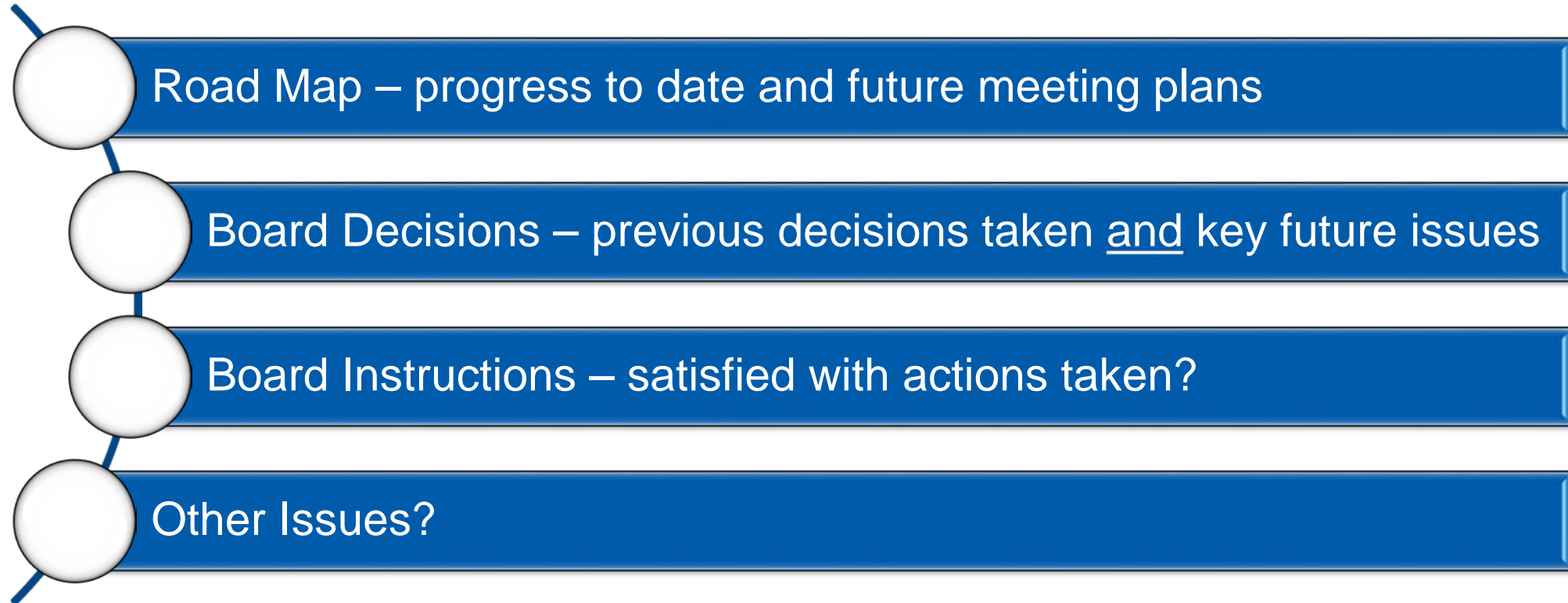


Agenda Item 9: Heritage

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IPSASB Meeting
June 18–21, 2019
Toronto, Canada

Project management: Stocktake for Heritage Project



Overview of Session

1. Operational and non-operational heritage assets (9.2.2)
2. Classification of issues (9.2.3) + new slides (generic issues)
3. Overview of Recognition, Measurement and Presentation for Heritage (9.2.1)

9.2.2 Operational and Non-Operational Heritage Assets

- Consider whether operational/non-operational distinction is useful for developing guidance on financial reporting for heritage assets
- Information on:
 - a) Meaning of operational/non-operational
 - b) IPSASB pronouncements, constituents' views and Heritage Task Force discussions
 - c) Possible financial reporting implications

Operational/ Non-Operational: Meaning

Operational heritage assets:

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

Non-operational heritage assets:

- Heritage assets that the entity holds primarily to pursue its objectives in relation to the maintenance/preservation of the heritage. (e.g. a collection of heritage paintings in an art gallery)



Operational/ Non-Operational: IPSAS, Constituents and Task Force

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

9.2.2 Operational and Non-Operational Heritage Assets

Financial reporting implications:

