the financial statements. The selection of an appropriate measurement

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<sup>4</sup> As noted in the Issues Paper, agenda item 6.2, an appendix may be provided to include more detailed discussion of financial reporting issues raised by particular categories of heritage items (e.g. natural heritage, intangible heritage, etc.). That appendix would be Appendix A in the Consultation Paper, which is why the appendix related to Chapter 4 is named "Appendix B".



basis is considered in Chapter 7, *Measurement of Assets and Liabilities in Financial Statements* of the Conceptual Framework.

52. Chapter 7 of the Conceptual Framework identifies the following measurement bases as applicable to assets:

- (a) *Historical cost*: The consideration given to acquire or develop an asset, which is the cash or cash equivalents or the value of the other consideration given, at the time of its acquisition or development.
- (b) *Market value*: The amount for which an asset could be exchanged between knowledgeable, willing parties in an arm's length transaction.
- (c) *Replacement cost*<sup>5</sup>: The most economic cost required for the entity to replace the service potential of an asset (including the amount that the entity will receive from its disposal at the end of its useful life) at the reporting date.
- (d) *Net selling price*: The amount that the entity can obtain from sale of the asset, after deducting the costs of sale.
- (e) *Value in use*: The present value to the entity of the asset's remaining service potential or ability to generate economic benefits if it continues to be used, and of the net amount that the entity will receive from its disposal at the end of its useful life.

53. The Conceptual Framework identifies the objective of measurement to be:

To select those measurement bases that most fairly reflect the cost of services, operational capacity and financial capacity of the entity in a manner that is useful in holding the entity to account, and for decision-making purposes.

54. This is explained further as follows:

The selection of a measurement basis contributes to meeting the objectives of financial reporting by providing information that enables users to assess:

- The cost of services provided in the period in historical or current terms;
- Operational capacity—the capacity of the entity to support the provision of services in future periods through physical and other resources; and
- Financial capacity—the capacity of the entity to fund its activities.

The selection of a measurement basis also includes an evaluation of the extent to which the information provided achieves the qualitative characteristics while taking into account the constraints on information in financial reports.

55. The Conceptual Framework provides guidance on the selection of a measurement basis. It does not propose a single measurement basis (or combination of bases) for all transactions, events and conditions, and explains that that is not possible at a Conceptual Framework level.

56. Chapter 7 of the Conceptual Framework discusses the five measurement bases in terms of:

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<sup>5</sup> The full term is "optimized depreciated replacement cost" (ODRC) to denote that it refers to the replacement of the service potential embodied in an asset and not the asset itself. (see paragraph 7.41) The term "replacement cost" is used for economy of expression in the Framework.

- (a) Their ability to provide information useful for assessment of an entity's cost of services, operating capacity and financial capacity; and
  - (b) The extent to which they provide information that meets the qualitative characteristics.
57. The discussion indicates that some bases do better than others on particular aspects of these two considerations. This is discussed below with the additional consideration of heritage characteristics and their implications for measurement bases.

*Heritage Assets and Information to Assess Operational Capacity, Service Costs and Financial Capacity*

58. Heritage assets are expected to be preserved for present and future generations and many have restrictions on their sale<sup>6</sup>. Where heritage assets are held by an entity dedicated to heritage services (for example, a museum) they are primarily used to provide heritage services. Where heritage assets are operational assets, they are also used to provide other, non-heritage services. In these cases, it would appear that measurement of heritage assets is likely to be most useful for assessing an entity's cost of services and assessment of operational capacity, while it is of less importance to assessments of an entity's financial capacity. If a measurement basis' only strength is its ability to assess an entity's financial capacity, and it is relatively weak when used for the other two assessments, then it appears likely that, in most circumstances, the basis would not be appropriate for measurement of heritage assets.

**Net Selling Price**

59. The Conceptual Framework describes net selling price as being useful where the most resource-efficient course available to the entity is to sell the asset. It is not viewed as an appropriate measurement base if the entity is expected to be able to use the resource more efficiently by employing it in another way, for example by using it in the delivery of services. Heritage assets are expected to be held and preserved rather than sold. Their value usually relates to their service potential, which suggests that this measurement basis would not ordinarily be appropriate for heritage assets.
60. Given that net selling price is primarily useful for assessments of financial capability, it appears that, in ordinary circumstances, it would not provide relevant measurement information for heritage assets. The exception would be in the circumstance that heritage assets have been identified as ready for sale.

**Replacement Cost**

61. Replacement cost relies on the existence of other assets that would provide the same service potential as the heritage asset being valued. For many heritage assets this is likely to be difficult or impossible, because they are often rare or even unique items, and their service potential is bound up with their quality as rare or even unique items. (For example, ODRC appears to make little if any sense in the case of an iconic artwork such as The Mona Lisa, natural heritage such as the Great

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<sup>6</sup> This CP applies the view that many or most heritage assets are not likely to be sold by the entity holding them. However, that is not necessarily the case. There appears to be a "sale likelihood" continuum for heritage items, which moves from, for example, items in museum collections that are unrestricted and will be sold to raise funds for other, higher value or better fit items if the opportunity arises, through to national icons for which sale would be unthinkable and legislation exists making it impossible, with variations along the way.

Barrier Reef, or archeological mystery such as the Moai (massive stone heads) of Easter Island.) However, in the case of operational heritage assets it is likely to be possible to derive a replacement cost that reflects the operational (non-heritage) optimized depreciated replacement cost (ODRC). For example, an ODRC can usually be derived for historic buildings that are used to deliver non-heritage services in the form of providing office space. This is done through reference to non-heritage office building that provide office similar space, without the heritage aspect.

62. There appears to be a continuum for the extent to which heritage assets are capable of substitution. For example, a collection of significant but not outstanding impressionist paintings could be viewed as capable of substitution with other such paintings. Then the most outstanding and significant works of the most important impressionists would be more difficult to find equally important pieces as substitutes. Then there are “unique” heritage items such as, for example, the Colosseum, The Great Pyramid of Giza, Stonehenge or Buckingham Palace. These can be compared to other historic edifices, but are nonetheless unique given their place in history and their outstanding heritage qualities. No meaningful market exists, and any market value seems irrelevant by comparison to the edifice’s heritage significance. Within the United Kingdom context research on the valuation of heritage assets for financial reporting purposes has concluded that some heritage assets are irreplaceable and should be deemed “National Treasures”, while other heritage assets are capable of substitution<sup>7</sup>.

#### Value in Use

63. The Conceptual Framework explains that value in use is appropriate where it is less than the replacement cost of the resource and greater than the net selling price. This occurs when the asset is “not worth replacement”, but “the value of its service potential or ability to generate economic benefits is greater than its net selling price”.
64. By their nature heritage assets are valuable in terms of service potential and, if it is possible to replace a heritage asset, then it would be worthwhile to do so. Whether or not the net selling price of a heritage asset is less than the service potential or ability to generate economic benefits is difficult to assess, because it is difficult to value the heritage asset’s service potential, but many heritage items would generate high net selling prices, if sold. The Conceptual Framework also explains that operationalization of value-in-use for non-cash-generating assets involves the use of replacement cost as a surrogate. If the majority of heritage assets are non-cash-generating assets, then this would mean that value-in-use for this category of asset would be equivalent to replacement cost.

#### Historical Cost

65. The Conceptual Framework describes historical cost information as relevant to assessments of operational capacity, cost of services and financial capacity. It explains that:
- ...application of historical cost is often straightforward, because transaction information is usually readily available. As a result amounts derived from the historical cost model are generally representationally faithful in that they represent what they purport to represent—that

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<sup>7</sup> Kingston University on behalf of RICS and HM Treasury (2009) *Valuing Heritage Assets, Final Report of a Research Project Examining the case for the Valuation of Heritage Assets*, March 2009

is, the cost to acquire or develop an asset based on actual transactions. Estimates of depreciation and impairment used in the historical cost model, particularly for non-cash-generating assets, can affect representational faithfulness. Because application of historical cost generally reflects resources consumed by reference to actual transactions, historical cost measures are verifiable, understandable and can be prepared on a timely basis.

