

## **CONSULTATION PAPER: 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.
2. Paragraph 15 of the preface to *The Conceptual Framework for General Purpose Financial Reporting by Public Sector Entities* (the Conceptual Framework) describes the 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.”

3. Governments’ responsibilities may extend beyond preservation to include restoration of heritage items and enhancement of communities’ access to and enjoyment of their heritage.

#### **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 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*

5. Heritage items’ special characteristics include that:
  - (a) Their heritage significance may not be fully reflected, when a 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;
  - (b) They are often irreplaceable;

- (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
  - (d) They may have a long, possibly indefinite, useful life due to constant or increasing rarity, importance or significance.
6. Financial reporting issues raised by 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?
  - (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?
  - (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.

### 1.4—The IPSASB's Heritage Project

#### *Background to the Project*

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.

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.
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.
13. With completion of the Conceptual Framework in late 2014, the IPSASB had the conceptual toolkit to reconsider financial reporting for heritage in the public sector. Furthermore, the IPSASB constituents indicated, in response to the 2013–2014 strategy and work plan consultation, that developing financial reporting guidelines for heritage should be an IPSASB priority.

#### *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—The Public Interest and Financial Reporting for Heritage**

17. Improved financial reporting guidelines on heritage are expected to enhance the quality of information that GPFRs provide for users, thereby improving accountability and decision making, which is in the public interest.
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 GPFRs.

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

### *A Broader, More Inclusive Approach*

19. This CP takes a broad, inclusive approach to both its description of heritage items and its consideration of heritage accounting issues. It discusses:
  - (a) A wide set of different types of heritage items, including intangible heritage and natural heritage;
  - (b) Issues raised in relation to heritage items as resources, which could be assets for financial reporting purposes;
  - (c) The significance of heritage-related responsibilities for reporting liabilities; and
  - (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.

### *Application of the Conceptual Framework*

21. This CP applies the Conceptual Framework to discuss financial reporting for heritage in the public sector. It considers what heritage-related information users of GPFRs need for the purposes of accountability and decision making, where such information should achieve the qualitative characteristics of information reported in GPFRs<sup>1</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.
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*

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<sup>1</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.)

*Assets and Contingent Liabilities* and the IPSASB's recommended practice guidelines (RPGs), which address information in other GPFRs, 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 GPFRs.

### DRAFT CHAPTER 2, DESCRIPTIONS AND DEFINITIONS OF HERITAGE

#### 2.1—Introduction

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’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.
  - (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

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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”.

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.

### 2.3—Heritage Item Identification Issues

13. Heritage item identification raises a number of issues. This section considers whether:
  - (a) Heritage items can be identified objectively; and
  - (b) Expenditures on heritage items are also heritage items.
14. Appendix A discusses issues raised by particular groups of heritage items, and specifically:
  - (a) Whether land should be considered a heritage item; and
  - (b) There exist examples of intellectual property with heritage characteristics.

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

15. As noted above, definitions of heritage items emphasize the importance, significance or value of heritage items. They may also emphasize heritage items' 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 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?
16. 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 reporting on heritage items.

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

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.
18. Where legislation identifies specific items as heritage, this 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. 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.
20. 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 only a small subset of heritage items, 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 another 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.
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. “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.

#### Development of Objective Criteria—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.

#### *Are Expenditures on Heritage also Heritage items?*

27. Public sector entities may expend large amounts on heritage. Examples of the types of expenditure made in order to preserve or conserve heritage items, or to expand public access to heritage items, include:
- (a) Repairs and restoration such as replacement of the roof, foundation or other parts of a heritage building;
  - (b) Cleaning of a heritage painting;

- (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);
  - (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;
  - (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
  - (f) Construction of fire breaks, flood protection or other security arrangements for national parks and other natural heritage items.
28. Some expenditures create items that are separate from existing heritage items and do not exhibit the special characteristics associated heritage items, e.g. expenditures may be used to build a separate gift shop or a parking lot. This CP proposes that where this is the case such items fall outside of the scope of this CP. Subsequent chapters include discussion of expenditures that apply to the existing heritage item (for example, replacing the roof of an historic building or restoring a heritage painting).

## **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>2</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.

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

### 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. 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.

3. This chapter discusses each of the three criteria that form this definition, applied to heritage items and their special characteristics. First, 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 GPFRs need, when considering whether heritage items could be assets for financial reporting purposes.

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

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.
5. This chapter only discusses the question of whether heritage items could be assets for financial reporting purposes. Questions about whether heritage items, if they are assets, should be recognized, 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>.

#### *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

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<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 GPFRs.”

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**

#### *Meaning of "Resource" in the Conceptual Framework*

9. Paragraph 5.7 of the Conceptual Framework states that:

A resource 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:

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

(c)

12. Paragraph 5.9 of the Conceptual Framework refers to heritage assets:

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.

#### *Resources in the Form of Economic Benefits*

13. Some heritage items may 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.

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<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"."

14. With respect to point (b) it should be noted that the economic benefits from merchandising should accrue to 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 Eiffel Tower may be sold by merchants who have no connection with the entity that holds or controls the Eiffel Tower. The economic benefits received by those merchants do not represent economic benefits for the reporting entity responsible for the Eiffel Tower.
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 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. 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 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. Heritage items are not usually held by a public sector entity for the purpose of generating economic benefits. Although some heritage items can be sold, many cannot or, if legally able to 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 national park, which consists of land and a complex ecosystem sustained by the land and its water systems, for the purpose of 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.

#### *Resources in the Form of 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 fulfils a non-heritage (or "operational") purpose, despite being a heritage building, providing benefits similar to those provided by heritage paintings, while also providing accommodation space that otherwise would need to be rented or purchased.
20. Governments and other public sector entities 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 entity<sup>3</sup>. This is part of 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>.

#### Operational Heritage Items as Resources

21. There are situations in which heritage items are primarily held for purposes other than to provide heritage services, i.e. for "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. That is the situation for many historic buildings, infrastructure such as historic harbor fronts, and 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 may be designed to operate as a wildlife reserve or recreational park, which sits at the top of the system and provides, when necessary, space for collection and absorption of flood waters.. Rivers may be covered over and an extensive park

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<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 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.

created in the newly created land above where the river used to be. In these situations the heritage items provide both a heritage service and another non-heritage “operational” service. The entity may use a heritage item to generate cash flow, by charging for the non-heritage aspect of the heritage item’s services.

23. Arguably, where heritage items provide non-heritage “operational” services, there is an additional basis upon which to consider that they are resources. 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 heritage item characteristics. Then the flood control component (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?*

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;

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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.

- 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, ...”

#### *Heritage Items’ Special Characteristics and Control*

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 it’s 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.
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 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.

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

*Indicators of Control and Heritage Items*

38. Given the importance and value of heritage items it is usually possible to establish which entity controls them. The indicators of control identified in the Conceptual Framework (and noted above in paragraph 31) would be considered in making 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, 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 can do this 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.) Heritage public spaces and heritage items are used to achieve 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 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. 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

46. For some heritage items a particular criterion of control 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.
47. Two further situations 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 unable to be owned or controlled because the concept of legal ownership and control over them is viewed as inappropriate or culturally offensive.

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

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
  - (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.

#### **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.



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.