- Recognition?
 - *Approach*: Recognize operational heritage assets. Do not recognize non-operational.
- Measurement?
 - *Approach*: Same measurement requirements applied to operational heritage assets as those for other non-heritage assets. Extra guidance (or special measurement requirements) for measurement of non-operational heritage assets
 - *Replacement cost* – Cost to replace (a) operational” usage or (b) heritage value?
 - *Depreciation* – Whether heritage asset is used “operationally” could affect useful life and basis for depreciation

Alternative to using operational/non-operational: Entity Considers its Use of the Heritage Asset

- Develop measurement guidance linked to entity's usage of its heritage asset
 - Allows entity to consider its actual use(s) of the heritage asset to achieve its objectives
 - Actual usage would drive entity's thinking about depreciation (useful life), replacement cost, and capitalization/expensing of subsequent expenditure
- Problems with operational/non-operational:
 - Simple, black/white category that will drive measurement guidance
 - Criteria for classification developed by an external party (i.e. the standard setter)
 - Confusion between “operational heritage assets” and “heritage assets that contribute to operational capacity”

Decisions required

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

9.2.3 Classification of Heritage Issues

Consider:

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

9.2.3 Classification of Heritage Issues

- Table 1 has issues with respect to heritage-related:
 - Recognition,
 - Measurement, and
 - Presentation
- Table 1 summarizes issues in the Heritage Consultation Paper responses:
 - Responses to specific matters for comment (SMC) and preliminary views (PV) that asked for views on recognition, measurement and presentation; and
 - Respondents' general comments and other comments

No decisions required

The IPSASB is asked to:

- a) Note the information in Table 1
- b) Provide comment on the issues and their implications for the Heritage Project's next steps

Generic Issues Heritage

Objective of recognition and measurement in terms of reporting entity's operational and financial capacity		
Cost-Benefit constraints (affects recognition, measurement, presentation and transition)		
<u>Recognition</u>	<u>Measurement</u>	<u>Presentation (Display & Disclosure)</u>
Ownership/Stewardship/"in Trust"	Symbolic value	Type of information for disclosure
Natural Heritage coverage	Reliability/Measurability	- Characteristics/performance
Subsequent expenditure	Relevance/Measurement basis	- Accounting information
	Useful lives/depreciation/impairment	Presentation on f/s face
	Heritage use	
	Techniques (and sources)	

9.2.1 Overview of Recognition, Measurement and Presentation

Discuss recognition, measurement and presentation guidance for heritage assets

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

9.2.1 Overview of Recognition, Measurement and Presentation

Diagram 1

Step 1, Asset existence

Step 2, Recognition

Step 3, Subsequent measurement

Step 4, Presentation

Diagram 1: Financial Reporting for Heritage

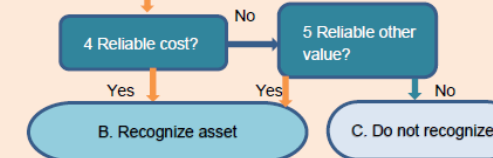
This diagram aims to support the IPSASB's consideration of financial reporting for heritage. It has two flow charts (FC1 & FC2) with embedded links to guidance on decision points. *Transition issues not addressed:* This diagram does not address financial reporting needs for a transition to recognition of heritage.

Flow Chart (1) Steps 1 & 2

Step 1 [Asset existence](#)



Step 2 Recognition (reliable measurement)



Step 3 Subsequent measurement

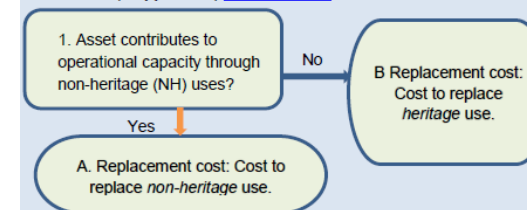
Subsequent measurement: Guidance on:

- (a) Depreciation/ amortization
- (b) Subsequent expenditure
- (c) Impairment
- (d) Revaluation model