Historical cost information is comparable to the extent that assets have the same or similar acquisition dates. Because historical cost does not reflect the impact of price changes, it is not possible to compare the amounts of assets that were acquired at different times when prices differed in a meaningful way.

66. These reasons for using historical cost to measure assets do not necessarily apply when measuring heritage assets. Many heritage assets may be so old that transaction information is not available, because it has been lost or destroyed years before. Heritage assets may have been acquired through non-exchange transactions. Where heritage assets have been acquired over very long periods of time, the information generated from measurement at historical cost will not be comparable. While difficulties with use of historical cost are likely to be more frequent when considering heritage assets, it is also likely that there are heritage assets where a historical cost is available and the information is relevant. For example, where heritage assets were purchased by the entity within the fairly recent past historical cost information should be available at little cost and should also be relevant. Therefore, historical cost could be an appropriate measurement basis in some situations or for some groups of heritage assets.

#### Market Value

67. As noted in the context of replacement cost, it can be argued that some heritage assets are irreplaceable. Market values for similar assets may be unavailable, if the original asset is unique. The proportion of heritage assets for which market value can be derived with relatively low cost is unclear and appears likely to depend on the particular heritage portfolio in a particular jurisdiction. Even where a market for heritage items exists, it may not be active enough to provide readily available market values. Given their heritage nature, which means that heritage items are (by definition, as it were) rare, special and even unique, there may be very few, if any, comparable items in existence and of those none may have been made available for market sale in recent years. Although a market value (or a reasonable estimate of market value) can usually be determined, the cost of doing market valuations for heritage assets may exceed the benefits of reporting a monetary value in the statement of financial position.
68. The market values of surrounding land provides an indication of the market value for land occupied by an historic building, under gardens and forming an historic open area. There is a market for historic manuscripts, artwork and precious items such as significant jewellery. Public sector entities that hold heritage assets will often be in the situation of insuring those assets, which involves determination of their insurance value, with probable reference made to market values for similar items or similar collections of items.

#### *IPSASB Preliminary View—4.3, Measurement Bases for Heritage Assets*

The IPSASB has reached the following preliminary view that, when recognized in the statement of financial position, measurement bases for heritage assets:

- (a) Depend on the:
  - (i) Category of heritage asset (for example, tangible versus intangible); and/or
  - (ii) Purpose for which the entity holds the heritage asset, for example:
    - a. To provide either heritage or non-heritage (operational) services; and/or
    - b. Held for the long-term versus or held ready for sale or exchange.
- (b) Should include, in addition to the measurement bases identified in the Conceptual Framework as applicable to asset measurement; use of a “1-unit entry value”, where specific conditions are met, as follows:
  - (i) A cost-benefit assessment indicates that the costs of using another measurement basis exceed the benefits; and
  - (ii) The heritage assets’ sole purpose is to provide heritage services.

#### Meaning of Heritage Services

69. In Preliminary View 4.3, “heritage services” means provision of access to heritage assets for the public, researchers, students and/or tourists so that they can:
- (a) Enjoy, appreciate, study and/or research the heritage assets; and/or
  - (b) Celebrate the importance and/or significance of the heritage assets as heritage, where that significance could (for example) arise from its cultural or natural significance to a community.

#### **4.6 Subsequent Measurement, Depreciation and Deferred Maintenance**

70. After initial recognition subsequent events could impact on the monetary value of heritage assets. Changes in the value of heritage assets is likely to be useful information for accountability and decision making. The same concerns about cost-benefit raised in the context of initial recognition of heritage assets may also apply to subsequent measurement.
71. Subsequent value changes can be viewed as potentially arising through the following events:
- (a) Value increases:
    - (i) Market value changes (increase); and/or
    - (ii) Expenditure on the heritage asset that is of a capital nature, for example replacement of the roof of an historic building, reconstruction of an old fountain, or construction of new viewing platforms in a natural park.
  - (b) Value decreases:
    - (i) Market value changes (decrease);
    - (ii) Impairment, which could occur due to damage (fire, flood, earthquake, etc.) or changes in a community’s perception of a heritage item’s heritage significance, with consequential impact on its service potential and future economic benefits;
    - (iii) Depreciation or amortization, where a heritage asset’s has a finite useful life due to wear and tear or the potential for obsolescence; and/or

- (iv) Accumulated deferred maintenance.

*IPSASB Preliminary View—4.4, Subsequent Measurement for Heritage Assets*

72. The IPSASB has reached a preliminary view that subsequent measurement of heritage assets, when recognized in the statement of financial position, will depend on:.
- (a) The heritage assets' initial measurement and category of asset (for example, tangible or intangible); and
  - (b) An assessment of the costs and benefits of carrying out a particular subsequent measurement approach, given the nature of the event giving rise to a value change.

## APPENDIX B: EVALUATION OF OPTIONS AGAINST FINANCIAL REPORTING OBJECTIVES AND QUALITATIVE CHARACTERISTICS

B.1 This Appendix provides an assessment of the three broad recognition approaches in Chapter 4 of this CP. The assessment is against the objectives of financial reporting and the qualitative characteristics of information in financial reports.

Extract from Conceptual Framework	Approach 1: No heritage assets recognized	Approach 2: Recognition of some heritage assets	Approach 3: Recognition of all heritage assets
<p>2.1 The <b>objectives of financial reporting</b> by public sector entities are to provide information about the entity that is useful to users of GPFRs for accountability purposes and for decision-making purposes (hereafter referred to as “useful for accountability and decision-making purposes”)....</p> <p>2.11 For accountability and decision-making purposes, service recipients and resource providers will need information that supports the assessments of such matters as:</p> <ul style="list-style-type: none"> <li>• The performance of the entity during the reporting period in, for example: <ul style="list-style-type: none"> <li>○ Meeting its service delivery and other operating and financial objectives;</li> <li>○ Managing the resources it is responsible for; and</li> <li>○ Complying with relevant budgetary, legislative, and other authority regulating the raising and use of resources;</li> </ul> </li> <li>• The liquidity (for example, ability to meet current obligations) and solvency (for example, ability to meet obligations over the long term) of the entity;</li> <li>• The sustainability of the entity's service delivery and other operations over the long term, and changes therein as a result of the activities of the entity during</li> </ul>	<p>Non-recognition of heritage assets does not provide all the information that users need in GPFRs for accountability and decision-making purposes.</p> <p>However, for those that subscribe to the view that heritage items are not resources for entities that hold them non-recognition does support users' needs because it will ensure that information on an entity's resources faithfully represents those resources.</p>	<p>Partial recognition of heritage assets does not provide all the information that users need in GPFRs for accountability and decision-making purposes. Partial recognition provides only a partial picture of the heritage resources available to the entity for delivery of services.</p>	<p>Recognition of heritage assets provides information that is useful for accountability and decision-making purposes. This information helps users to understand the resources available to the entity. Information about resources is relevant to several of the different types of assessment that the Conceptual Framework identifies as those for which users of the financial reports require information.</p>

