

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

**Meeting Location:** Washington D.C., U.S.A.

**Meeting Date:** March 7–10, 2017

# 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—Up to December 2016 meeting	6.1.1
	2. Decisions— Up to December 2016 meeting	6.1.2
	3. Project roadmap	6.1.3
<b>Decisions required at this meeting</b>	1. Consultation paper—Approve	6.2
<b>Supporting items</b>	Consultation Paper, <i>Financial Reporting for Heritage in the Public Sector</i>	6.3

### IPSASB Instructions—December 2016 meeting and earlier

Meeting	Instructions	Actions
Dec 2016	<ol style="list-style-type: none"> <li>1. Revise chapters 1-3 for final changes identified during IPSASB approval of these three chapters</li> <li>2. Revise chapter 4 for comments received from IPSASB members by December 16.</li> </ol>	<ol style="list-style-type: none"> <li>1. Done</li> <li>2. Done</li> </ol>
Sept 2016	<ol style="list-style-type: none"> <li>1. Revise Chapter 1 as follows: (a) remove paragraphs on project background and CP approach; (b) change the order of sections to improve the flow; and (c) include a brief acknowledgement that countries may have different experiences with accounting for heritage items.</li> <li>2. Revise Chapter 2 as follows:               <ol style="list-style-type: none"> <li>(a) Generally shorten the chapter, including the removal of paragraphs on issues related to development of a definition of heritage items and reduction of detail on the heritage category descriptions; and</li> <li>(b) Revise the definition of heritage items to read: "Heritage items are items that are intended to be held indefinitely and preserved for the benefit of present and future generations because of their rarity and significance in relation, but not limited, to their archaeological, architectural, agricultural, artistic, cultural, environmental, historical, natural, scientific or technological features."</li> </ol> </li> <li>3. Revise Chapter 3 as follows: (a) generally shorten the chapter (e.g. delete detailed discussion of different heritage items and use a few examples, focusing on asset criteria of resource and control rather than past event; (b) revise or delete discussion of access to a heritage item; and (c) revise the preliminary view (PV) to convey that heritage items generally will be assets for financial reporting purposes, although there are circumstances where they are not.</li> <li>4. Revise Chapter 4 as follows:               <ol style="list-style-type: none"> <li>(a) Include discussion of materiality and the relevance of monetary information on heritage assets;</li> <li>(b) Delete the Tables 1 and 2;</li> <li>(c) Discuss advantages and disadvantages of measurement approaches (historical cost and current value) leading to a PV on a measurement approach at the end of the chapter;</li> <li>(d) Follow the Conceptual Framework's order to discuss measurement, while making more use of its</li> </ol> </li> </ol>	<ol style="list-style-type: none"> <li>1. Done</li> <li>2. Done</li> <li>3. Done</li> <li>4. Done</li> </ol>

Meeting	Instructions	Actions
	<p>discussion of measurement; treat “net realizable value” as not applicable to heritage assets;</p> <p>(e) Remove references to heritage assets used for “non-heritage purposes” and replace with two categories; heritage assets that are “operational assets” and those that are “non-operational assets”;</p> <p>(f) Discuss initial and subsequent expenditure;</p> <p>(g) Revise discussion of symbolic value to include negative aspects and explain why this approach is not proposed as a measurement basis, referring to the Conceptual Framework’s conclusion; and</p> <p>(h) Include a decision tree on recognition of heritage assets, applying the decision-critical factors identified in the revised coverage.</p> <p>5. Revised Chapter 5 as follows:</p> <p>(a) Restructure chapter so that it leads to a PV on special characteristics of heritage items that could create a present obligation for financial reporting purposes.</p> <p>(b) Replace discussion of three liability recognition options with one on whether heritage items’ special characteristics present special issues in the assessment of present obligations, applying the Conceptual Framework’s definition of a liability and moving from an assessment of broader obligations to situations where a present obligation for financial reporting purposes is likely to exist.</p> <p>(c) Discuss the relationship between an entity’s need to address maintenance of heritage items and existence of funding or a budget (e.g. appropriation) to carry out the work. The discussion should consider whether the existence of an appropriation has implications for whether an entity has a binding obligation.</p> <p>6. Revise Chapter 6 as follows:</p> <p>(a) Discuss presentation objectives and take a high level approach rather than proposing specific items of information that could be presented;</p> <p>(b) Consider information that should be presented when heritage assets are recognized and when not recognized, rather than using a mixed recognition scenario;</p> <p>(c) Focus on whether there is anything specific to heritage assets that could lead to users of GPFRs needing additional information. The focus of the second part of the chapter should be on whether the special characteristics of heritage assets indicate a need for other mandated or recommended requirements, beyond what is already covered in Recommended Practice Guidelines 1–3; and</p>	<p>5. Done</p> <p>6. Done</p>

Meeting	Instructions	Actions
	(d) Shorten the discussion wherever possible, particularly in the section on “Presentation in Other GPFRs”.	
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>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>

Meeting	Instructions	Actions
	<p>7. (a) Remove the example on page 8 (relates to a mountain that is controlled but not owned);</p> <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>7 (a) Done</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>

Meeting	Instructions	Actions
	(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.	
March 2016	<ol style="list-style-type: none"> <li>1. Rename “Heritage Assets” project as the “Heritage” project.</li> <li>2. With respect to the CP’s structure: <ol style="list-style-type: none"> <li>(a) Include chapter on obligations after those on heritage assets;</li> <li>(b) Rename subsection named “Heritage Assets Project”;</li> <li>(c) Discuss category issues within each chapter; and</li> <li>(d) Cover asset recognition and measurement in one chapter.</li> </ol> </li> <li>3. Use terminology that is accessible to non-accountants in the CP, e.g. use “resource” to provide a bridge to “asset”.</li> <li>4. Include different views in the CP with respect to heritage: <ol style="list-style-type: none"> <li>(a) Identification (e.g. principles versus list);</li> <li>(b) Classification as resources for financial reporting purposes and the meaning of “resource” in this context;</li> <li>(c) Measurement, including whether monetary values would achieve qualitative characteristics and constraints; and</li> <li>(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.</li> </ol> </li> <li>5. For intangible heritage, CP should identify two subcategories (knowledge-in-action and intellectual property) and discuss: <ol style="list-style-type: none"> <li>(a) Whether knowledge-in-action can be assets for financial reporting purposes, since cannot be controlled by entity;</li> <li>(c) Whether intellectual property heritage items are heritage items, since have limited useful life (e.g. copyright); and</li> </ol> </li> <li>6. Have CP’s discussion of heritage-related obligations apply the Conceptual Framework, not IPSAS 19.</li> <li>7. Revise draft Chapter 1 as follows: <ol style="list-style-type: none"> <li>(a) Start with problem heritage presents for reporting;</li> </ol> </li> </ol>	<ol style="list-style-type: none"> <li>1. Project name changed on website and in agenda papers.</li> <li>2. Draft structure for CP revised as per directions received and resubmitted to June IPSASB meeting.</li> <li>3. Done</li> <li>4. Draft chapters 2 to 4 developed as per directions and specifically: <ol style="list-style-type: none"> <li>(a) Done;</li> <li>(b) Done; and</li> <li>(c) Done.</li> <li>(d) Done (Actions on chapters on (a) obligations and liabilities, and (b) heritage responsibilities and information for September meeting.)</li> </ol> </li> <li>5. Draft Chapters 2, 3 and 4 reflect directions on intangible heritage.</li> <li>6. Done</li> <li>7. Draft Chapter 1 revised as directed and</li> </ol>

Meeting	Instructions	Actions
	<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>(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>	<p>resubmitted to June IPSASB meeting.</p> <p>8. Done (See issue re. Chapter 6 in IPSASB's September meeting papers.)</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>1 and 2. Done.</p> <p>3. Done. Wide, inclusive approach taken.</p> <p>4. Done. See December 2015 paper.</p>

Instructions—Up to December 2016 meeting  
IPSASB Meeting (March 2017)

Meeting	Instructions	Actions
	<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>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—December 2016 meeting and earlier

Meeting	Decisions
December 2016	<ol style="list-style-type: none"> <li>1. Approved Chapters 1-3</li> <li>2. Measurement should be discussed in two chapters; Chapter 4 on recognition and initial measurement and Chapter 5 on subsequent measurement</li> </ol>
September 2016	<ol style="list-style-type: none"> <li>3. Supported a preliminary view on definition of heritage items.</li> </ol>
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 “Heritage Assets” project as the “Heritage” project.</li> <li>2. Have separate chapter on heritage responsibilities and information needs.</li> </ol>
December 2015	<ol style="list-style-type: none"> <li>1. Support for 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 include 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

