Agenda Item 7: Heritage

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IPSASB Meeting
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Objectives for Session

• Review responses to the Consultation Paper (CP), Financial Reporting for Heritage in the Public Sector

• At this stage no decision is required
Overview

1. Overview of responses (7.2.1)
2. Heritage Items (7.2.2)
3. Heritage Assets (7.2.3)
4. Recognition & Initial Measurement of Heritage Assets (7.2.4)
5. Subsequent Measurement of Heritage Assets (7.2.5)
6. Heritage-Related Obligations (7.2.6)
7. Presentation of Information about Heritage (7.2.7)
Responses received

Good number of responses:

- 40 responses received
- Recent average for CP responses is 30; range 25 to 36

Good mixture of responses, including from:

- Entities and jurisdictions that: (a) apply IPSAS or IPSAS-similar accruals; and (b) either recognize heritage assets or do not, with mixture of measurement approaches (HC, current value, symbolic value)

- Heritage specialists, valuers, academics, and international organizations
Respondents received: Geographical Breakdown

RESPONDENTS BY REGION

- Africa and the Middle East: 12%
- Asia: 10%
- Australasia and Pacific: 20%
- Europe: 30%
- Latin America and the Caribbean: 2%
- North America: 13%
- International: 13%

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1. Overview
2. Heritage Items
3. Heritage Assets
4. Recognition and Measurement
5. Subsequent Measurement
6. Heritage Obligation
7. Presentation
Responses received: Functional Breakdown

**RESPONDENTS BY FUNCTION**

- **Members/Regional body**: 32%
- **Standard Setter/Standards Advisory Body**: 20%
- **Preparer**: 15%
- **Audit Office**: 5%
- **Other**: 28%

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Responses received: Linguistic Breakdown

**RESPONDENTS BY LANGUAGE**

- English Speaking: 32%
- Non-English Speaking: 30%
- Combination: 38%

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1. Overview
2. Heritage Items
3. Heritage Assets
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6. Heritage Obligation
7. Presentation
2. Heritage Items

- Heritage characteristics and consequences for financial reporting (SMC–Chapter 1)
- Description of heritage Items (PV–Chapter 2.1)
- Natural heritage meaning (PV–Chapter 2.2)
2. Heritage Items
Heritage Characteristics and consequences

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- Agree: 55%
- Partial: 22%
- Disagree: 20%
- No comment: 3%
2. Heritage Items
Heritage Characteristics and consequences

• Most of the respondents who disagreed:
  – Left out important details
  – Understated special nature of heritage items & resulting financial reporting consequences

• Value of heritage items usually increases over time

• Paragraphs overstated the financial reporting consequences
2. Heritage Items—Description

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Agree 55%  
Partial 22%  
Disagree 20%  
No comment 3%

PV–CHAPTER 2.1

1. Overview  
2. Heritage Items  
3. Heritage Assets  
4. Recognition and Measurement  
5. Subsequent Measurement  
6. Heritage Obligation  
7. Presentation
• Boundary between agree vs partially agree (unclear)
• The main issues raised in responses were:
  – Addition of ‘religious’ &/or ‘social’ significance or shorten list by combining ‘agricultural with natural’
  – Strengthen description so that it can function as a definition
  – Address heritage items that are used operationally
  – Amend the idea of ‘intended to be held indefinitely’
2. Heritage Items—Natural Heritage

- Overview
- Heritage Items
- Heritage Assets
- Recognition and Measurement
- Subsequent Measurement
- Heritage Obligation
- Presentation

Agree: 28%
Partial: 10%
No comment: 2%
Disagree: 60%
Main reasons for disagreement that living plants & organisms should not be classified as heritage:

- Meet the CP’s description of heritage items
- May live for long periods while non-living heritage may have a limited life (Example—Kauri tree)
- Important for identification of natural heritage areas
- Classification linked to holding the entity accountable
3. Heritage Assets

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

The majority agreed.
3. Heritage Assets

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PV-CHAPTER 3

- Agree: 80%
- No comment: 3%
- Partial: 10%
- Disagree: 7%

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3. Heritage Assets

• The main issues raised were:

  Use of the term ‘assets’

  Separate line item + disclosure

  Exclude natural areas & features

  Exclude intangible cultural heritage items

  Restricted & Non-Restricted inclusion

  Knowledge-in-action

  Service potential &/or future economic benefits

  Measure reliably

  Element of control

  Intangible items are assets – extent

  Completeness of financial information
Do you support initially recognizing heritage assets

- at a nominal cost of one currency unit where historical cost is zero
4. Recognition & Initial Measurement of Heritage Assets

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SMC-CHAPTER 4.1

- Agree: 28%
- Partial: 7%
- Disagree: 58%
- No comment: 8%
• The main issues raised were:
  – Difficulty of heritage measurement
  – The meaning of resulting information
  – Disclosures to provide relevant and useful information
• Further considerations will be discussed as part of: ‘Public Sector Measurement Project’
PV–Chapter 4.1

- Heritage assets should be recognized in the statement of financial position if they meet the recognition criteria in the Conceptual Framework.
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4. Recognition & Initial Measurement of Heritage Assets

PV-CHAPTER 4.1

- Agree: 77%
- Partial: 10%
- Disagree: 8%
- No comment: 5%

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Level of agreement may be conditional on use of 1 currency unit for initial measurement.