Extract from Conceptual Framework	Approach 1: No heritage assets recognized	Approach 2: Recognition of some heritage assets	Approach 3: Recognition of all heritage assets
<p>the reporting period ...;</p> <ul style="list-style-type: none"> <li>The capacity of the entity to adapt to changing circumstances...</li> </ul>			
<p>3.6 Financial and non-financial information is <b>relevant</b> if it is capable of making a difference in achieving the objectives of financial reporting. Financial and non-financial information is capable of making a difference when it has confirmatory value, predictive value, or both. It may be capable of making a difference, and thus be relevant, even if some users choose not to take advantage of it or are already aware of it.</p>	<p>Non-recognition of heritage items as assets undermines users' ability to make decisions about the entity's resources, funding, etc., and also undermines users' ability to hold an entity accountable for its stewardship of heritage items.</p>	<p>Non-recognition of heritage items as assets undermines users' ability to make decisions about the entity's resources, funding, etc., and also undermines users' ability to hold an entity accountable for its stewardship of heritage items.</p>	<p>Recognition of heritage items as assets supports users to make decisions about the entity's resources, funding, etc., and also helps users to have the information they need to hold an entity accountable for its stewardship of heritage items.</p>
<p>3.10 To be useful in financial reporting, information must be a <b>faithful representation</b> of the economic and other phenomena that it purports to represent. Faithful representation is attained when the depiction of the phenomenon is complete, neutral, and free from material error. Information that faithfully represents an economic or other phenomenon depicts the substance of the underlying transaction, other event, activity or circumstance—which is not necessarily always the same as its legal form.</p>	<p>There are different views on whether heritage is, in substance, an asset and whether cost-benefit means that heritage assets should not be recognized. Depending on the views on that question either non-recognition of heritage assets better reflects the heritage items as <i>not</i> being assets or does not faithfully represent them as assets. Supplementary disclosures on heritage holdings could support users' information needs.</p>	<p>Recognition of some heritage assets faithfully represents those assets that are recognized. There are differing views on whether a cost-benefit evaluation supports non-recognition of difficult to measure heritage assets. By not recognizing all heritage assets there is a risk that the assets total will not faithfully represent the resources available to the entity.</p>	<p>Recognition of heritage items as assets is a faithful representation of the heritage item phenomenon, for those who subscribe to the view that they are, in substance, resources available to the entity.</p>
<p>3.17 &amp; 3.18 <b>Understandability</b> is the quality of information that enables users to comprehend its meaning. GPFs of public sector entities should present information in a manner that responds to the needs and knowledge base of users, and to the nature of the information presented....</p> <p>However, information should not be excluded from GPFs solely because it may be too complex or difficult for some users to</p>	<p>Non-recognition is an understandable approach for those who subscribe to a view that heritage items are not resources. If the non-disclosure approach involves disclosure of other, non-monetary information on heritage items then the understandability of such information could be in doubt for most users of the financial</p>	<p>Partial recognition of heritage items provides difficult to understand information. It is not clear what further disclosures could support users' understanding although, at a minimum, disclosures that explain that all part of the entity's heritage has been recognized would be required. An estimate of the value</p>	<p>Users are familiar with financial information about items that are resources used to deliver services rather than used to generate cash flows. Recognition of heritage items as assets will provide understandable information to users. Disclosures on heritage asset restrictions and/or their special nature can be used to</p>



Extract from Conceptual Framework	Approach 1: No heritage assets recognized	Approach 2: Recognition of some heritage assets	Approach 3: Recognition of all heritage assets
understand without assistance.	statements, although some users with a specialist interest in heritage could find such information understandable and relevant.	of the unrecognized set of heritage would also be helpful to provide users with a better understanding of total heritage resources held by the entity.	further support users' understanding of the information reported. An alternative view is that recognition of heritage items will confuse users because these are not resources for the entity.
3.19 <b>Timeliness</b> means having information available for users before it loses its capacity to be useful for accountability and decision-making purposes. Having relevant information available sooner can enhance its usefulness as input to assessments of accountability and its capacity to inform and influence decisions that need to be made. A lack of timeliness can render information less useful.	The timeliness of the information provided under this approach will depend on what type of alternative information (if any) is reported in the financial reports and information systems or other preparation required to generate that information.	Because only those heritage items that can easily be measured are recognized this approach does not provide users with timely information on some resources for accountability and decision-making purposes.	Recognition provides timely information on resources available to the entity.
3.21 <b>Comparability</b> is the quality of information that enables users to identify similarities in, and differences between, two sets of phenomena. Comparability is not a quality of an individual item of information, but rather a quality of the relationship between two or more items of information.	Non-recognition of heritage will make it more difficult for users to identify similarities in, and differences between resources available to entities.	The partial recognition of heritage will make it more difficult for users to identify similarities in, and differences between heritage assets and total assets.	Generally, the recognition approach will provide information that enables users to identify similarities in, and differences between heritage assets and total assets.
3.26 <b>Verifiability</b> is the quality of information that helps assure users that information in GPFRs faithfully represents economic and other phenomena that it purports to represent...	Whether verifiability is possible for this approach depends on what other information, if any, is disclosed on heritage items held by the entity.	This approach ensures that only historic cost measures for which verification is straightforward are required for recognition, so the QC of verifiability will be met.	Measurement of heritage items may be difficult and involve internal experts in some cases which could impact negatively on verifiability.

**DRAFT CHAPTER 5, HERITAGE ITEMS AND RELATED OBLIGATIONS**

**5.1—Introduction**

1. This chapter discusses whether heritage items involve obligations for an entity that holds them. It assumes that, when an entity holds heritage items, there is an expectation that it will take action to preserve them. It considers whether those preservation-related expectations could result in obligations that, applying a financial reporting perspective, lead to liabilities that should be recognized in the financial statements. The questions that arise are:
  - (a) To what extent do heritage preservation expectations result in obligations?
  - (b) If, or where, such expectations give rise to obligations, can liabilities result?
  - (c) Should some or all of any resulting liabilities be recognized in the financial statements of the entity?
2. This chapter applies the Conceptual Framework's definition of a liability and its recognition criteria for liabilities. Its focus is on information that could impact on the face of the financial statements. Before that main discussion, the next section provides a brief overview of:
  - (a) How some commentators view the issue of entities' obligations to preserve heritage; and,
  - (b) GPFR users' need for information that allows them to hold entities accountable for their preservation of heritage items.

**5.2—Costs to Preserve Heritage, Users' Needs and Deferred Maintenance**

3. Entities may incur higher costs when they hold a heritage item than would be the case if they held an equivalent non-heritage item, because heritage maintenance may involve more expensive materials and expertise. If an entity plans to preserve a heritage item for future generations and, to the best of its ability, indefinitely, then these future preservation costs could be very high. Some commentators have argued that, because of these higher costs, heritage items should be considered liabilities rather than assets for financial reporting purposes. As discussed in Chapter 3 of this CP, the IPSASB has reached a preliminary view that heritage items could meet the Conceptual Framework's definition of an asset for financial reporting purposes, which excludes scope to view heritage items as liabilities. Therefore, the question of how to account for future resource outflows (costs) related to preservation of heritage items involves consideration of whether, and at what point, a liability could exist related to such heritage item preservation costs.
4. Assets often involve resource outflows, as is the case with other types of assets held by public sector entities, for example, infrastructure and other types of property, plant and equipment, which involve an entity in resource outflows to maintain them. The financial reporting issue with respect to resource outflows related to these non-heritage assets is generally whether they should be classified as either an expense or a capital expenditure. Such physical asset-related resource outflows are not generally viewed as potential liabilities. This chapter discusses whether heritage items could raise special issues, which differ from those raised by other, non-heritage public sector assets.

### *Information on Stewardship of Heritage*

5. With respect to users of GPFRs, arguably they could benefit from receiving information on whether entities are doing enough to preserve the heritage items that they hold. Given the special characteristics of heritage items, GPFR users should have information to hold entities accountable for their stewardship over heritage items and to make decisions on their preservation. The following type of information could be useful:
  - (a) Planned and actual expenditure for heritage preservation (annual and over a maintenance cycle of, for example, 5 to 10 years or longer); and
  - (b) Deferred maintenance with respect to heritage items, expressed in monetary terms;
  - (c) Qualitative (non-monetary) information on the state of heritage items, including their condition and qualitative information about deferred maintenance.
6. In the case of a monetary value for either (a) planned expenditure on heritage preservation, or (b) deferred maintenance, these two amounts could be described, by some commentators, as a type of “liability”. These amounts could be helpful in expressing an entity’s commitment, responsibility or “stewardship obligation” for heritage preservation.

### Chapter 6 and Information on Deferred Maintenance

7. This chapter focuses on liabilities recognized in the financial statements, and only considers the issues raised above insofar as they could relate to such liabilities. Chapter 6 notes scope to present information outside of the financial statements, in supplementary schedules or other GPFRs. It deals with a wider set of heritage-related information that entities could present, including information on planned expenditures on heritage preservation and deferred maintenance.