Meeting	Objective: IPSASB to consider:
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> </ol>
March 2017	<ol style="list-style-type: none"> <li>1. Review and approve CP</li> </ol>
June 2017	Consultation Period
September 2017	
December 2017	<ol style="list-style-type: none"> <li>1. Review of Responses</li> <li>2. Initial discussion on issues raised</li> </ol>
March 2018	<ol style="list-style-type: none"> <li>1. Further discussion on issues raised by responses</li> </ol>
June 2018	<ol style="list-style-type: none"> <li>1. Review draft ED</li> <li>2. Discuss</li> </ol>
Sept 2018	Approve and issue ED
Dec 2018	Consultation Period
March 2019	
June 2019	Review of Responses
Sept 2019	Issue pronouncement (and/or revisions to existing IPSASs)

# Agenda Item

## 6.2

### Consultation Paper, Financial Reporting for Heritage in the Public Sector

#### Questions

Does the IPSASB:

1. Agree that the revisions made to Chapters 1–3 are consistent with the IPSASB's instructions at the December 2016 meeting?
2. Approve Chapter 4-7 of the Consultation Paper?

#### Detail

1. The IPSASB approved Chapters 1-3 in December. Marked-up versions of these chapters have been provided for confirmation that minor amendments instructed during final review and approval accurately reflect IPSASB instructions.
2. For Chapters 4-7, the following points apply:
  - (a) Chapter 4 (recognition and initial measurement) was revised at the December meeting for all IPSASB comments received at that meeting. Further revisions have been made in response to subsequent comments provided at the Chair's request. This chapter shows "track changes" to highlight revisions since December.
  - (b) Chapter 5 is a completely new chapter based on the bullet points presented to the IPSASB at the December meeting. At that meeting, the IPSASB decided to split the old Chapter 4 into two chapters, with the second one (Chapter 5) focused on subsequent measurement issues.
  - (c) The topics covered in Chapter 6 (heritage-related obligations and liabilities) and Chapter 7 (presentation of heritage-related information) were discussed by the IPSASB in September 2016. Staff revised the chapters for IPSASB comments received in September and from an intermeeting IPSASB review before the December meeting. These two chapters were not discussed in December. Since then, Chapter 6 has been reordered, with no other substantive changes, and Chapter 7 has been shortened and revised to reflect developments in other chapters.

#### Decision(s) required

The IPSASB is asked to approve CP, Financial Reporting for Heritage in the Public Sector.

**Consultation Paper**  
**April 2017**  
***Comments due: August 31, 2017***

# Financial Reporting for Heritage in the Public Sector

This document was developed and approved by the International Public Sector Accounting Standards Board® (IPSASB®).

The objective of the IPSASB is to serve the public interest by setting high-quality public sector accounting standards and by facilitating the adoption and implementation of these, thereby enhancing the quality and consistency of practice throughout the world and strengthening the transparency and accountability of public sector finances.

In meeting this objective, the IPSASB sets International Public Sector Accounting Standards™ (IPSAS™) and Recommended Practice Guidelines (RPGs) for use by public sector entities, including national, regional, and local governments, and related governmental agencies.

IPSAS relate to the general purpose financial statements (financial statements) and are authoritative. RPGs are pronouncements that provide guidance on good practice in preparing general purpose financial reports (GPFRs) that are not financial statements. Unlike IPSAS, RPGs do not establish requirements. Currently all pronouncements relating to GPFRs that are not financial statements are RPGs. RPGs do not provide guidance on the level of assurance (if any) to which information should be subjected.

The structures and processes that support the operations of the IPSASB are facilitated by the International Federation of Accountants® (IFAC®).

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## Executive Summary

This Consultation Paper (CP) asks constituents for their views on financial reporting for heritage in the public sector. Views will support the IPSASB's work to develop a pronouncement on financial reporting for heritage, which meets the needs of users of GPFRs for information for the purposes of accountability and decision making.

Currently there are a variety of practices for the financial reporting of heritage in different jurisdictions. IPSAS 17 allows public sector entities to choose the accounting approach they use, including whether to recognize heritage items as assets in the financial statements and, if so, the measurement base applied. This diversity reduces comparability between public sector entities. Financial reporting practices may not provide the information that users of GPFRs need for accountability and decision making.

For the purposes of this CP, heritage items are described as “items that are intended to be held indefinitely and preserved for the benefit of present and future generations because of their rarity and/or significance in relation, but not limited, to their archeological, architectural, agricultural, artistic, cultural, environmental, historical, natural, scientific or technological features.”

This CP discusses whether heritage items meet the definition of an asset and whether they can be measured and recognized in the financial statements. This CP also considers whether heritage preservation responsibilities could involve present obligations for entities, which should be recognized as liabilities in the financial statements. It also discusses presentation of information for heritage in financial statements and other GPFRs.

The CP proposes that the special characteristics of heritage items do not prevent them from being considered as assets for the purposes of financial reporting, and that they should be recognized in the statement of financial position if they meet the recognition criteria, measured on an appropriate basis. The CP also proposes that an intention to preserve heritage items for present and future generations, does not, of itself, result in a present obligation that should be recognized as a liability. As for any other element, an entity should present information in a way that meets the objectives of financial reporting, using the existing IPSASB literature, including Recommended Practice Guidelines (RPG) where appropriate.

## REQUEST FOR COMMENTS

This Consultation Paper, *Financial Reporting for Heritage in the Public Sector*, was developed and approved by the International Public Sector Accounting Standards Board® (IPSASB®).

### **Comments are requested by August 31, 2017**

Respondents are asked to submit their comments electronically through the IPSASB website, using the “Submit a Comment” link. Please submit comments in both a PDF and Word file. Also, please note that first-time users must register to use this feature. All comments will be considered a matter of public record and will be posted on the IPSASB website. This publication may be downloaded from the IPSASB website: [www.ipsasb.org](http://www.ipsasb.org). The approved text is published in the English language.

### **Guide for Respondents**

The IPSASB welcomes comments on all of the matters discussed in this Consultation Paper, including all Preliminary Views (PVs) and Specific Matters for Comment (SMCs). Comments are most helpful if they indicate the specific paragraph or group of paragraphs to which they relate and contain a clear rationale.

The PVs and SMCs in this Consultation Paper are provided below. Paragraph numbers identify the location of the PV or SMC in the text.

#### **Specific Matters for Comment—Chapter 1 (following paragraph 1.8)**

Do you agree that the IPSASB has captured all of the characteristics of heritage items and the potential consequences for financial reporting in paragraphs 1.7 and 1.8?

If not, please give reasons and identify any additional characteristics that you consider relevant.

#### **Preliminary View—Chapter 2.1 (following paragraph 2.11))**

For the purposes of this CP, the following description reflects the special characteristics of heritage items and distinguishes them from other phenomena for the purposes of financial reporting:

Heritage items are items that are intended to be held indefinitely and preserved for the benefit of present and future generations because of their rarity and/or significance in relation, but not limited, to their archeological, architectural, agricultural, artistic, cultural, environmental, historical, natural, scientific or technological features.

Do you agree with the IPSASB’s Preliminary View? If not, please provide your reasons.

#### **Preliminary View—Chapter 2.2 (following paragraph 2.12)**

For the purposes of this CP, natural heritage covers areas and features, but excludes living plants and organisms that occupy or visit those areas and features.

Do you agree with the IPSASB’s Preliminary View? If not, please provide your reasons.

#### **Preliminary View—Chapter 3 (following paragraph 3.11)**

The special characteristics of heritage items do not prevent them from being considered as assets for the purposes of financial reporting.

Do you agree with the IPSASB’s Preliminary View? If not, please provide your reasons.

**Preliminary View—Chapter 4.1 (following paragraph 4.35)**

Heritage assets should be recognized in the statement of financial position if they meet the recognition criteria.

Do you agree with the IPSASB's Preliminary View? If not, please provide your reasons.

**Specific Matters for Comment—Chapter 4.1 (following paragraph 4.35)**

In your view, are there heritage-related situations (or factors) in which the cost-benefit constraint applies and heritage assets should not be recognized because the costs of doing so would not justify the benefits?