Step 4 Presentation

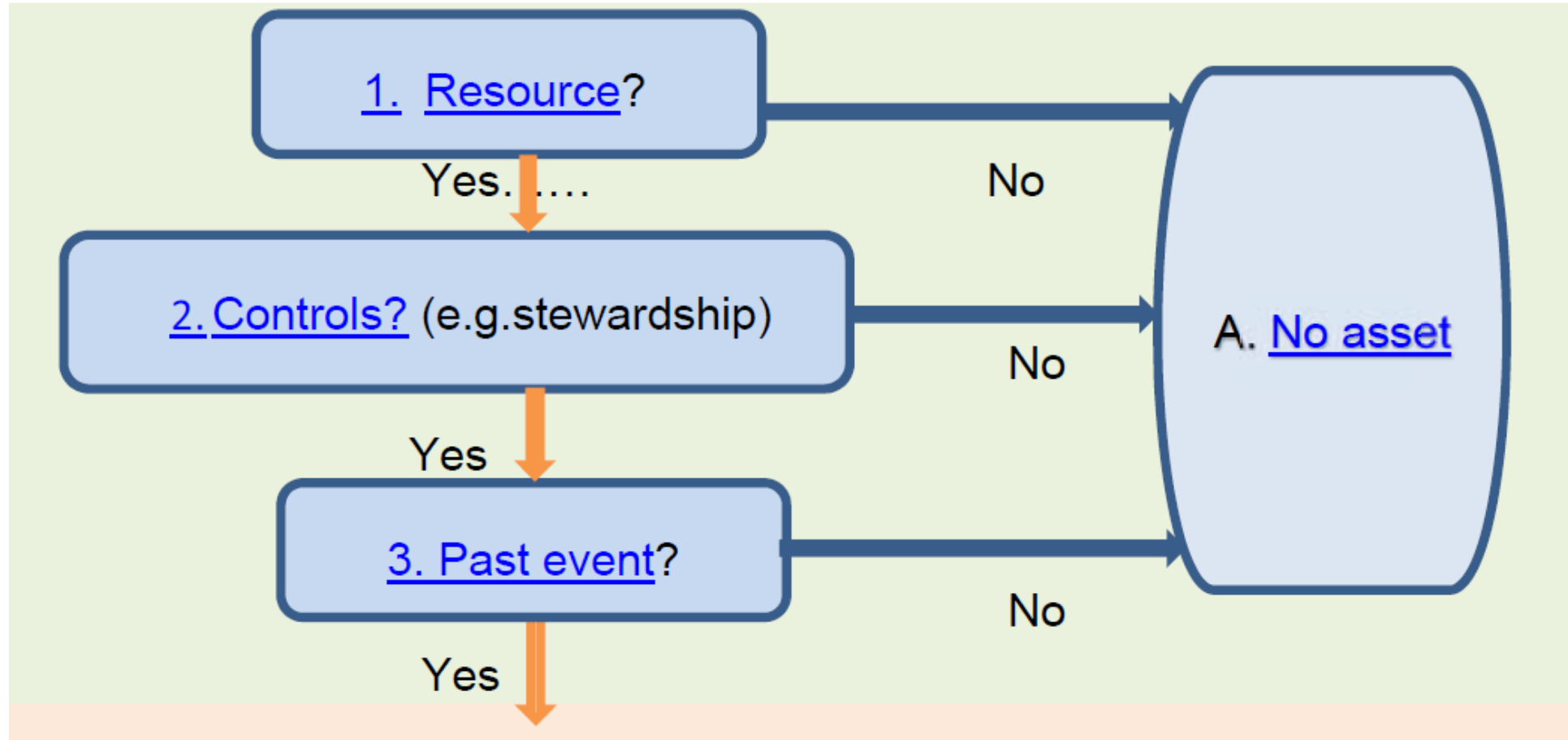
Presentation:
Consider need for
line item(s) and
note disclosures

Revaluation (if applicable) [Flow Chart \(2\)](#)