## **5.3—Conceptual Framework, Obligations and Liabilities**

### *Obligations, Liabilities and Recognition of a Liability*

8. The Conceptual Framework defines a liability to be “a present obligation of the entity for an outflow of resources that results from a past event”<sup>1</sup>. A present obligation could be a legally binding obligation (legal obligation) or non-legally binding obligation, which an entity has little or no realistic alternative to avoid<sup>2</sup>. A present obligation is binding, such that there is little or no realistic alternative to avoid an outflow of resources<sup>3</sup>. Paragraph 6.2 of the Conceptual Framework states:

The recognition criteria are that:

- An item satisfies the definition of an element; and
- Can be measured in a way that achieves the qualitative characteristics and takes account of constraints on information in GPFRs.

9. Therefore, for recognition of a liability related to heritage preservation, two criteria should be met:
  - (a) Satisfaction of the definition of a liability; and

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<sup>1</sup> Paragraph 5.14 of the Conceptual Framework.

<sup>2</sup> 5.15, *ibid*.

<sup>3</sup> 5.15 *ibid*.

- (b) An ability to measure the liability in a way that achieves the qualitative characteristics and takes account of the constraints on information in GPFRs.

#### Measurement of Heritage–Related Liabilities

- 10. This chapter assumes that, where a heritage–related liability exists, measurement will generally be possible, applying the Conceptual Framework approach to the measurement of liabilities. This on the basis that heritage items' special characteristics and the type of resource outflows envisaged as arising from heritage items do not appear to introduce new measurement issues. Therefore, the discussion below focuses on the definition of a liability and assumes that recognition is then, likely to follow.

#### Outflows of Resources—Preservation and Enhancement of Heritage Asset

- 11. An entity is likely to have resource outflows as a result of holding a heritage asset. Resource outflows could be to:
  - (a) Enhance or improve the heritage item, for example, outflows to:
    - (i) Reconstruct a ruined castle wall;
    - (ii) Replace the plumbing of an historic fountain;
    - (iii) Restore a partially destroyed historic house to its original condition; or
    - (iv) Expand a forest (or wetland area, etc.) in a natural reserve or national park.
  - (b) Maintain a heritage item, for example, outflow of resources for purchase of materials and payment of staff and contractors to provide:
    - (i) Cleaning (e.g. cleaning of paintings to maintain their condition);
    - (ii) Repair (e.g. replacement of a worn part of a heritage building); or
    - (iii) Pest control in a natural reserve or national park.

#### Obligations Arising from Heritage Items

- 12. Financial reporting has a technical meaning for “obligation” which, as the Conceptual Framework makes clear, is narrower and more precisely defined than the general meaning of obligation. Whether or not resource outflows indicate the existence of a liability depends on whether there is a present obligation that binds the entity to incur a resource outflow.
- 13. By contrast, in ordinary speech or the vernacular, an “obligation” may include moral obligations, which are not, in themselves, legally or constructively binding. If there is only an intention to take action or some type of “commitment” to carry out preservation work, which is not in any way binding on the entity, then a present obligation (as defined in the Conceptual Framework for financial reporting purposes) does not yet exist. Intentions, commitments, moral obligations and plans do not in themselves result in a binding obligation. These events do not represent the type of “past event” needed to meet the financial reporting definition of a liability.
- 14. A present obligation is binding, such that there is little or no realistic alternative to avoid an outflow of resources. Generally–speaking an entity cannot bind itself and incur an obligation through its own intention. There must be some external constraint, whether that is legal or constructive. Given

the special characteristics of heritage items, are reporting entities likely to have a legal or constructive obligation to incur resource outflows related to them?

15. Heritage legislation is usually focused on preserving and conserving heritage. Legal penalties may exist for damaging heritage. Heritage legislation may stipulate that repairs or other actions related to heritage items preserve (and do not damage) their character. However, heritage legislation does not typically include legally enforceable requirements to carry out repairs to preserve a heritage item, once repairs have been identified as necessary. For example, if an entity owns a heritage building and there is a problem with the foundation, which requires repair, it is likely that there is no external legal requirement for the entity to address that problem.
16. Entities are likely to have a moral obligation, stewardship obligation or responsibility to preserve the heritage items that they hold. A public sector entity that holds, for example, a heritage building, will aim to preserve that building and maintain its character. However, if the necessary funding to preserve a heritage item is not available, then there is usually scope to avoid preservation expenditures. For example, heritage items may be sold or transferred to another entity. (Sometimes the need for expensive repair work is the factor that compels an entity to explore those options.) Expensive repairs may be viewed (or able to be treated) as conditional on the existence of funding and deferred until the necessary funding is available.
17. Although the stewardship obligation to preserve heritage does not appear to indicate a binding obligation, presentation of information on deferred maintenance and/or future expenditures necessary to restore heritage items to an acceptable standard of upkeep and preserve them for future generations may be of benefit to users of GPFRs for the purposes of accountability and decision making.

#### **5.4—Alternative Approaches to Liabilities due to Heritage Items**

18. In considering whether heritage items could present liability recognition issues that differ from those raised by other items held by public sector entities the IPSASB identified three broad approaches, captured in the following three options:
  - Option 1 An entity that holds a heritage item should recognize a heritage liability (independent of a heritage asset, if one is recognized) to show its obligation to preserve the heritage item indefinitely for future generations. The past event for the preservation obligation relates to existence of a responsibility, on the entity's part, to preserve the heritage item. That responsibility is viewed as existing from the point that the entity holds (i.e. "has control over") the heritage item. Then the liability is the net present value of future cash outflows needed to preserve the heritage item indefinitely for future generations.
  - Option 2 An entity has a liability related to preservation of a heritage item at the point that the heritage item requires identifiable preservation actions, so that the past event is something that creates a need to take preservation action. (For example, the roof of a heritage building has been found to leak and needs to be repaired.) The liability is the estimated cost of the specific preservation action required.
  - Option 3 An entity has a liability related to preservation of a heritage item only to the extent that it has already undertaken actions to preserve the heritage item and has not yet discharged any resulting obligations to pay contractors or employees. (For example, the entity engaged a contractor to replace the roof of a heritage building. The work has

been done, but the entity has not yet paid for the completed work. The liability is the amount due to be paid to the contractor.)

### *Discussion of the Alternative Approaches*

#### Options 1 and 2—Is there a present obligation?

19. As noted above, the Conceptual Framework states that obligations are not present obligations unless they are binding and there is little or no realistic alternative to avoid an outflow of resources<sup>4</sup>. If an entity is able to avoid an outflow of resources related to a heritage item, even where an event has occurred that creates a need to repair or otherwise preserve the heritage item, then this would indicate that a binding obligation does not exist. For both Options 1 and 2 an entity appears to be able to avoid an outflow of resources related to heritage preservation actions in the circumstances described. In effect, the necessary past event that would give rise to a present obligation has not yet occurred.
20. However, others argue that deferred maintenance will eventually become unavoidable, so that the future resource outflows required to maintain heritage are inevitable and unavoidable. Then, uncertainty over the timing of the resource outflows relates to measurement rather than the existence of a present obligation.

#### Option 1 and its link to Planning for Heritage Preservation

21. Option 1 effectively proposes that holding a heritage item is the event that results in an obligation for all future preservation actions; those actions that are already needed and all those foreseeable into the future. Since, as discussed, there can be doubt over whether an entity will carry out even already needed repairs (or other actions to preserve a heritage item), there is also doubt over its willingness and ability to carry out future heritage preservation needs. Future resource outflows appear conditional on both (a) the existence of a future need for preservation action, and (b) willingness and capacity on the part of the entity to address that future need. Therefore, these circumstances do not appear to result in a binding obligation, and the entity appears to have realistic alternatives to avoid future resource outflows.
22. Option 1 is linked to an entity's planning and budgeting for future heritage preservation activities. An entity could estimate its future heritage preservation costs over the next 10 years (or over a longer time horizon, including a very long time period that reflects the idea of "heritage preservation for present and future generations"). Then the monetary value of the liability, for recognition in the financial statements, would be those future costs expressed as a present value.

