

Meeting: International Public Sector Accounting
Standards Board

Meeting Location: Toronto, Canada

Meeting Date: December 8–11, 2015

Agenda Item 11

For:

Approval

Discussion

Information

Heritage Assets

Objectives of Agenda Item

1. The objective of this session is to provide direction on development of a Heritage Assets consultation paper.

Materials Presented

Agenda Item 11.1 Issues Paper

Actions Requested

2. The IPSASB is asked to discuss the issues identified and provide direction on development of a Heritage Assets consultation paper.

Objectives of this Paper

1. This paper identifies issues for development of a consultation paper (CP) on accounting for heritage assets. Staff seek direction from the IPSASB on these issues.

Background

2. The International Public Sector Accounting Standards Board (IPSASB) approved its Heritage Assets project in June 2015. A first discussion of issues, for development of the Consultation Paper (CP), occurred at the IPSASB's September 2015 meeting.

IPSASB Directions from September 2015

3. In September the IPSASB supported a working description of heritage items:

Heritage items are items that, because of their rarity, importance and/or significance, are expected to be held for the benefit of present and future generations and preserved indefinitely. They are preserved for many different reasons including, and not limited to, their architectural, agricultural, artistic, cultural, environmental, historical, natural, scientific or technological importance.
4. The IPSASB directed staff to take a wide, inclusive approach initially to different types of heritage items, and apply the Conceptual Framework's asset definition to a selection of such items. The question of whether heritage items could either (a) meet the definition of a liability, or (b) involve a related liability to preserve the item, should be considered. Arguments for and against reporting information on heritage items in a general purpose financial report (GPFR) or in another type of report should be discussed.

Task Force on Accounting for Heritage

5. Establishment of a Task Force is planned for the beginning of 2016. Two Task Force members have been identified; Amanda Botha (Accounting Standards Board (ASB)–South Africa) and Annalien Carstens (Managing Director, Altimax). The International Valuation Standards Council (IVSC) has been contacted and will propose a Task Force participant.

Overview of Issues

6. This paper asks the IPSASB to consider the following issues:
 - (1) Preservation activities and reporting on heritage.
 - (2) Obligations to preserve heritage items.
 - (3) Heritage items as potential assets:
 - (a) Cultural property;
 - (b) Underwater cultural heritage;
 - (c) Intangible cultural heritage; and
 - (d) Natural heritage.

Issue 1: Preservation Activities and Reporting on Heritage

Public Sector Involvement with Heritage—Activities and Control

7. Some public sector entities hold heritage items for which they have:
 - (a) Direct responsibility for their preservation; and,
 - (b) A right to control public access, if necessary, in order to ensure their preservation.
8. However, there are other public sector entities that do not hold heritage items, but which nonetheless will play a role in their preservation. For example, border control officers are likely to undertake activities to ensure that heritage items are not illegally transported out of the country. Police officers will enforce laws to protect heritage items against theft and vandalism.
9. Activities of public sector entities with respect to heritage preservation could include any and all of the following:
 - (a) Development of legislation and regulation for heritage preservation;
 - (b) Enforcement of legislation, which could involve prevention of destruction or removal of heritage items, as well as restrictions on sale such that government has rights to purchase or otherwise gain ownership of heritage items, in the event that a private owner decides to sell or otherwise loses control of heritage items in their possession;
 - (c) Definition, classification, identification and listing of heritage items;
 - (d) Reporting on heritage items (descriptions, extent, status, trends with respect to their preservation; service performance related to heritage items);
 - (e) Education activities related to heritage items (e.g. appreciation and preservation);
 - (f) Financial support for people and institutions (public or private) that hold heritage items and for people who are heritage items and therefore receive state support so that their skills and abilities can be preserved and shared with others;
 - (g) Construction of fences, buildings, etc. to protect and preserve heritage items; and
 - (h) Enforcement of restrictions on construction and other industry activities that could destroy or damage heritage items.

Activities Focused on Heritage Items—Held Publicly, Privately or Ownership Unclear

10. Public sector responsibility for preservation of heritage items is not restricted to those items that are held by public sector entities. Most of the activities listed above apply to all heritage items within a jurisdiction, regardless of whether they are held by:
 - (a) Public or private sector entities;
 - (b) Reporting entities or *non-reporting* entities i.e. entities not required to present a GPFR.
11. For example, a family or a private individual may own a heritage item such as an historic building or important artwork. That person has no requirement to prepare a GPFR. Yet information about that privately owned heritage item may be made publicly available by the government. The government may monitor the status of the heritage item, take steps to support its preservation, and have “first

right of refusal” if the private owner considers selling the heritage item. The government may have put in place legal restrictions which prevent the private individual taking the item out of the country.

12. In some cases ownership of heritage items may be mixed (private and public), unclear, disputed, or rejected as a concept applicable to that item. Heritage items may also be the subject of international agreements, where they cross international boundaries.
13. For example, marine reserves may be preserved and protected by one or more public sector entity without being viewed as “owned” or “controlled” by any entity that prepares GPFRs. Marshlands may be preserved as important natural heritage, with laws to prevent their destruction, while such marshlands are owned by a mixture of private and public sector entities, including private individuals. If atmosphere (clean air) is considered to be a heritage item or a body of water (e.g. Lake Ontario) or a mountain (e.g. Mt Fuji or Mt Sinai) is viewed as sacred and part of a nation’s heritage, it will not necessarily be viewed as owned by any one entity.