If yes, please describe those heritage-related situations (or factors).

**Preliminary View—Chapter 4.2 (following paragraph 4.35)**

Historical cost, market value and replacement cost (where replacement cost includes restoration cost) are appropriate measurement bases for heritage assets, dependent on circumstances.

Do you agree with the IPSASB's Preliminary View? If not, please provide your reasons.

**Specific Matters for Comment—Chapter 4.2 (following paragraph 4.35)**

In your view, are there other measurement bases that you consider should be applied to heritage assets when they are initially recognized?

If so, please identify those bases and describe the circumstances in which they should be applied.

**Preliminary View – Chapter 5 (following paragraph 5.15)**

Subsequent measurement of heritage assets:

- (a) Can be approached in broadly the same way as subsequent measurement for other, non-heritage assets.
- (b) Will need to address changes in heritage asset values that arise from subsequent expenditure, consumption, impairment and revaluation.

Do you agree with the IPSASB's Preliminary View – Chapter 5? If not, please provide your reasons.

**Specific Matters for Comment—Chapter 5 (following paragraph 5.15)**

In your view, are there any types of heritage assets or heritage-related factors that raise special issues for the subsequent measurement of heritage assets? (If so, please identify those types and/or factors, and describe the special issues raised and how to address them.)

**Preliminary View—Chapter 6 (following paragraph 6.11)**

The special characteristics of heritage items, including an intention to preserve them for present and future generations, do not, of themselves, result in a present obligation such that an entity has little or no realistic alternative to avoid an outflow of resources and should therefore recognize a liability.

Do you agree with the IPSASB's Preliminary View – Chapter 6? If not, please provide your reasons.



**Preliminary View—Chapter 7 (following paragraph 7.7)**

Information about heritage should be presented in line with existing IPSASB literature.

Do you agree with the IPSASB's Preliminary View – Chapter 7? If not, please provide your reasons.

# FINANCIAL REPORTING FOR HERITAGE IN THE PUBLIC SECTOR

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

### Introduction

- 1.1 *The Conceptual Framework for General Purpose Financial Reporting by Public Sector Entities (the Conceptual Framework)* identifies the holding of heritage items as a distinguishing feature of the public sector<sup>1</sup>. This consultation paper (CP) discusses financial reporting for heritage in the public sector and considers different approaches to address the information needs of users of general purpose financial reports (GPFRs), as a basis for consultation with those interested in how GPFRs can support accountability and decision making for heritage. ~~*The Conceptual Framework for General Purpose Financial Reporting by Public Sector Entities (the Conceptual Framework)* identifies the holding of heritage items as a distinguishing feature of the public sector<sup>2</sup>.~~ Where the IPSASB has reached a preliminary view on a heritage-related financial reporting issue, the view is provided, along with discussion to explain how the IPSASB reached its view.

### The IPSASB's Heritage Project

- 1.2 The IPSASB first considered heritage accounting during development of IPSAS 17, *Property, Plant and Equipment* (IPSAS 17), which includes paragraphs on accounting for heritage assets. IPSAS 17 describes heritage assets and allows entities to recognize them. If an entity recognizes some or all of its heritage assets, then it needs to make disclosures identified in the Standard. However, entities are not required to apply IPSAS 17's measurement requirements. The IPSASB took a similar approach in IPSAS 31, *Intangible Assets* (IPSAS 31), which has paragraphs on accounting for intangible heritage assets, 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 how to account for heritage until this topic could be considered in depth.
- 1.3 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 completion of its Conceptual Framework.
- 1.4 After completion of the Conceptual Framework in 2014, the IPSASB decided to reconsider financial reporting for heritage in the public sector. IPSASB constituents had indicated, in response to the ~~2013–2014~~ strategy and work plan consultation, that developing coverage of financial reporting for heritage in its pronouncements should be an IPSASB priority.

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<sup>1</sup> See, for example, paragraph 15 of the preface to the Conceptual Framework.

## Challenges of Financial Reporting for Heritage

- 1.5 Worldwide there are different views on what items are 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.
- 1.6 The financial reporting challenges may vary between countries. ~~Factors that may impact on a country's experience~~ These challenges include the extent of funding available for heritage valuation, availability of valuation expertise and the place of heritage within competing government priorities. The main type of heritage for some countries could be natural heritage, while for others the primary focus could be historic buildings, infrastructure and artifacts dating back thousands of years.

### *Characteristics of Heritage Items*

- 1.7 Characteristics of heritage items include that:
- (a) They are often irreplaceable;
  - (b) 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
  - (c) They may have a long, possibly indefinite, useful life due to increasing rarity and/or significance.
- 1.8 These characteristics of heritage items may have consequences for financial reporting for heritage items:
- (a) Measurement: ~~It may be difficult to determine a monetary value for~~ is it possible to measure heritage items in a way that reflects their service potential or their ability to generate economic benefits?
  - (b) 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 the financial statements?
  - (c) Preservation: If an entity's responsibility is to preserve heritage items rather than to generate cash flows from them, are heritage items resources or obligations from the entity's perspective?
  - (d) 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?
  - (e) Benefits to others: Can a reporting entity be said to control a heritage item for financial reporting purposes, when it is held for the benefit of current and future generations?

**Specific Matters for Comment—Chapter 1**

Do you agree that the IPSASB has captured all of the characteristics of heritage items and the potential consequences for financial reporting in paragraphs 1.7 and 1.8?

If not, please give reasons and identify any additional characteristics that you consider relevant.

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

- 1.9 Given these financial reporting challenges and the special characteristics of heritage, the question arises of what heritage-related information users of GPFRs need for the purposes of accountability and decision making. Users may need information to:
- (a) Hold entities accountable for their preservation of heritage items; and
  - (b) Make decisions on resources needed for heritage preservation.
- 1.10 The purpose for which an entity holds heritage items could impact on the information that users of GPFRs need. For example, where an entity uses heritage items in its operations, users may need information for decision making on the entity's operational capacity and cost of services. ~~Options for reporting information on heritage items and their related responsibilities~~ This could have implications for information available to users for the purposes of accountability and decision making related to the entity as a whole.
- 1.11 As noted in paragraph 1.2 above, IPSAS presently allows entities to report on heritage items using different financial reporting practices. 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. This has negative consequences for the public interest because it reduces the quality of information reported.
- 1.12 This CP discusses financial reporting for heritage in light of constituents' concerns. It considers whether or not, ~~given the special characteristics of heritage items,~~ additional financial reporting requirements and/or guidelines are necessary, including scope for information in the financial statements and/or in other ~~reports~~ GPFRs. The IPSASB will take decisions on the nature and extent of any additional requirements in the context of feedback from constituents.

**Approach in this Consultation Paper**

- 1.13 This CP draws on 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>3</sup>. This CP draws on 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 also discussed, drawing on the Conceptual Framework's approach to

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<sup>3</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.)

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.

- 1.14 While ~~application of~~ the Conceptual Framework underpins this CP's ~~development consideration~~ of financial reporting ~~options for heritage in the public sector~~, 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 GPFRs, have been considered for their relevance to this project.

### Structure of this Consultation Paper

- 1.15 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 of heritage assets, particularly measurement for initial recognition;
  - (d) Chapter 5 examines subsequent measurement;
  - (e) Chapter 6 considers obligations related to heritage items and discusses their recognition and measurement; and
  - (f) Chapter 7 discusses presentation of information on heritage items in the financial statements and in other GPFRs.

## Chapter 2, Descriptions of Heritage

### Introduction

- 2.1. This chapter considers what heritage is, discusses heritage identification issues, and then proposes a description of “heritage items”, as a basis for subsequent discussion of financial reporting for heritage in the public sector. This chapter does not consider whether heritage items are assets from the perspective of a reporting entity, which is discussed in Chapter 3.

### Heritage

- 2.2. There are different views on what is meant by “heritage” and, consequently, what things should be identified as heritage items. United Nations Educational, Scientific and Cultural Organization (UNESCO) international conventions for heritage protection have defined heritage and different categories of heritage<sup>4</sup>. These definitions emphasize the importance, significance and/or value of heritage items. They may also emphasize their sacred or historic nature and their rarity. 192 countries have ratified the UNESCO convention on protection of world heritage sites<sup>5</sup>, and therefore the UNESCO meaning of heritage would appear to be widely accepted.
- 2.3. UNESCO classifies heritage as cultural, ~~which includes both tangible and intangible~~, and natural. The remainder of the discussion in this chapter uses these UNESCO categories as a basis for developing a description of heritage items for the purpose of financial reporting.