#### Option 2 and its link to Deferred Maintenance

23. The past event indicated by Option 2—that the heritage item held by the entity requires identifiable preservation actions—also does not appear to result in a binding obligation that an entity has little or no realistic alternative to avoid. As noted above, the entity may be able to sell or transfer the heritage item or to treat preservation as conditional on funding. However, one question that arises is whether applicable heritage legislation could include high enough penalties for any entity that fails to carry out needed heritage preservation, such that inaction is not a realistic alternative to doing the necessary work and incurring the related resource outflows. Even then there appears to

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<sup>4</sup> 5.15 *ibid.*

be a choice between undertaking the preservation work versus incurring a penalty, with a binding legal obligation arising from the event of non-compliance with the legislative requirement, rather than the existence of needed and identifiable heritage preservation action.

24. Option 2 is linked to situations where there is deferred maintenance (and/or deferred restoration and conservation). However, there appear to be different concepts of deferred maintenance, because there are different views on “maintenance standard” or “level of maintenance required”, when attempting to identify the gap between planned and actual maintenance. (The gap is the “deferred maintenance”). Option 2 relates to an observable need for maintenance, such as a damaged roof for an historic building or a need to restore natural habitat lost through overuse by visitors, invasion by introduced pests, or a natural event such as a forest fire. However it could be the case that a heritage item would benefit from restoration to an earlier state, where it has been modernized and lost some of its heritage character. There may be different views on the earlier state to which the heritage item should be restored. (For example, a heritage building in England could be restored to its earlier state in either the Regency period or the Tudor period.) Once the gap (i.e. the extent of deferred maintenance and/or restoration required) has been clearly identified, the monetary value of the liability, for recognition in the financial statements, would be the future costs to address the gap, expressed as a present value.

Option 3 and its link to Preservation Actions that have Occurred

25. Option 3 takes the most conservative approach to recognition of heritage preservation liabilities, in that it proposes to recognize liabilities at a later point, when the existence of binding obligations appears to be fairly clear-cut. It focuses on the type of binding legal obligation that arises when an entity has received services (including services in the form of goods) and has not yet paid for them. The past event is the provision of the services which result in a present legal obligation to pay for them and an unavoidable outflow of resources. Option 3 is linked to heritage preservation actions that the entity has already taken, and an obligation exists because the entity has not yet paid for the services that it has already received from others.

*Preliminary View 5—Recognition of Liabilities for Heritage Preservation*

26. The IPSASB's preliminary view on recognition of liabilities for heritage preservation is as follows:

An entity will have a recognizable liability related to preservation of a heritage item where it has carried out heritage preservation activities and the resulting binding and unavoidable obligations to pay contractors, employees or others for the preservation services provided by them have not yet been discharged, so the entity has little or no realistic alternative to avoid an outflow of resources.

*Chapter 6 on Presentation—Deferred Maintenance and Heritage Responsibilities*

27. This chapter has focused on obligations that could be recognized as liabilities in the financial statements. Chapter 6 considers presentation in the financial statements and elsewhere, in other GPFRs. It discusses a wider set of information, which users of GPFRs may need to hold entities accountable for their heritage stewardship, including information on an entity's:
- (a) Planning and budgeting for its future heritage preservation activities; and
  - (b) Deferred maintenance related to heritage items.

**DRAFT CHAPTER 6, PRESENTATION OF INFORMATION ON HERITAGE ASSETS**

**6.1—Introduction**

1. This chapter applies the Conceptual Framework to discuss the presentation of information on heritage in GPFRs. It considers presentation of information for a “mixed recognition” scenario, where some heritage items that an entity controls are recognized in the statement of financial position and others are not.
2. Then the last section of this chapter, Section 6.5, describes a broader set of information that entities may report on heritage, either in other GPFRs or in specialist, heritage-specific reports that are not GPFRs. The aim of that section is to provide context for the main discussion. The other types of information and reports described in Section 6.5 may also provide scope to address particular heritage information needs, including information on an entity’s heritage stewardship. This CP does not aim to develop guidelines on these other types of reporting.

*Conceptual Framework, Presentation and Recognition Scenario*

3. Paragraphs 8.4 and 8.5 of the Conceptual Framework state that:

8.4 Presentation is the selection, location and organization of information that is reported in the GPFRs.

8.5 Presentation aims to provide information that contributes towards the objectives of financial reporting and achieves the qualitative characteristics while taking into account the constraints on information included in GPFRs. Decisions on selection, location and organization of information are made in response to the needs of users for information about economic or other phenomena.

**Presentation for a “Mixed Recognition” Scenario**

4. Chapters 4 and 5 identify different options for the recognition and measurement of heritage assets and heritage liabilities. Attempting to address presentation for all such options would be very complex. Instead this chapter considers presentation for what it calls a “mixed recognition” scenario, on the basis that this scenario will address most of the presentation issues raised by the different options. Mixed recognition assumes that some heritage assets are recognized (or “capitalized”) in the statement of financial position, while others are not. No assumption is made on which heritage assets are recognized and which are not.
5. With respect to heritage asset measurement bases and subsequent measurement, the discussion assumes that, for those heritage assets that are recognized:
  - (a) More than one measurement base may be applied (depending on factors that are not discussed in this chapter);
  - (b) Some (but not necessarily all) recognized heritage assets could be (i) depreciated, (ii) revalued, (iii) impaired, and (iv) have subsequent expenditures on them that are capitalized.
6. The “mixed recognition” scenario also applies Chapter 5’s Option 3 for liability recognition.



## Selection of Information

7. This chapter considers four questions with respect to selection of information for presentation:
- Is there heritage-specific information that should be presented on heritage assets, whether or not they are recognized in the financial statements and, if so, what is that information and where should it be presented?
  - For a “mixed recognition” situation should additional, explanatory information be presented to support users’ understanding of how the mixed recognition approach has been applied?
  - What information should be presented about heritage assets that are not recognized in the financial statements?
  - When heritage assets are recognized in the financial statements, what information should be displayed on the face of those statements and what disclosed in their notes?

## Location of Information

8. Paragraphs 8.36 and 8.37 of the Conceptual Framework state that:

8.36 Decisions on information location are made about which:

- Report information is located within; and
- Component of a report information is located.

8.37 The location of information has an impact on information’s contribution to achievement of the objectives of financial reporting and the qualitative characteristics. Location may affect the way that users interpret information and the comparability of information. Location may be used to:

- Convey the relative importance of information and its connections with other items of information;
- Convey the nature of information;
- Link different items of information that combine to meet a particular user need; and
- Distinguish between information selected for display and information selected for disclosure.

9. This chapter makes proposals on where information selected for presentation should be located. It considers whether information should be presented in either:
- The financial statements; or
  - Other GPFRs.
10. Where relevant it also considers whether information should be displayed on the face of a financial statement or disclosed in the notes to the financial statements.

## Organization of Information

11. Paragraphs 8.45-8.46 of the Conceptual Framework explain that:

8.45 Information organization addresses the arrangement, grouping and ordering of information, which includes decisions on:

- How information is arranged within a GPFR; and
- The overall structure of a GPFR.

8.46 Information organization involves a range of decisions including decisions on the use of cross-referencing, tables, graphs, headings, numbering, and the arrangement of items within a particular component of a report, including decisions on item order. How information is organized can affect its interpretation by users.

12. This chapter does not consider information organization in depth, because decisions on information selection and location will influence how the selected information on heritage should be organized in the financial statements and/or another GPFR.

### **6.2 Information on all Heritage Assets (Recognized and Not Recognized)**

13. This section considers the following two questions:

- (a) Is there heritage-specific information that should be presented on heritage assets, whether or not they are recognized in the financial statements and, if so, what is that information and where should it be presented?
- (b) For a “mixed recognition” situation should additional, explanatory information be presented to support users’ understanding of how the mixed recognition approach has been applied?

#### *Information Needed by Users of GPFRs*

14. Users of GPFRs appear likely to need information to understand:

- (a) What items fall into the heritage assets category;
- (b) The extent, type and condition of heritage assets held by an entity;
- (c) Where to find information about heritage assets (recognized and unrecognized);
- (d) Information that supports (i) holding entities accountable for their preservation of heritage assets for present and future generations, and (ii) decision making with the aim of preserving heritage assets for present and future generations; and
- (e) Resource outflows and inflows as a result of holding, acquiring and/or losing control over (through transfer, sale or other method of losing control) heritage assets.