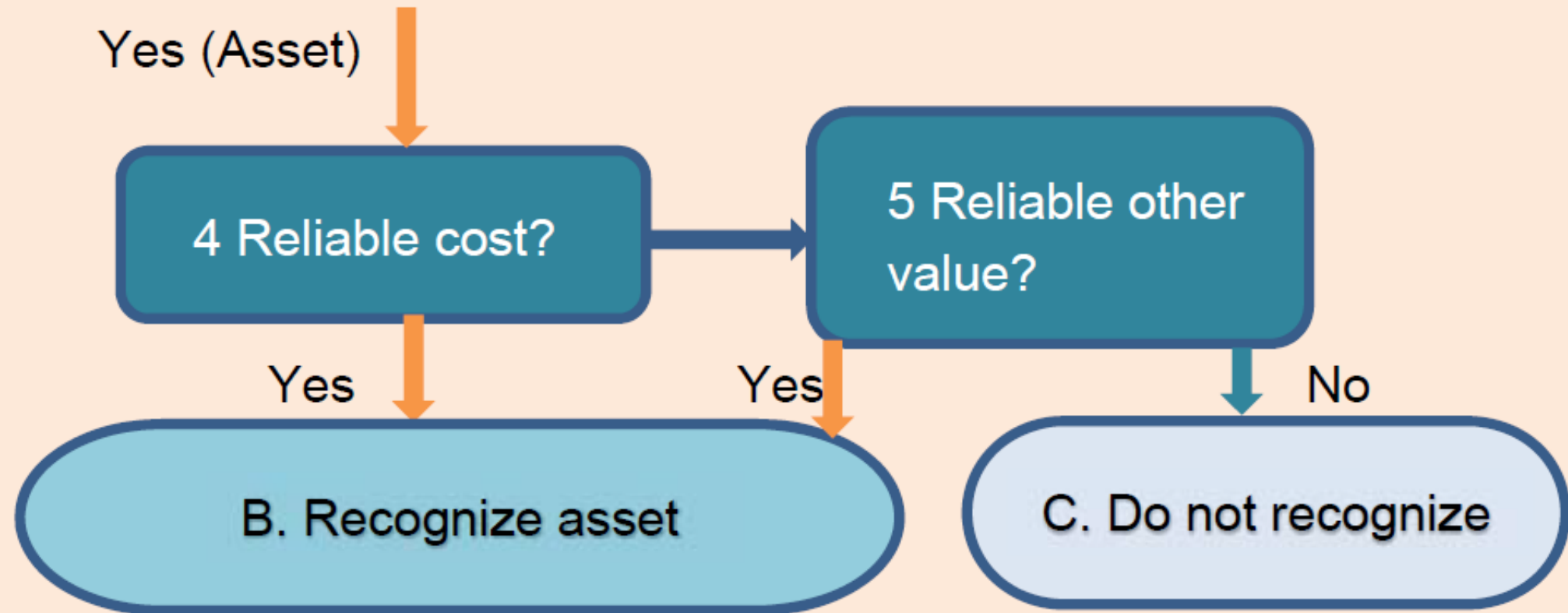
9.2.1 Overview of Recognition, Measurement and Presentation

Flow Chart (1) Step 1 Asset existence



9.2.1 Overview of Recognition, Measurement and Presentation

Step 2 Recognition (Reliable measurement)