### Cultural Heritage —~~Tangible and Intangible~~

- 2.4. Cultural heritage consists of man-made heritage items that could be either tangible or intangible. Examples of tangible cultural heritage include:
- (a) Monuments, archaeological sites, historic buildings, works of art, and scientific collections;
  - (b) Underwater cultural heritage, for example, buildings that are beneath the water or sunken ships; and
  - (c) Natural history collections such as collections of insects, or mineral collections.
- 2.5. UNESCO defines intangible cultural heritage as, what this CP will call, “knowledge-in-action”. To align with financial reporting terminology, this CP also considers “intellectual property” as a second type of intangible cultural heritage:
- (a) Knowledge-in-action consists of practices, representations, expressions, knowledge; and skills that are heritage items. Examples include languages, performing arts, rituals, and traditional craftsmanship.

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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, 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> 1972 Convention on Protecting the World Cultural and Natural Heritage



- (b) Intellectual property includes rights over recordings of significant historical events and rights to use culturally significant films.

#### Natural Heritage

- 2.6. Natural heritage covers natural features or areas. Examples include natural features such as mountains, naturally occurring rock formations, and bodies of water such as lakes or waterfalls. ~~For the purposes of this CP, natural heritage does not include living organisms such as plants and animals, which inhabit or visit such features or areas.~~

#### Heritage Item Identification Issues

- 2.7. Some jurisdictions have developed different ways to identify heritage items. For example:
  - (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.
- 2.8. However, reliance only on legislation that identifies specific items as heritage presents two potential problems:
  - (a) A legislated list of heritage items could either exclude items that are, in substance, heritage items, or include items that are not, in substance, heritage items. For example, legislation may list only those heritage items that warrant special funding or a special level of protection, and exclude others so that other heritage items are not listed.
  - (b) ~~For example, legislation may list only those heritage items that warrant special funding or a special level of protection, and exclude others. The relatively static, slow-changing nature of legislation means that a~~ legislated list may not remain up-to-date. For example, “new” heritage items may be identified and not be captured by the list, because, after enactment of the legislation, they are:
    - (i) Purchased or received through donation;
    - (ii) Discovered, for example through excavations that uncover previously unknown heritage items or through reassessments of items that were not viewed as heritage items; or
    - (iii) Created, for example through construction of an iconic building.
- 2.9. Given these problems with legislated lists of heritage items, ~~there is a possibility that information reported in a GPFR does not faithfully represent an entity’s heritage portfolio. This means therefore that~~ other sources of information are needed to provide comprehensive and verifiable information on whether items are heritage items, such as:
  - (a) Expert knowledge;
  - (b) Historical studies, research writings and media reports; or
  - (c) Established policies, systems and/or structures, which indicate that an entity expects to hold and preserve the item for present and future generations as a heritage item.

- 2.10. Although there is a view that identification of heritage items should be based on legislation, global disparities in approach mean that developing a description of heritage items for financial reporting purposes is necessary. This description identifies the special characteristics of heritage items that distinguish them.

### Description of Heritage Items

- 2.11. Given the special characteristics of heritage identified in the UNESCO conventions, and the discussion above on a principles-based approach to identification of heritage items, the IPSASB has developed the following preliminary view:

#### Preliminary View—Chapter 2.1

For the purposes of this CP, the following ~~definition-description~~ reflects the special characteristics of heritage items and distinguishes them from other phenomena for the purposes of financial reporting:

Heritage items are items that are intended to be held indefinitely and preserved for the benefit of present and future generations because of their rarity and/or significance in relation, but not limited, to their archeological, architectural, agricultural, artistic, cultural, environmental, historical, natural, scientific or technological features.

Do you agree with the IPSASB's this Preliminary View?

If not, please provide your reasons.

- 2.12. UNESCO conventions include living organisms within natural heritage. However, living organisms have finite lives. Therefore, they cannot be held indefinitely and preserved for present and future generations, and do not meet the proposed description of heritage items. On this basis they are excluded from further discussion in this CP.

#### Preliminary View—Chapter 2.2

For the purposes of this CP, natural heritage covers areas and features, but excludes living plants and organisms that occupy or visit those areas and features.

Do you agree with the IPSASB's this Preliminary View?

If not, please provide your reasons.

## Chapter 3, Heritage Items as Assets

### Introduction

- 3.1. This chapter considers whether heritage items could be assets for financial reporting purposes. The Conceptual Framework states that an asset is “a resource presently controlled by the entity as a result of a past event<sup>6</sup>.” This chapter discusses each of these three aspects (resources, control and past event) in the context of heritage items, focusing particularly on the resource and control aspects. Where an asset exists it must also be measurable, before it can be recognized in financial statements, and this is considered in Chapter 4.

### Heritage Items as Resources

- 3.2. The Conceptual Framework states that a resource is an item with service potential or the ability to generate economic benefits<sup>7</sup>. Service potential is the capacity to provide services that contribute to achieving the entity’s objectives, without necessarily generating net cash inflows<sup>8</sup>. Economic benefits are cash inflows or a reduction in cash outflows<sup>9</sup>, which may be derived from, for example, an asset’s use in the production and sale of services<sup>10</sup>. Heritage items appear more likely to be held for their service potential rather than their ability to generate economic benefits<sup>11</sup>. Therefore, the discussion below focuses primarily on service potential.
- 3.3. Public sector entities’ objectives can include providing services either directly or indirectly to individuals or institutions. The objectives of an entity holding heritage items may include, for example:
- (a) Providing access to heritage items directly to individuals (for their education, appreciation, etc.);
  - (b) Holding heritage items indefinitely in a custodial capacity;
  - ~~(b)(c) and/or p~~Preserving ~~them~~heritage items, to benefit the whole community, ~~present or future~~; or;
  - ~~(c)~~(d) Promoting heritage-related tourism.
- 3.4. Heritage items may also provide services that contribute to achievement of an entity’s objectives, for reasons other than their heritage characteristics. For example, a heritage building can be used as office space.

### *Heritage Items with Ability to Generate Economic Benefits*

- 3.5. Some heritage items may be able to generate economic benefits for the reporting entity. Economic benefits could arise, for example, through one or more of the following:
- (a) Use of the heritage item in the production and sale of services;
  - (b) Sale of tickets to view the heritage items and/or sale of related merchandising; and

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<sup>6</sup> Paragraph 5.6 of the Conceptual Framework.

<sup>7</sup> See paragraph 5.7 of the Conceptual Framework.

<sup>8</sup> See paragraph 5.8 of the Conceptual Framework.

<sup>9</sup> See paragraph 5.10 of the Conceptual Framework.

<sup>10</sup> Ibid.

<sup>11</sup> The Conceptual Framework refers to heritage assets in its discussion of service potential, in paragraph 5.9.

- (c) Loan or rent of the item to other entities.

### Control of a Heritage Resource

3.6. 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>12</sup>.” ~~It identifies the following indicators of control:~~

- ~~(a) Legal ownership;~~
- ~~(b) Access to the resource, or the 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<sup>13</sup>~~

3.7. An entity is likely to have the ability to control heritage resources when it can demonstrate some or all of the following:

- (a) Legal ownership—for example through a purchase document or deed of transfer, etc.
- (b) Other enforceable rights given to an entity that give it ~~the~~ the ability to access or deny or restrict access. For example, an entity might:
  - (i) Decide whether to set an entrance fee to a museum and deny access to those who do not pay the fee;
  - (ii) Prohibit the use of a public square for commercial purposes; or
  - (iii) Grant other entities limited reproduction rights to a heritage film or audio-recording.
- (c) Using-Direct the use of heritage resources to achieve the entity’s objectives, as discussed in paragraphs 3.3 and 3.4. (However, on occasion, an entity may use heritage resources to achieve its objectives without having control—for example, where a heritage resource is on loan from another entity.)
- ~~(d) Existence of an enforceable right to the resource, which will normally be demonstrated by any one of the three indicators above.~~

### Inability to Control Knowledge-in-Action Intangible Cultural Heritage

3.8. As explained in Chapter 2, one subcategory of intangible cultural heritage called “knowledge-in-action” ~~consists of~~ 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

<sup>12</sup> Paragraph 5.11 of the Conceptual Framework.