#### *Selection of Information to meet GPFR Users Needs*

15. Information selected for presentation to meet these GPFR users’ needs and specific to either (a) unrecognized heritage assets or (b) recognized heritage assets is considered in the next two sections. The list below considers overarching information needs applicable to all heritage assets and/or to support users understand the whole set of heritage assets held by an entity.

16. Selection of the following information for presentation could contribute to meeting the users' needs identified above:
1. Information (in aggregate for similar types of assets) on:
    - (a) Why the heritage assets are considered to be heritage items and how this determination is made;
    - (b) How heritage assets are used, including whether they are used purely for heritage purposes or also used for other, non-heritage purposes;
    - (c) The amounts spent on acquiring heritage assets, if anything, and
    - (d) The entity's acquisition, transfer and disposal policies for heritage assets;
    - (e) Any heritage assets that are borrowed from, or on loan, to other entities.
  2. Condition of all heritage assets held by the entity (recognized and unrecognized), which could also include information about their age and scale.
  3. Deferred maintenance related to all heritage assets held by the entity (recognized and unrecognized), including information on estimated future expenditures needed to address deferred maintenance; and
  4. Information to enable users to find heritage asset information located in other statements and/or reports, so that they can gain an overall picture with respect to all heritage assets, whether recognized or not recognized, in terms of their extent, condition and deferred maintenance and estimated future expenditures to preserve for present and future generations:
    - (a) For recognized heritage assets a reference in the notes to the financial statements on the location of information on (i) the condition and deferred maintenance related to recognized heritage assets, (ii) unrecognized heritage assets;
    - (b) For unrecognized heritage assets a reference in the relevant supplemental statement attached to the financial statements or other GPFR on the location of information on (i) the condition and deferred maintenance related to unrecognized heritage assets, and (ii) recognized heritage assets; and,
    - (c) A reference to other reports that contain further information about heritage assets, such as an entity's stewardship policies for heritage assets.

*Preliminary View 6.1—Heritage Assets<sup>1</sup>*

17. The IPSASB's preliminary view is that:

Sufficient information should be presented in an entity's GPFRs to allow users to understand the full extent of an entity's heritage asset holdings.

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<sup>1</sup> The preliminary views in this draft chapter have been provided to the IPSASB for its consideration. They do not represent recommendations of the Heritage Task Force. They have not previously been considered by the IPSASB.

*Preliminary View 6.2—Condition of Heritage Assets and Deferred Maintenance*

18. The IPSASB's preliminary view is that:

Information on the condition of heritage assets held by an entity and any deferred maintenance should be presented in either a supplementary schedule with the financial statements or in another GPFR.

**6.3 Presentation of Information on Unrecognized Heritage Assets**

19. This section considers the question: What information should be presented about heritage assets that are not recognized in the financial statements? It also considers the location of information about unrecognized heritage assets.

*Information Needed by Users of GPFRs*

20. With respect to unrecognized heritage assets, users of GPFRs appear likely to need information that further supports their understanding of the same points identified in paragraph 14 above.
21. Where a subset of heritage assets will not be recognized this suggests that a monetary value for them should not be included in the statement of financial position. However, the Conceptual Framework explains that users of GPFRs need information to assess how an entity manages its resources<sup>2</sup>. Heritage assets are resources and, even when they are not recognized, users of GPFRs are likely to need information about them.

*Selection of Information to meet GPFR Users Needs*

22. In addition to information already listed in section 6.2 above, the following information could also support meeting GPFR users' needs with respect to unrecognized heritage assets:
1. A brief explanation of how the significant heritage assets are important to the overall mission of the entity and a description of the broad categories of the heritage assets.
  2. A brief description of the entity's stewardship policies for heritage assets. (Stewardship policies for heritage assets are goals and principles the entity has established to guide its acquisition, maintenance, use and disposal of heritage assets consistent with statutory requirements, prohibitions, and limitations governing the entity and the heritage assets. While not all encompassing, the policies may address preserving and maintaining the condition, providing public use or access, and enhancing the heritage assets' value over time.)
  3. A concise description of each major category of heritage asset. For each major category of heritage asset, the following information:
    - (a) The number of major collection or non-collection type heritage assets for which the entity is the steward as at the end of the reporting period.
    - (b) Physical unit information for all unrecognized heritage assets the end of the reporting period, physical units added and withdrawn during the period, and a description of the

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<sup>2</sup> See, for example, paragraphs 2.11 to 2.13.

methods of acquisition and withdrawal for each category of heritage assets during the reporting period.

- (c) A description of the major methods of acquisition and withdrawal of significant heritage assets. This should include disclosure of transfers of heritage assets between entities and those acquired through donation or devise, if material, should be disclosed in notes to the financial statements in the year received.
4. If available, the range within which market value is likely to lie for a heritage asset or a class of heritage assets.

#### *Location of Information on Unrecognized Heritage Assets*

23. Where heritage assets are unrecognized this is likely to impact on the location of information presented about them. Paragraph 8.19 of the Conceptual Framework states that:

Assessment of whether an item satisfies the recognition criteria is one of the key mechanisms in determining whether information is displayed on the face of the statement of financial position or statement of financial performance and/or disclosed either in the notes or elsewhere in the GPFRs. In other cases, for example a statement of cash flows, displayed information will also support achievement of the objectives of financial reporting.

24. Information about unrecognized heritage assets could be:

- (a) Disclosed in the notes to the financial statements;
- (b) Disclosed as supplementary information in the same report as the financial statements; or
- (c) Presented in another GPFR.

25. Paragraph 8.38 of the Conceptual Framework states that:

Factors relevant to decisions about allocating information between the financial statements and another GPFR include:

- *Nature*: Whether the nature of the information, for example historical versus prospective, supports including the information either in the same or a different GPFR, because of considerations related to, for example, comparability and/or understandability;
- *Jurisdiction-Specific*: Whether jurisdiction-specific factors, such as legal provisions, specify requirements on information location; and
- *Linkage*: Whether or not the additional information envisaged needs to link very closely to information already included in an existing report. The linkages between all information need to be assessed, not only linkages between new and existing information.

26. Paragraph 3.40 states that:

A separate GPFR may be necessary when:

- Additional user information needs, not satisfied by an existing report, are identified; and

- A separate GPFR to meet those needs is more likely to achieve the objectives of financial reporting and the qualitative characteristics than including information in an existing report.

27. There are arguments for and against presenting information on unrecognized heritage assets in the same GPFR as that for the financial statements.
28. Information about unrecognized heritage assets (conveyed through the use of physical units and qualitative information) is different in nature from the monetary information presented on recognized heritage assets. However, there is a close linkage between both information sets. When considered together, recognized and unrecognized heritage assets provide information on an entity's overall heritage holdings. All heritage assets share the common characteristics of heritage items.

*Preliminary View 6.3—Information on Unrecognized Heritage Assets*

29. The IPSASB's preliminary view is that:

Sufficient information on an entity's unrecognized heritage assets should be presented to allow users to hold the entity accountable for its stewardship of those heritage assets and make decisions on resources needed to preserve them. That information should include annually updated information on physical units of heritage assets, presented in either a supplementary schedule with the financial statements or in another GPFR.

**6.4 Presentation of Information on Recognized Heritage Assets**

30. This section considers the following questions: What information should be presented about heritage assets that are recognized in the financial statements? When recognized, a monetary value for heritage assets will be included within total assets displayed on the face of the statement of financial position. Should a line item for recognized heritage assets be displayed as well? What further information about heritage assets should be disclosed in the notes to the financial statements?
31. Paragraph 8.15 of the Conceptual Framework states that:

Information is selected for display or disclosure in GPFRs. Information selected for display communicates key messages in a GPFR, while information selected for disclosure makes displayed information more useful by providing detail that will help users to understand the displayed information. Disclosure is not a substitute for display.

*Information Needed by Users of GPFRs*

32. With respect to recognized heritage assets, users of GPFRs appear likely to need information that further supports their understanding of the same points identified in paragraph 14 above, while the monetary value of heritage assets also is likely to contribute to users' assessments of an entities':
- (a) Financial capacity;
  - (b) Operational capacity; and
  - (c) Cost of services.