9.2.1 Overview of Recognition, Measurement and Presentation

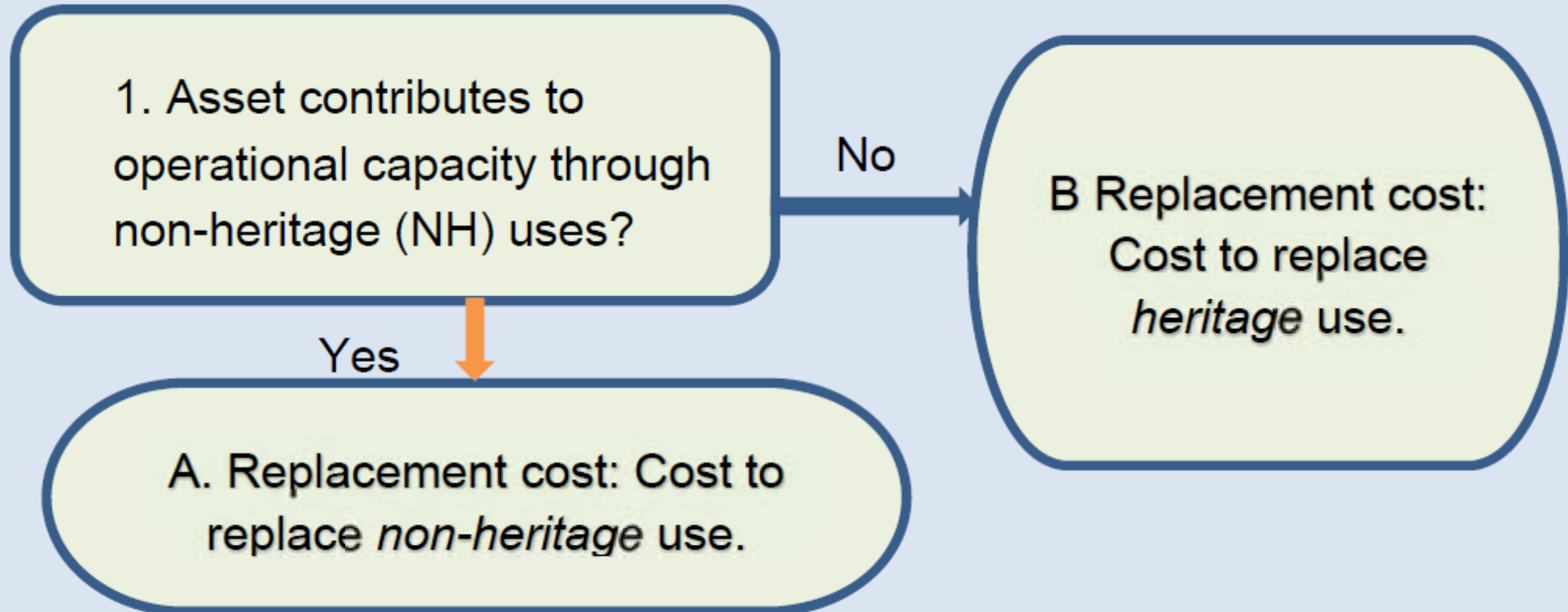
Step 3 Subsequent measurement

Subsequent measurement: Guidance on:

- (a) Depreciation/ amortization
- (b) Subsequent expenditure
- (c) Impairment
- (d) Revaluation model

9.2.1 Overview of Recognition, Measurement and Presentation

Revaluation (if applicable) [Flow Chart \(2\)](#)



9.2.1 Overview of Recognition, Measurement and Presentation

Step 4 Presentation

Presentation:
Consider need for
line item(s) and
note disclosures

9.2.1 Appendix B - Asset Existence (Resource, Control, Past Event)

Is the Heritage Item a Resource?

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

Conceptual Framework

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

Service potential: The capacity to provide services that contribute to achieving the entity's objectives.

Appendix B: Does reporting entity presently control the heritage item?

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

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

Indicators of control: Reporting entity: — Has legal ownership; — Has access (or can deny/ restrict access) to the resource; — Can ensure that resource is used to achieve its objectives; — Has an enforceable right to service potential or ability to generate economic benefits arising from the resource

9.2.1 Appendix B - Past Event

Example 10 Donation of Painting

Example 11 Donation of Sculptures

Example 12 Transfer of Notable Musician's Papers

Example 13 Architectural Heritage in Situ

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

Example events: Entity purchases or develops an asset. Asset is received through a non-exchange transaction or arises through exercise of sovereign powers

9.2.1 Measurement guidance: Priority needs?

Paragraphs 14 – 15 of agenda item 9.2.1:

- a) Meaning of replacement cost
- b) Depreciation and amortization, including determination of useful lives
- c) Impairment: Indicators of impairment. Valuation when impaired (linked to useful life)
- d) Revaluations: Frequency, applicable current value, for museum collections
- e) Measurement of living heritage assets, e.g. whether to add their value to the land value

Subsequent expenditure – when to expense or capitalize

9.2.1 Scope of Heritage Project?

- ✓ Heritage Project focus is on information in the financial statements (IPSASB decision, March 2019).
- ✓ Project Roadmap has revisions to IPSAS 17, *Property, Plant and Equipment*, as planned outcome for 2019 (roadmap provided to IPSASB's March 2019 meeting)
- Project's scope restricted to heritage assets within scope of IPSAS 17? (This excludes:
 - (a) Living heritage assets such as plants and animals; and
 - (b) Intangible heritage assets.)

Decisions required

Does the IPSASB agree that:

- a) Heritage Asset Recognition flow chart (Diagram 1 - FC1) provides a useful overview for recognition
- b) Appendix B examples are useful guidance on heritage items as “assets”
- c) Measurement issues needing guidance as per paragraphs 14 and 15; and
- d) Project’s scope is now focused on heritage assets that fall within the scope of IPSAS 17, *Property, Plant and Equipment*?

Road map implications, decisions and instructions?

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



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