<sup>13</sup> ~~Paragraph 5.12 of the Conceptual Framework~~

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, because it cannot be controlled by an entity, this type of intangible cultural heritage does not meet the definition of an asset.

### Past Event for Present Control over Heritage Resources

3.9. The Conceptual Framework describes the type of past event that could indicate that the entity presently controls a resource<sup>14</sup>. Past events that could indicate that an entity controls a heritage resource include:

- (a) Purchase from an external party;
- (b) Receipt through a non-exchange transaction such as donation, confiscation or nationalization;
- (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; and
- (d) Construction or development.

~~3.10. These past events are similar to those for other types of resources, and do not indicate any special issues with respect to past events for existence of control over heritage resources. It appears that an assessment of whether or not a past event has occurred will follow a similar approach to that used for other, similar assets that are not heritage items. On that basis, no further discussion of this criterion is provided here.~~

### Heritage Items as Assets

~~3.11.~~ 3.10. From the discussion in this chapter it appears that, drawing on the Conceptual Framework, the special characteristics of heritage items do not prevent them being:

- (a) Resources,
- (b) Presently controlled by an entity,
- (c) As a result of a past event.

~~3.12.~~ 3.11. The ~~IPSASB’s~~ IPSASB has therefore developed the following preliminary view ~~is that~~:

#### Preliminary View—Chapter 3

The special characteristics of heritage items do not prevent them from being considered as assets for the purposes of financial reporting.

Do you agree with the IPSASB’s ~~this~~ Preliminary View?

If not, please provide your reasons.

~~3.13.~~ 3.12. The next ~~two~~ chapters will consider whether heritage assets can be measured and recognized for the purposes of financial reporting.

<sup>14</sup> Paragraph 5.13 of the Conceptual Framework.

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

### Introduction

- 4.1. This chapter draws on the guidance in the Conceptual Framework to evaluate whether heritage items can meet the recognition criteria for assets. Chapter 3 concluded that the special characteristics of heritage items do not prevent them from being considered as assets ~~for the purposes of financial reporting~~, which is the first criterion for recognition. Therefore, this chapter focuses on the second recognition criterion, measurability at initial recognition. Subsequent measurement is considered in Chapter 5.

### Recognition in the Conceptual Framework

- 4.2. Recognition is the process of incorporating and including an item in amounts displayed on the face of the appropriate financial statement<sup>15</sup>. 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<sup>16</sup>.
- 4.3. The Conceptual Framework states that measurement involves<sup>17</sup>:
- (a) Attachment of a monetary value to the item;
  - (b) Choice of an appropriate measurement basis; and
  - (c) Determination of 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.
- 4.4. The objective of measurement is 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<sup>18</sup>.

### Heritage Assets and the Measurement Objectives

- 4.5. The following paragraphs discuss the measurement objectives in the context of heritage assets.

#### *Cost of Services*

- 4.6. An entity's cost of services should reflect the amount of resources expended to acquire, ~~or~~ develop and maintain heritage assets consumed in the provision of services. Costs of heritage services include the cost of other inputs such as warehousing, museum buildings, air conditioning, appropriate lighting, employment of experts and specialists, museum guides, security systems, fences around natural heritage assets, maintenance, car parks and tourism entrances and shops etc. While many

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<sup>15</sup> Paragraph 6.1 of the Conceptual Framework.

<sup>16</sup> Paragraph 6.2 of the Conceptual Framework.

<sup>17</sup> Paragraph 6.7 of the Conceptual Framework.

<sup>18</sup> Paragraph 7.2 of the Conceptual Framework.

heritage assets are used to provide services but are not 'consumed' (e.g. conservation land, museum collections and art if housed in the right conditions), some heritage assets may depreciate such that those costs could also be relevant. Where heritage items are being consumed over time (e.g. buildings) or faithfully restored or purchased to build a current collection, the initial asset expenditure is important and does provide useful information about the cost of services.

#### *Operational capacity*

- 4.7. By assigning an appropriate monetary value to heritage assets, the resulting information will be useful for users' assessments of the resources required to provide services and available for the entity's operations, which include delivery of services in future periods. Operational capacity relates to a range of services, as discussed in ~~chapter~~ Chapter 3 (paragraphs 3.3 and 3.4).

#### *Financial capacity*

- 4.8. Heritage assets' contribution to an entity's financial capacity may not be the primary focus for users, because heritage assets are not normally expected to raise funds through sale or as security for borrowings. However, heritage assets can generate cash flows through, for example, access fees, and thereby contribute to an entity's financial capacity. Information on the monetary value of heritage assets could also be viewed as relevant to assessments of the entity's financial position, and inclusion of such information in an entity's total assets ~~viewed~~ as providing more representationally faithful information on financial capacity.

### **Measurement Bases and the Objectives**

- 4.9. The Conceptual Framework provides guidance on the selection of a measurement basis, rather than proposing a single measurement basis (or combination of bases) for all transactions, events and conditions. It identifies the following measurement bases for assets<sup>19</sup>.
- (a) Historical cost;
  - (b) Market value;
  - (c) Replacement cost;
  - (d) Net selling price; and
  - (e) Value in use.
- 4.10. This section discusses the five measurement bases noted above, in the context of heritage assets, considering whether the resulting information is relevant to assessments of the cost of services, operational capacity and financial capacity.

#### *Historical Cost*

- 4.11. The Conceptual Framework describes historical cost information as relevant to assessments of cost of services, operational capacity and financial capacity, and as often being straightforward to apply, because information on the cost at acquisition ~~information~~ is usually readily available.
- 4.12. Historical cost is likely to be available to measure heritage assets that have been purchased recently.  
Where historical cost information is unavailable—because heritage assets were acquired through a

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<sup>19</sup> Chapter 7 of the Conceptual Framework.

government's sovereign powers or donation—or historical cost information has been lost, a deemed historical cost measure, such as a market value or replacement cost, may be obtainable. Historical cost would be an appropriate measurement base in these circumstances.

4.13. Where historical cost information is available but so old that it may not provide relevant information for achievement of the measurement objective, other measurement bases may be more appropriate.

~~4.11. Entities may find that historical cost information is available for some of the heritage assets that they hold, for example, where heritage assets were purchased recently. Historical cost could be an appropriate measurement base for heritage assets in those circumstances.~~

~~4.12. However, many heritage assets may be so old that information on the cost at acquisition is not available and even if available may not provide relevant information for assessments of operational and financial capacity because it does not reflect the value of the heritage resources. They may also have been acquired through a government's sovereign powers or donation, rather than through purchase, so that there is no recorded historical cost.~~

### *Market Value*

~~4.13-4.14.~~ A market value generally supports information about operational and financial capacity, but might not be relevant in providing information about the costs of services related to heritage assets, if the asset is not 'consumed' over the life of the service. ~~Market values can be useful to support the need for an appropriate level of funding for heritage assets.~~ Market values will be available for some heritage assets, through reference to the market values of similar items, if an active, open and orderly market exists. However, generally that is not the case, so that market values are, arguably less representationally faithful.

~~4.14-4.15. Heritage items such as artwork and items of archeological significance may be bought and sold through specialist markets, including auction houses. However, the markets for some heritage assets may not be active enough and sufficiently open and orderly to provide readily available market values.~~ Many heritage assets have restrictions on their sale and/or disposal, which ~~also~~ reduces the availability of market values. Other heritage assets are unique, and there are no meaningful market values available for them. And some heritage items, such as artwork and items of archeological significance, may be bought and sold through specialist markets, including auction houses. Therefore, although market values could be ~~appropriate~~ available for some heritage assets, they ~~will~~ may not necessarily be ~~available~~ appropriate for use ~~because the markets may not be sufficiently active, open and orderly to generate representationally faithful market values.~~

### *Replacement Cost*

~~4.15-4.16.~~ The Conceptual Framework defines replacement cost to be the "optimized depreciated replacement cost", which is: "The most economic cost required for the entity to replace the service potential of an asset<sup>20</sup>"

~~4.16-4.17.~~ Replacement cost relies on the existence of other assets that would provide the same service potential as the heritage asset being valued. Where a replacement cost is available for heritage assets, it could provide useful information for assessments of cost of services, operational and financial capacity. For operational heritage assets, replacement costs that reflect their value in terms

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<sup>20</sup> Paragraphs 7.37 and footnote 13 of the Conceptual Framework.



of their operational use appears likely to be available and relevant. For example, a replacement cost for a heritage building used as office space could be found through reference to market values of other office buildings of a similar size and functionality.