### *Location and Selection of Information on Recognized Heritage Assets*

#### Display of Heritage Assets Information on the Face of the Financial Statements

33. Given the importance of heritage assets, a total value for recognized heritage assets could be considered information that communicates a key message to users of the GPFRs, in which case such information should be displayed on the face of the statement of financial position.
34. Paragraph 8.20 of the Conceptual Framework states that:

Developing requirements for the display of line items and totals involves balancing the standardization of displayed information, which facilitates understandability, with information that is tailored for entity-specific factors. The aim of both standardized display requirements and entity-specific information is to ensure that information necessary to meet the objectives of financial reporting is available for all entities, while allowing information to be displayed in a manner that reflects the nature and operations of specific entities.

#### Disclosure of Heritage Assets Information in the Notes to the Financial Statements

35. In addition to information already listed in section 6.2 above, GPFR users are likely to need detail, disclosed in the notes to the financial statements, on:
- (a) The basis for recognizing those heritage assets that are recognized;
  - (b) Measurement of recognized heritage assets, including initial and subsequent measurement;
  - (c) Information on expenses and revenue arising from heritage assets; and
  - (d) Other information that explains the bases for changes to the monetary value and/or extent of heritage assets recognized by the entity.
36. The following list illustrates the type of information that could meet GPFR users' needs with respect to detailed information on recognized heritage assets, which an entity should disclose in the notes to the financial statements:
- 1. For each class of heritage assets recognized in the financial statements:
    - (a) The measurement base(s) used for determining the gross carrying amount;
    - (b) Information on depreciation of heritage assets, including whether a class of heritage assets is depreciated and, if so, depreciation rates applied;
    - (c) The gross carrying amount aggregated with accumulated depreciation (where applicable) and impairment losses at the beginning and end of the period;
    - (d) A reconciliation of the carrying amount at the beginning and end of the period showing:
      - (i) Additions and disposals;
      - (ii) Acquisitions through a transfer of functions between entities under common control, a transfer of functions between entities not under common control or a merger;
      - (iii) Increases or decreases resulting from revaluations and from impairment losses;
      - (iv) Impairment losses recognized (or reversed) in surplus or deficit;

- (v) Net exchange differences arising from translation of the financial statements from the functional currency into a different presentation currency;
  - (vi) Transfers to and from property, plant and equipment, investment property, inventories or intangible assets; and
  - (vii) Other changes.
- (e) The existence and amounts of restrictions on title and disposal of heritage assets;
  - (f) Heritage assets pledged as securities for liabilities;
  - (g) The amount of contractual commitments for the acquisition, maintenance and restoration of heritage assets; and
  - (h) The amount of compensation from third parties for items of heritage assets that were impaired, lost or given up that is included in surplus or deficit.
2. For heritage assets that are used by the entity for more than one purpose, information about the alternative use and value of those heritage assets.
3. If a class of heritage assets is stated at revalued amounts, the following shall be disclosed:
- (a) The effective date of the revaluation;
  - (b) Whether an independent valuer was involved;
  - (c) The method used to determine the heritage asset's revalued amount;
  - (d) The significant assumptions applied in estimating the heritage assets' revalued amounts;
  - (e) The extent to which the heritage assets' revalued amounts were determined directly by reference to observable prices in an active market or recent market transactions on arm's length terms, or were estimated using other valuation techniques; and
  - (f) The revaluation surplus, indicating the change for the period and any restrictions on the distribution of the balance to owners of net assets.
4. The carrying amount of each class of heritage assets retired from active use and held for disposal.
5. When historical cost is the measurement base used,
- (a) The market values of heritage assets when this is materially different from their carrying amounts;
  - (b) A description of the heritage asset or class of heritage assets (for which historical cost is used),
  - (c) On disposal of the heritage asset or class of heritage assets, the:
    - (i) Fact that the entity has disposed of the heritage asset or class of heritage assets;
    - (ii) Carrying amount of that heritage asset or class of heritage assets at the time of sale; and
    - (iii) Amount of gain or loss recognized.



*Preliminary View 6.4—Recognized Heritage Assets*

37. The IPSASB's preliminary view is that:

The amount and type of information presented in the financial statements with respect to recognized heritage assets should be similar to that presented on other, non-heritage assets (for example, property, plant and equipment or intangible assets) that are recognized in the statement of financial position.

**6.5—Presentation in Other GPFRs**

38. This section describes heritage-related information that public sector entities may present either in GPFRs or in non-GPFR reports. It considers public sector entities' heritage responsibilities and situations where users of GPFRs may need information that extends beyond:

- (a) Information focused on heritage items held by the reporting entity; and
- (b) The type of information usually reported in the financial statements.

39. This overview of a broader set of heritage-related reports provides scope to consider the overall sufficiency of information that is available on heritage responsibilities, where the financial statements are just one part of that overall picture. Some public sector entities may report specialist information on heritage, in order to meet heritage-related objectives that go beyond financial reporting objectives.

*Governments' Heritage Aims and Activities*

40. National governments and other levels of government aim to preserve the nation's and local communities' heritage. In pursuit of this aim governments are likely to establish legislation to protect heritage items. National governments also sign up to UNESCO conventions to protect the world's heritage, which includes international level identification of heritage items, as noted in Chapter 2.

41. Given governments' over-arching aim to preserve heritage, public sector entities' activities in pursuit of that aim could include any and all of the following:

- (a) Development of legislation and regulation for heritage preservation and conservation;
- (b) Definition, classification, identification and listing of heritage items;
- (c) Reporting on heritage items (descriptions, extent, status, trends with respect to their preservation; service performance related to heritage items);
- (d) Enforcement of legislation, which could involve prevention of destruction or removal of heritage items, enforcement of restrictions on heritage item sales, and other steps to prevent loss or alienation of heritage items;
- (e) Financial support for people and institutions (public or private) that hold heritage items and for people who are heritage items and therefore receive state support so that their skills and abilities can be preserved and shared with others;
- (f) Holding of heritage items (for example, the activities of public sector entities such as museums, art galleries, universities zoos, nature reserves, etc.);
- (g) Construction of fences, buildings, etc. to protect and preserve heritage items; and

- (h) Education activities related to heritage items (e.g. appreciation and preservation).

#### *Public Sector Entities and Heritage Responsibilities*

42. Heritage responsibilities vary between entities. Such responsibilities may be central to an entity's mission or only a relatively small part of its mission. In some cases an entity's involvement with heritage may be incidental to its mission. The heritage-related activities listed above indicate that heritage-related responsibilities are not necessarily dependent on holding heritage items.

#### *Varying Extent to which Entities have Heritage-Related Responsibilities*

43. Only some public sector entities have responsibilities that are either exclusively or primarily related to heritage items and their preservation. A Heritage (or Culture) Ministry, a national museum, a city art gallery are examples of public sector entities for which heritage-related responsibilities are their primary concern. Many other public sector entities may have heritage-related responsibilities that are only a small part of their overall set of responsibilities. For example, a government department responsible for border control is likely to be responsible for preventing the illegal export of protected heritage items. A police department could be responsible for enforcing legislation to protect heritage items from vandalism. These heritage-related responsibilities are important, but nonetheless only a small part of the responsibilities of a border control authority or the police.

#### *Responsibilities Independent of Holding Heritage Items*

44. Some very important heritage-related responsibilities are independent of actually holding any heritage items. A Ministry responsible for heritage preservation legislation may not hold any heritage items. The legislation that it develops will apply to other entities and is likely to impact on both public sector entities and private sector entities.