The main issues raised were:

- Heritage items are not assets.
- Heritage assets should not be recognized on the b/s, but qualitative information is reported in a note that links to a line item.
- Heritage items that don’t have economic benefits or service potential are not assets.
SMC–Chapter 4.2

Heritage-related situations in which heritage assets should not initially be recognized and/or measured because:

- It is not possible to assign a relevant and verifiable monetary value; or
- The cost-benefit constraint applies
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4. Recognition & Initial Measurement of Heritage Assets

- **Agree:** 67%
- **Disagree:** 28%
- **No comment:** 5%
4. Recognition & Initial Measurement of Heritage Assets

• Main issues from respondents who agreed that situations exist (non-recognition/cannot be measured):
  – Acknowledgement of measurement difficulties & cost-benefit
  – Recognition at nominal value of 1 currency unit (5 respondents)

• Will be considered further as part of ‘Public Sector Measurement Project’
PV–Chapter 4.2

- In many cases it will be possible to assign a monetary value to heritage assets
- Appropriate measurement bases are historical cost, market value and replacement cost
4. Recognition & Initial Measurement of Heritage Assets

PV–CHAPTER 4.2

Agree 35%

Partial 22%

Disagree 43%
• The main issues raised by respondents who disagreed:
  – Particular measurement bases would be unavailable or are inappropriate
  – The resultant monetary values are irrelevant
  – Scope to use other measurement bases such as one currency unit
  – Distinction between operational & non-operational heritage assets during measurement
SMC–Chapter 4.3

- Additional guidance that IPSASB should provide through its PSM project to enable measurement bases to be applied to heritage assets
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4. Recognition & Initial Measurement of Heritage Assets

SMC–CHAPTER 4.3

No comment 20%

Agree 80%
The additional guidance will be considered as part of the PSM project.
5. Subsequent Measurement of Heritage Assets

PV–Chapter 5

– Subsequent measurement of heritage assets:
  • Will need to address changes that arise from subsequent expenditure, consumption, impairment and revaluation.
  • Can be approached in broadly the same way as subsequent measurement for other, non-heritage assets.
5. Subsequent Measurement of Heritage Assets

PV–CHAPTER 5

Agree 37%
Partial 13%
Disagree 45%
No comment 5%
5. Subsequent Measurement of Heritage Assets

• The areas of disagreement covered all aspects of subsequent measurement

• Issues raised included:
  – Lack of usefulness of the resulting information
  – Inability to determine consumption given an indefinite useful life
  – Cost-benefit issues for revaluation and impairment
  – Proposals that subsequent expenditures should be expensed
SMC–Chapter 5

- Heritage assets or heritage-related factors that raise special issues for the subsequent measurement of heritage assets
5. Subsequent Measurement of Heritage Assets

SMC–CHAPTER 5

No comment 38%
Agree 62%

Main topic areas where additional guidance required are:
- Applying judgement as to what ‘indefinite useful life’ means
- Revaluation model & valuation basis for subsequent measurement
- Non-financial reports & recognition of the intangible cultural heritage
- Depreciation, impairment & subsequent expenditure
- How to account for subsequent measurement costs

PSM will consider these issues further
PV–Chapter 6

– The special characteristics of heritage items do not result in a present obligation
– The entity should not therefore recognize a liability.
  • Majority agreed
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6. Obligation Related to Heritage

**PV–CHAPTER 6**

- **Agree**: 77%
- **No comment**: 10%
- **Partial**: 3%
- **Disagree**: 10%

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7. Presentation
The main issues raised were:

- Heritage preservation gives rise to legally binding obligations
- Specific circumstances
- Further guidance - presentation of non-financial information about:
  - Legal and moral obligations
  - Disclosures
PV–Chapter 7

- Information about heritage should be presented in line with existing IPSASB pronouncements
7. Presentation of Information about Heritage

PV–CHAPTER 7

- Agree: 57%
- No comment: 8%
- Partial: 7%
- Disagree: 28%
The main presentation issues raised were:

- Additional disclosures
- A heritage line item on the face of the statement of financial position
- Heritage-specific report or schedule