~~4.17-4.18.~~ However, a replacement cost will not be available for some heritage assets—, because they are so rare as to be irreplaceable. In other cases, replacement cost arguably<sup>21</sup> may not fully reflect the service potential of the heritage assets to the entity holding them<sup>21</sup>.

~~4.18-4.19.~~ Restoration costs may be relevant as a replacement cost. An entity may have plans to rebuild or otherwise restore a heritage item, if that proved to be necessary. Restoration would aim to reproduce, as closely as possible, the heritage aspects of the original item. Restoration costs could be more relevant when optimized replacement cost could be inappropriate, because the heritage asset's service potential is embodied in heritage aspects such as an historic appearance, rather than in an optimized modern equivalent. The Conceptual Framework notes that there may be cases where replacement cost equates to reproduction cost, because the most economical way of replacing service potential is to reproduce the asset<sup>22</sup>.

#### *Net Selling Price*

~~4.19-4.20.~~ 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 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, and their value usually relates to their service potential<sup>23</sup>. Therefore, net selling price generally does not provide relevant measurement information for heritage assets.

#### *Value in Use*

~~4.20-4.21.~~ 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. The operationalization of value-in-use for non-cash-generating assets involves the use of replacement cost as a surrogate. Many heritage assets are non-cash-generating assets, so if value-in-use is relevant it would be equivalent to replacement cost.

~~4.21-4.22.~~ Cash flows arising from heritage assets are ~~usually often~~ viewed as supplementary to ~~the-an~~ entity's main objective and the cash generated is usually to help fund heritage preservation, and does not represent the assets' service potential. For these reasons value in use does not appear to be relevant to the measurement of heritage assets.

### **Measurement Bases and the Qualitative Characteristics and Constraints**

~~4.22-4.23.~~ This section considers whether heritage items' special characteristics have implications for the ability to measure heritage assets in a way that achieves the qualitative characteristics and takes

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<sup>21</sup> For example, the replacement cost to purchase a similar collection of paintings could be available, and yet not convey the service potential of the paintings held by an art gallery, because its collections is significant for the local community.

<sup>22</sup> Footnote 14 of the Conceptual Framework.

<sup>23</sup> Arguably, where an entity does not intend to hold heritage items indefinitely they cease to meet the special characteristics of heritage items, and accounting for them would be covered by existing IPSAS.

account of the constraints on information in GPFRs. 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.

#### *Relevance and Representational Faithfulness of Monetary Values on Heritage Assets*

~~4.23-4.24.~~ The Conceptual Framework explains that information is relevant if it is capable of making a difference in achieving the objectives of financial reporting. Information is capable of making a difference when it has confirmatory value, predictive value, or both<sup>24</sup>. Information on the monetary value of heritage assets that entities hold ~~appears likely to support~~s users' ability to make decisions about entities' resources and hold entities accountable for their stewardship of heritage assets. Therefore, such information appears likely to achieve the qualitative characteristics of relevance. Monetary values for heritage assets also appear likely to provide information that supports users' assessments of entities' operational capacity and cost of services. ~~Monetary values are capable of faithfully representing heritage assets as resources for financial reporting purposes.~~ Others argue that the heritage significance of heritage assets cannot be shown with monetary values, because monetary values for not convey their "true value". From that perspective monetary values do not provide relevant information.

#### *Understandability of Monetary Values on Heritage Assets*

~~4.24-4.25.~~ Understandability is the quality of information that enables users to comprehend its meaning<sup>25</sup>. Some may argue that monetary values for heritage assets could confuse users because there are often ethical, legal and/or statutory restrictions or prohibitions that restrict or prevent sale, transfer or destruction by the holder or owner of heritage assets. However, monetary values for heritage assets appears more likely to provide understandable information to users, than would an absence of monetary values. Disclosures on heritage asset restrictions and/or their special nature can be used to further support users' understanding of the information reported. Similar restrictions on other types of assets do not prevent their recognition.

#### *Timeliness, Comparability and Verifiability*

~~4.25-4.26.~~ Timeliness means having information available for users before it loses its capacity to be useful<sup>26</sup> for accountability and decision-making purposes<sup>26</sup>. Comparability is the quality of information that enables users to identify similarities in, and differences between, two sets of phenomena<sup>27</sup>. Verifiability is the quality of information that helps assure users that information in GPFRs faithfully represents economic and other phenomena that it purports to represent<sup>28</sup>.

<sup>24</sup> ~~Paragraph 3.6 of the Conceptual Framework.~~

<sup>25</sup> Paragraph 3.17 & 3.18 of the Conceptual Framework.

<sup>26</sup> Paragraph 3.19 of the Conceptual Framework.

<sup>27</sup> Paragraph 3.21 of the Conceptual Framework.

<sup>28</sup> Paragraph 3.26 of the Conceptual Framework.

~~4.26-4.27.~~ The special characteristics of heritage items do not appear to have any particular implications for ~~these~~ three qualitative characteristics of timeliness, comparability and verifiability, although some may argue that monetary values attached to heritage assets could be difficult to verify.

#### Materiality

~~4.27-4.28.~~ The Conceptual Framework explains that information is material if its omission or misstatement could influence the discharge of accountability by the entity, or the decisions that users make on the basis of the entity's GPFRs prepared for that reporting period. Materiality depends on both the nature and amount of the item judged in the particular circumstances of each entity. The Conceptual Framework does not specify a uniform quantitative threshold at which a particular type of information becomes material<sup>29</sup>. An entity will need to consider the materiality of their heritage asset holdings in the context of the legislative, institutional and operating environment within which it operates~~their GPFRs~~.

#### Cost-Benefit

~~4.28-4.29.~~ The Conceptual Framework ~~explains~~ states that ~~"Financial reporting imposes costs, and the~~ benefits of financial reporting should justify those costs"<sup>30</sup>.

4.30. Benefits of recognizing heritage assets in the Statement of Financial Position include:

- (a) The provision of relevant information to users of financial statements that helps them gain an overview of performance of the entity, and which could also assist in driving improvements in an entity's performance management; and
- (b) The need to carry out a comprehensive audit of heritage items as part of the recognition process, which can lead to the development of better ~~ownership or stewardship~~ records and, in turn, can help improve asset management, including the identification of conservation priorities.

~~4.29-4.31.~~ The earlier discussion of measurement bases indicates that, while valuations could be costly in some circumstances, in other circumstances it may be relatively straightforward to obtain monetary values, for example, when:

- (a) Heritage assets have been purchased recently or components of heritage assets have been replaced recently, so that a transaction is identifiable and the cost at acquisition is known;
- (b) Replacement costs are available to value heritage assets that are also operational assets; or
- (c) An active market exists.

~~4.30-4.32.~~ Jurisdictions and entities have argued that the cost-benefit constraint could be a factor against attaching a monetary value to heritage assets. In this view, ~~the costs of~~ carrying out heritage asset valuations ~~is~~ may be a costly exercise, and ~~is~~ not justified by the benefits of the information for users.

4.33. Some jurisdictions respond to the cost-benefit constraint by ascribing a one currency unit value to heritage items. Supporters of this approach consider that it provides useful information to users of financial statements and facilitates:

<sup>29</sup> Paragraph 3.~~35-32~~ to 3.~~36-34~~ of the Conceptual Framework.

<sup>30</sup> Paragraph 3.~~32-35~~ of the Conceptual Framework.

(a) Asset management; and

(b) Recognition of subsequent capital expenditure.

~~4.31-4.34.~~ However, the IPSASB's view is that this approach does not meet the measurement objective, because it does not provide information for the assessment of cost of services, operational capacity or financial capacity.

~~4.32-4.35.~~ Others argue that the cost concerns commonly cited are either:

- (a) Similar to costs applicable to other assets that are, nonetheless, measured for recognition, because the benefits of recognition are viewed as justifying the costs; or
- (b) Arise in the context of first time adoption of accrual basis financial reporting, when the cost of recognizing assets generally, not only heritage assets, can be viewed as very high.