#### *Public Sector Entities that Hold Heritage Items*

45. The responsibility of holding one or more heritage items affects the largest number of public sector entities. Holding heritage items is not restricted to entities such as museums, art galleries, or agencies responsible for national parks. Schools, universities and hospitals may have heritage buildings or heritage artwork. Similarly, an entity responsible for every-day activities such as water-supply or provision of rail transportation may operate using infrastructure or buildings that have been identified as heritage items. There are, for example, many beautiful, historic and architecturally significant railway stations.
46. Where a public sector entity holds heritage items this could either be the main responsibility of the entity (for example, a national museum and its collection of heritage items) or something of relatively little importance given the entity's main role and responsibility (e.g. a university that has a small collection of heritage artwork). There are entities for which a heritage items is of central importance to its operations, but for reasons other than its heritage nature. For example, a public sector company responsible for an historic port area may depend on heritage buildings and it may even be the case that the whole waterfront area has been classified as heritage, but the port company's main objective is to operate as a successful business, using those heritage items as operational assets, with their heritage nature being incidental to the company's business.

### *Heritage–Related Information*

47. In addition to information about heritage items that they hold (discussed in the first part of this chapter), public sector entities may also produce the following types of heritage–related information:
- (a) Budget information, including multi-year plans, which helps users to understand the budget available for heritage activities and the entity's application of that budget;
  - (b) Financial sustainability information that helps users to understand the entity's ability to provide heritage preservation services into the future;
  - (c) Service performance information about the heritage–related services that the entity provides; and
  - (d) Reports on the status of heritage, including lists of, and status reports on, heritage items.
48. Of these four types of information the first three fall within the scope of financial reporting. The IPSASB has already issued pronouncements on them. These three types of information, described further below, focus on a reporting entity. They deal with information on either its finances or the services that it provides. By contrast, the fourth type of report focuses on heritage items, without restriction to those held by a particular entity. As discussed below, this type of specialist “heritage status” report does not fall within the scope of financial reporting.

### *Budget Information and an Entity's Heritage Related Commitments*

49. A public sector entity responsible for heritage preservation should have a budget to deliver on that commitment. Depending on the entity, the approved budget may support preservation of a broad set of heritage items, including heritage that is not held by the entity and may not even be held in the public sector. Users of its financial reports hold the entity accountable for its budget usage and its achievement of heritage related service performance objectives. IPSAS 24, *Presentation of Budget Information in Financial Statements*, covers reporting on budgets and their usage.
50. Entities may produce short-term plans, which include projected revenue and expenses over two to five years (or more) into the future. Such plans are not as detailed and comprehensive as the type of long-term sustainability information noted below. They nonetheless are likely to provide useful information on an entity's short-term financial capacity to preserve heritage. They may also provide a brief overview of the entity's approach to heritage linked to the forward-looking plan and its funding needs.

### *Reporting of Information on Long–Term Sustainability of Entity's Finances*

51. Financial sustainability information helps users to understand whether an entity can continue to exist and deliver its intended services. The IPSASB has issued RPG 1, *Reporting on the Long-Term Sustainability of an Entity's Finances*, which provides guidelines on reporting such information. Given the future orientation of heritage preservation, where the focus is on preservation for future generations, long-term financial sustainability information for national governments is likely to be one input into assessments of whether funds will be available for heritage preservation. However, national-level reports that apply RPG 1, would not necessarily mention heritage preservation as a separate item within the overall picture of the government's finances, because it is unlikely to be material. The information presented relates to the

government's overall sustainability which then provides an indirect indication of whether, given competing priorities, the government will be able to provide funds for heritage preservation at the same, higher or lower level in the long term.

#### Reporting of Service Performance Information

52. Where a public sector entity's responsibilities have a significant focus on heritage-related services, the entity may, depending on national reporting requirements or guidelines, report service performance information on its heritage related activities. The IPSASB has issued a recommended practice guideline (RPG) on reporting service performance information. RPG 3, *Reporting Service Performance Information* (RPG 3), explains that:

Service performance information is information on the services that the entity provides, an entity's service performance objectives and the extent of its achievement of those objectives. Service performance information assists users of GPFRs (hereafter termed "users") to assess the entity's service efficiency and effectiveness. [paragraph 1, RPG 3]

53. RPG 3 provides guidelines for such reporting, while allowing sufficient flexibility to ensure that national jurisdictions and individual public sector entities effectively and appropriately address users' service performance information needs and report information that is relevant to their service performance objectives.

#### Non-GPFR Reports: Status of Heritage Items—Lists, Conditions and Other Developments

54. As is evident from the list of activities above, some public sector entities will have heritage preservation responsibilities that are not restricted to those items that the entity holds. For example, a Ministry for Culture and Heritage may be responsible for preservation of heritage items generally. Then the Ministry may be required to report on all heritage items within a jurisdiction, regardless of whether they are held by:

- (a) Public or private sector entities;
- (b) Reporting entities or entities not required to present a GPFR.

55. As another example, a Department for the Environment, may be required to provide status reports on ecologically important areas throughout the country, independent of whether those areas are held by either the department, the national government, or private sector entities, including individuals that do not prepare financial statements.

#### Example: Status Report on Heritage Buildings

56. As stated above, where a public sector entity has a general responsibility to preserve heritage items it may produce status reports that cover all relevant heritage items, regardless of whether they are controlled by public sector entities. For example, a "Ministry for Heritage Buildings," whose primary role is to preserve heritage buildings, could publish a status report called "*The State of the Nation's Heritage Buildings*", which included the following information:

- (a) A list of all heritage buildings, based on definitions and a schedule in legislation;
- (b) A quality indicator (A, B, C or "at risk") for each building, showing their state of preservation; and

- (c) Discussion of heritage building preservation, covering a broad set of public sector and private sector initiatives and achievements.
57. This Heritage Status Report would cover heritage buildings held by both public sector entities and private sector entities. Some of the entities that hold heritage buildings may not even be reporting entities. For example, a family or a private company may own a historic building. That person has no requirement to prepare a GPFR. Yet information about that privately-owned heritage item may be made publicly available by the Ministry for Heritage Buildings, which could also monitor the status of the heritage building, take steps to support its preservation, and have “first right of refusal” if the private owner considers selling the heritage building.
58. Heritage Status Reports provide important information on heritage preservation. They could be referenced in an entity’s service performance information, to show the extent to which the entity is achieving its heritage preservation service performance objectives. However, as discussed below, Heritage Status Reports do not, in themselves, fall within the scope of financial reporting.

*Scope of Financial Reporting, Users’ Needs and Information about the Entity*

59. The Conceptual Framework supports a more comprehensive scope for financial reporting than that solely encompassed by the financial statements. Consistent with this more comprehensive scope, the IPSASB has, as noted above, issued three recommended practice guidelines (RPGs) that address information presented outside of the financial statements: RPG 1, *Reporting on the Long-Term Sustainability of an Entity’s Finances*; RPG 2, *Financial Statement Discussion and Analysis*; and, RPG 3, *Reporting Service Performance Information*.
60. Consistent with the Conceptual Framework’s description of what information could be reported in “more comprehensive scope” GPFRs, in each case the information reported:
- (a) Enhances, complements, or supplements the financial statements;
  - (b) Responds to certain aspects of the objectives of financial reporting; and
  - (c) Relates to the matters addressed within the scope of financial reporting.

*Scope of Financial Reporting*

61. The Conceptual Framework further explains that the scope of financial reporting is determined by the information needs of the primary users of GPFRs and the objectives of financial reporting.
62. The Conceptual Framework outlines the factors that determine what may be encompassed within the scope of financial reporting. It explains that the primary users of GPFRs are resources providers and service recipients. They are interested in information about the resources provided to the entity and services received from the entity. They need information about the entity that is useful to them for accountability purposes and for decision-making purposes. Information for these purposes helps users to hold the entity accountable and make decisions about the entity. Examples of information useful for these purposes focus on the entity. For example, users of GPFRs are likely to need information about the entity’s performance, its liquidity and its sustainability.

*Heritage Status Reports—Outside of Financial Reporting’s Scope*

63. The type of information provided in a listing of heritage items or a status report on heritage does not report only on heritage items held by the reporting entity. Instead, it aims to provide a full listing

and/or description of heritage items, covering items in public and private ownership. Information in the financial statements focuses on resources controlled by the reporting entity. This type of reporting on resources held by many different entities does not fit within the scope of financial reporting, which has information about the entity as its focus. However, as noted above, some entities may report heritage-related service performance information and, in that situation, refer to heritage status information as outcome information. This will depend on the entity's service performance objectives and choice of performance indicators.