### Recognition and Initial Measurement of Heritage Assets

~~4.33-4.36.~~ Based on the discussion above, the IPSASB has concluded that it is possible to ascribe monetary values to those heritage items that meet the definition of an asset, and that there are benefits to both users and public sector entities by so doing. The measurement bases available to entities are likely to be restricted to historical cost, market value and replacement cost (where replacement cost includes restoration cost), each of which provides information relevant to an assessment of one or more of the measurement objectives (cost of services, operational capacity and financial capacity). The IPSASB has therefore reached the following Preliminary Views, and requests constituents' comments on these and the related Specific Matters for Comment.

#### Preliminary View—Chapter 4.1

Heritage assets should be recognized in the statement of financial position if they meet the recognition criteria.

Do you agree with the IPSASB's ~~this~~ Preliminary View?

If not, please provide your reasons.

#### Specific Matters for Comment—Chapter 4.1

In your view, are there heritage-related situations (or factors) in which the cost-benefit constraint applies and heritage assets should not be recognized because the costs of doing so would not justify the benefits?

(If yes, please describe those heritage-related situations (or factors).)

**Preliminary View—Chapter 4.2**

Historical cost, market value and replacement cost (where replacement cost includes restoration cost) are appropriate measurement bases for heritage assets, dependent on circumstances.

Do you agree with the IPSASB's ~~this~~ Preliminary View?

If not, please provide your reasons.

**Specific Matters for Comment—Chapter 4.2**

In your view, are there other measurement bases that you consider should be applied to heritage assets when they are initially recognized?

~~(If so, please identify those bases and describe the circumstances in which they should be applied.)~~

## CHAPTER 5, SUBSEQUENT MEASUREMENT

### Introduction

- 5.1. This chapter discusses the subsequent measurement of heritage assets. It builds on the IPSASB's preliminary views, reached in Chapter 4, that:
- (a) Heritage assets should be recognized in the statement of financial position if they meet the recognition criteria; and
  - (b) Historical cost, market value and replacement cost (where replacement cost includes restoration cost) are appropriate measurement bases for heritage assets, dependent on circumstances.
- 5.2. The discussion draws on the Conceptual Framework and existing IPSAS requirements for the subsequent measurement of non-heritage assets, on the basis that these illustrate approaches that could, potentially, be applied to heritage assets.

### Subsequent Measurement in the Conceptual Framework and IPSASs

- 5.3. During development of the Conceptual Framework, the IPSASB concluded that, in principle, the same considerations apply to initial and subsequent measurement<sup>31</sup>. Therefore, subsequent measurement:
- (a) Should achieve the qualitative characteristics, taking into account the constraints; and
  - (b) Has the objective 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.
- 5.4. IPSAS requirements<sup>32</sup> for subsequent measurement address entities' reporting of information on:
- (a) Subsequent expenditures related to assets, and the extent to which such expenditures should be capitalized or expensed;
  - (b) Consumption of tangible and intangible assets through depreciation and amortization, while allowing that some assets (for example, land) are not consumed;
  - (c) Impairment of cash-generating and non-cash-generating assets; and
  - (d) Revaluations of assets, where a revaluation model is applied.
- 5.5. Each of these topics is considered in the following paragraphs in relation to heritage assets.

### Subsequent Measurement of Heritage Assets

- 5.6. Once a measurement basis has been applied for initial recognition of a heritage asset, subsequent measurement in the form of (a) accounting for subsequent expenditures, (b) depreciation/amortization and (c) impairment, is facilitated through existence of an initial measurement. However, a change in measurement basis (for example, moving to a revaluation model) may present the same issues as those raised at initial recognition (see Chapter 4).

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<sup>31</sup> Paragraph BC7.12 of the Conceptual Framework.

<sup>32</sup> See IPSAS17, *Property, Plant and Equipment*, IPSAS 21, *Impairment of Non-Cash-Generating Assets*, IPSAS 26, *Impairment of Cash-Generating Assets*, and IPSAS 31, *Intangible Assets*.

### *Subsequent Expenditure*

- 5.7. Entities could expend large amounts directly on preserving heritage assets. For example, as parts of heritage buildings deteriorate, their preservation is likely to involve their replacement, using similar materials, to maintain their historic character. The amount of any subsequent expenditure will generally be clear cut, and the key issue will be whether such expenditure should be expensed or capitalized. Appropriate classification is important to provide users with relevant and representationally faithful information on expenses and assets for assessments of cost of services, operational capacity and financial capacity.
- 5.8. IPSASs apply a recognition principle, whereby subsequent expenditures are recognized, increasing the carrying amount of the relevant asset, if it is probable that they confer future economic benefits or service potential for the entity and can be measured reliably. For example, IPSAS 17 states an entity will recognize in the carrying amount of an item of property, plant, and equipment the cost of replacing part of such an item when that cost is incurred, if this recognition principle applies. The carrying amount of the replaced part is then derecognized<sup>33</sup>.
- 5.9. The special characteristics of heritage items do not appear to raise special issues when classifying subsequent expenditure as either an expense or asset.

### *Depreciation and Amortization*

- 5.10. Many heritage assets deteriorate over time, although some, for example land and jewelry, do not. Heritage assets are not expected to become functionally obsolete, because their heritage significance increases with age. Their useful lives can be difficult to determine, while the intention to preserve heritage assets for future generations suggests that they could be held in perpetuity. Therefore, depreciation could be applicable to some (but not all) heritage assets and provide information relevant to assessments of cost of services and operational capacity.

### *Impairment*

- 5.11. Heritage assets may be damaged or otherwise impaired, even though they are intended to be preserved for future generations. Subsequent measurement that reflects impairment provides relevant information for assessments of costs of service and operational capacity.

### *Revaluation*

- 5.12. Where historical cost was used for initial measurement, subsequent adoption of a revaluation model means that market values will need to be available. As noted in paragraph 5.6, use of the new measurement basis will raise the same issues as those discussed in Chapter 4. Where the market value or replacement cost basis has been used for initial measurement, the same bases can be applied for subsequent revaluation.
- 5.13. When applying a revaluation model, entities will need to consider the pervasive constraints on information included in GPFRs<sup>34</sup>, because these will affect the frequency with which heritage assets should be revalued.

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<sup>33</sup> See paragraph 14 and 23-25 of IPSAS 17.

<sup>34</sup> See paragraph 3.3 of the Conceptual Framework.

- 5.14. Some jurisdictions view the initial measurement of heritage assets as assigning a “symbolic value”, which does not change subsequently; this approach does not, for example, revalue or depreciate the asset. However, the IPSASB’s view is that this approach would not provide relevant information for assessments of cost of services and operational capacity.
- 5.15. Based on the discussion above, the IPSASB has concluded that the subsequent measurement of heritage assets can be approached in broadly the same way as for other, non-heritage assets. Subsequent measurement requirements for heritage assets will need to address changes in heritage asset values that arise from subsequent expenditure, consumption, impairment and revaluation. Approaches in existing IPSASs are relevant to development of those requirements. The IPSASB has therefore reached the following Preliminary View:

**Preliminary View—Chapter 5**

Subsequent measurement of heritage assets:

- (a) Can be approached in broadly the same way as subsequent measurement for other, non-heritage assets.
- (b) Will need to address changes in heritage asset values that arise from subsequent expenditure, consumption, impairment and revaluation.

Do you agree with the IPSASB’s Preliminary View – Chapter 5?

**Specific Matters for Comment—Chapter 5**

In your view, are there any types of heritage assets or heritage-related factors that raise special issues for the subsequent measurement of heritage assets? If so, please identify those types and/or factors, and describe the special issues raised and how to address them.



## CHAPTER 6, HERITAGE-RELATED OBLIGATIONS

### Introduction

- 6.1. The description of heritage items proposed in this CP indicates that they are items intended to be held indefinitely and preserved for the benefit of present and future generations<sup>35</sup>. This chapter discusses whether the intention to preserve heritage items could give rise to liabilities.

### Conceptual Framework, Liabilities and Present Obligations

- 6.2. The Conceptual Framework defines a liability as “a present obligation of the entity for an outflow of resources that results from a past event”<sup>36</sup>. A liability is recognized when an item satisfies the definition of a liability and can be measured in a way that achieves the qualitative characteristics and takes account of constraints on information in GPFRs<sup>37</sup>.
- 6.3. In considering whether an entity's heritage preservation intentions might give rise to present obligations, the IPSASB had in mind the following types of events or transactions:
- (a) The receipt of funding for heritage preservation activities;
  - (b) The receipt of services to preserve heritage items;
  - (c) Legislation that requires entities to preserve heritage items (including penalties for failure to preserve heritage items);
  - (d) Heritage items for which maintenance or preservation generally is needed because:
    - (i) They have deteriorated so that there is a demonstrable need to restore them;
    - (ii) Planned maintenance has been deferred; and/or
    - (iii) A need for maintenance is likely (foreseeable) in the future.

### Heritage-Related Present Obligations

- 6.4. An entity that holds heritage items is often viewed as having a moral duty to preserve them. However, this moral duty appears to be no different from that of, for example, maintaining infrastructure assets such as road networks or the electricity supply. A moral duty does not give rise to a present obligation and therefore a liability. A present obligation is either legally binding or non-legally binding, which an entity has little or no realistic alternative to avoid<sup>38</sup>. The Conceptual Framework states that an obligation must be to an external party in order to give rise to a liability<sup>39</sup>. An entity cannot be obligated to itself, even where it has publicly communicated an intention to

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<sup>35</sup> Chapter 2 includes the following description for heritage items: “Heritage items are items that are intended to be held indefinitely and preserved for the benefit of present and future generations because of their rarity and significance in relation, but not limited, to their archeological, architectural, agricultural, artistic, cultural, environmental, historical, natural, scientific or technological features.”

<sup>36</sup> Paragraph 5.14 of the Conceptual Framework.

<sup>37</sup> Paragraph 6.2 of the Conceptual Framework.

<sup>38</sup> Paragraph 5.15 of the Conceptual Framework.

<sup>39</sup> Paragraph 5.18 of the Conceptual Framework.

behave in a particular way. It is unlikely that the types of events and transactions listed in paragraph 6.3 would, on their own, create a legally binding obligation.

- 6.5. An entity that holds heritage items may behave in ways that suggest a non-legally binding obligation exists. For example, it may announce a heritage preservation policy, including an approved budget to give effect to that policy. However, the early stages of implementation (for example, making an electoral pledge or announcing a policy) are unlikely to give rise to present obligations that meet the definition of a liability<sup>40</sup>.

#### Outflows of Resources—Heritage Items

- 6.6. A liability must involve an outflow of resources from the entity for it to be settled. An obligation that can be settled without an outflow of resources from the entity is not a liability<sup>41</sup>.
- 6.7. Holding heritage items is likely to involve outflows of resources over time. Given the ongoing expense of preserving heritage items for present and future generations, some commentators have argued that a liability should be recognized to reflect these resource outflows, including deferred outflows, where deferral could be by comparison to an agreed cycle of maintenance or with respect to some other criteria. However, the ability to defer these outflows suggests that an entity does not have a present obligation for the outflow of resources.

#### Heritage-Related Past Events

- 6.8. Possible past events for relating to heritage preservation obligations might include when an entity:
- (a) Acquires heritage items;
  - (b) Makes a public commitment to preserve heritage items for future generations;
  - (c) Includes a heritage preservation objective (or other statement) in its publicly available planning documents;
  - (d) Creates a plan for resource outflows necessary for preserving heritage items;
  - (e) Receives an approved budget or an appropriation or other funding for preserving heritage items;
  - (f) Receives services for which payment is due.
- 6.9. Drawing on discussion in the Conceptual Framework, however, an assessment of each of these past events suggests that the entity appears likely to have alternatives enabling it to avoid an outflow of resources, with the exceptions of<sup>42</sup>:
- (a) *Receipt of funding*, if funding results in a performance obligation; and
  - (b) *Receipt of services*, if the entity has obligations (to pay for services received) arising from either a legal contract or other binding arrangement.

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<sup>40</sup> Conceptual Framework paragraph 5.24

<sup>41</sup> Paragraph 5.16 of the Conceptual Framework.

<sup>42</sup> The IPSASB's Revenue and Non-Exchange Expenses project considers performance obligations. If funds contain conditions/performance obligations there is a present obligation to the resource provider until they are fulfilled. In such circumstances there is an obligation to an external party. Therefore it meets the requirement discussed in paragraph 6.4.

- 6.10. However, whether an entity has received funding or services related to heritage preservation, the arrangements are unlikely to differ from receipt of other funding with performance obligations or from any normal contract for services and there would appear to be no reason why the transaction should be accounted for in a different way.

#### **Heritage-Related Liabilities**

- 6.11. The IPSASB acknowledges that there are many who believe that entities holding heritage items for the purposes stated in the description of heritage items developed in Chapter 2 have a moral duty to expend resources to preserve those items and to account for that duty as an obligation. The IPSASB considers, however, that the special characteristics of heritage items do not of themselves give rise to present obligations that would result in the recognition of a liability. The IPSASB has therefore reached the following Preliminary View.

#### **Preliminary View—Chapter 6**

The special characteristics of heritage items, including an intention to preserve them for present and future generations, do not, of themselves, result in a present obligation such that an entity has little or no realistic alternative to avoid an outflow of resources and should therefore recognize a liability.

Do you agree with the IPSASB's Preliminary View – Chapter 6?

If not, please provide your reasons.

## CHAPTER 7, PRESENTATION OF INFORMATION ON HERITAGE ITEMS

### Introduction

- 7.1. This chapter draws on the Conceptual Framework to discuss the presentation of information for heritage in GPFRs. It discusses whether the special characteristics of heritage items—the intention to hold them indefinitely and preserve them for the benefit of present and future generations, because of their rarity and significance—have implications for the presentation of information in GPFRs.
- 7.2. The Conceptual Framework states that the objectives of financial reporting are to provide information about the entity that is useful to users of GPFRs for accountability purposes and for decision making purposes<sup>43</sup>. Presentation, defined as “the selection, location and organization of information that is reported in the GPFRs<sup>44</sup>”, is one of the means by which the objectives of financial reporting are met.

### Presentation Objectives for Information on Heritage

- 7.3. In Chapter 3 of this CP the IPSASB reached the Preliminary View that the special characteristics of heritage items, as described in Chapter 2, do not prevent them from being considered as assets for the purposes of financial reporting. In Chapters 4 and 6 the IPSASB reached Preliminary Views that:
- (a) Heritage assets should be recognized in the statement of financial position if they meet the recognition criteria;
  - (b) Historical cost, market value and replacement cost (where replacement cost includes restoration cost) are appropriate measurement bases for heritage assets, dependent on circumstances; and
  - (c) The special characteristics of heritage items, including an intention to preserve them for present and future generations, do not, of themselves, result in a present obligation such that an entity has little or no realistic alternative to avoid an outflow of resources and should therefore recognize a liability.
- 7.4 The IPSASB concludes that the corollary of those Preliminary Views is that the special characteristics of heritage items (whether or not recognised as assets, with any associated liabilities), do not warrant presentation objectives specific to heritage. Rather, just as for any other revenue, expense, assets and liabilities, an entity should present information in a way that meets the objectives of financial reporting, using the existing IPSASB literature, including Recommended Practice Guidelines (RPG) where appropriate<sup>45</sup>.
- 7.5 Where an entity takes the view that holding heritage assets is material to the achievement of its objectives, then that entity will need to provide information in the notes to the financial statements. If the entity applies one or more RPGs, it may also need to provide information in other GPFRs.
- 7.6 Information on recognized heritage assets and heritage-related liabilities might include:
- (a) The main types of heritage assets;

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<sup>43</sup> Paragraph 2.1 of the Conceptual Framework.

<sup>44</sup> Paragraph 8.4 of the Conceptual Framework.

<sup>45</sup> The IPSASB has issued three RPGs; 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*.

- (b) The main types of heritage-related liabilities;
  - (c) How heritage assets and liabilities are measured, including impairment or other changes in measurement; and
  - (d) Resource outflows and inflows as a result of holding, acquiring and disposing of heritage assets (for example through transfer or sale).
- 7.7 An entity could present information in its financial statements discussion and analysis or another GPRF to assist users to:
- (a) Assess the effect of the entity's holding of heritage items on its operational capacity, cost of services and financial capacity; and
  - (b) Understand the extent of an entity's:
    - (i) Heritage holdings, encompassing any heritage items recognized as assets as well as unrecognized heritage items; and
    - (ii) Heritage-related liabilities and contingent liabilities.

**Preliminary View—Chapter 7**

Information about heritage should be presented in line with existing IPSASB literature.

Do you agree with the IPSASB's Preliminary View – Chapter 7?

If not, please provide your reasons.

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