Public Sector Reporting—Information on Heritage Items

14. Public sector entities responsible for heritage preservation could potentially provide three different types of report. The type of report presented will depend on an entity’s responsibilities with respect to heritage. The three reports are:
 - (a) *Type 1*, Status reports on heritage items, where the report covers all items in a particular category of heritage, without restriction as to their ownership;
 - (b) *Type 2*, Service performance information, prepared by an entity with service performance objectives that focus on preservation of heritage; and
 - (c) *Type 3*, Financial reports that include information on heritage items held by an entity, where the entity “owns” heritage items such as, for example, artwork, collections or buildings.

Example 1: Information Reported by a “Ministry of Heritage Buildings”

15. For example, a “Ministry of Heritage Buildings,” whose primary role is to preserve heritage buildings and which also occupies several heritage buildings, may prepare all three types of reports:
 - (a) *Report 1, Status*: Biennial reports on “*State of the Nation’s Heritage Buildings*”. These reports include:
 - (i) A list of heritage buildings, based on definitions and a schedule in legislation;
 - (ii) A quality indicator (A, B, C or “at risk”) for each building, showing their state of preservation; and
 - (iii) Discussion of heritage building preservation, covering a broad set of public sector and private sector initiatives and achievements.
 - (b) *Report 2, Service Performance*: Annual reports on the Ministry’s service performance, which apply the IPSASB’s RPG 3, *Reporting Service Performance Information*, and include information on, *inter alia*, the Ministry’s:
 - (i) Service performance objectives and achievements, which focus on its nation-wide heritage preservation responsibilities;
 - (ii) Cost of services; and
 - (iii) Discussion and analysis of the Ministry’s service performance achievements.

- (c) *Report 3, Financial Statements*: The Ministry's financial statements, which include financial information that includes the Ministry's heritage buildings and its collections of heritage artwork within the asset totals in its statement of financial position. Restrictions on assets, including restrictions on the sale of heritage items, are disclosed in the notes to the financial statements.

Implications for Reporting on Heritage Items

- 16. Staff recommends that the IPSASB consider the implications of the different heritage items related activities that public sector entities undertake and the three different information sets identified above for the CP. These highlight that:
 - (a) There are heritage items that public sector entities do not own and, applying a financial reporting definition, clearly cannot possibly control, because ownership of those items belongs to other entities, and yet public sector entities do place restrictions on those items and may report information about them.
 - (b) The public may expect, and benefit from, receiving information on the whole set of heritage items, regardless of their ownership or control and without regard to their location in either the public or private sector.
 - (c) Public sector entities' reporting on heritage should take into account the types of powers, responsibilities and rights that an entity has and be aligned to those. Reporting on heritage items in a public sector entity's financial statements could be only part of the picture.

Type 1 Report, *Status of Heritage Items*, Is this a GPFR?

- 17. Is a report about the status of heritage items possibly a type of GPFR? A "heritage GPFR" would report on "the nation's" holdings of heritage. The heritage items included would not be restricted to those directly held by public sector entities. Are there users for this type of publicly available information? Would this type of information meet users' needs for information for accountability and decision-making? This issue could be discussed in the CP.
- 18. Staff view is that the Type 1 Report is not a GPFR, although some of its information could be service performance information. The status of heritage items could be outcome information for a particular reporting entity. However the status of all heritage items is not something for which a public sector entity can be held directly accountable, despite the ability to restrict their use.

Action Requested:

- (1) The IPSASB is asked to indicate whether it:
 - (a) Considers the descriptions for the following topics to be reasonably comprehensive:
 - (i) Public sector activities with respect to preservation of heritage items; and
 - (ii) The different types of information that could be reported about heritage; and
 - (b) Supports including these descriptions in the CP to frame subsequent discussions of reporting on heritage and heritage items in GPFRs.

Issue 2: Obligations to Preserve Heritage Items

19. As described under Issue 1 public sector entities engage in many different activities in order to preserve heritage items. Activities can relate to all heritage items, regardless of whether they are held by public sector entities. Therefore, when considering public sector obligations related to heritage items, staff proposes that two different types of “obligation” be considered, obligations arising from responsibilities with respect to:
- (a) Heritage items generally, without regard to their ownership (e.g. items held by both public sector entities and other entities); and
 - (b) Heritage items held by a public sector reporting entity.

General Preservation Activities—Obligation and Cash Flows to Preserve All Heritage Items

20. Activities such as the development of heritage preservation legislation and policies and activities to enforce legislation or report on the status of heritage are all activities related to a general obligation (or responsibility) to preserve heritage items. These preservation activities may be grouped into particular categories (similar to UNESCO categories or adapted to the exigencies of a particular country). Each category may have a particular public sector entity with primary responsibility for supporting preservation of that category of heritage item. Subcategories could, for example, divide as follows:
- (a) Nature reserves—marine, with primary responsibility being the Department for Fisheries;
 - (b) Nature reserves—national parks and tracks with public access (across privately owned land and related to bodies of water such as rivers, lakes and sea—coast) with primary responsibility being the Department for Conservation;
 - (c) Historic buildings and artwork, with primary responsibility for their preservation being the Historic Buildings Trust; and
 - (d) Historic documents and artwork, with primary responsibility being the Ministry for Culture and Heritage, supported by the National Library and National Archive.
21. Preservation activities are likely to apply to heritage items held by both the public sector and private sector. Cash flows to fulfil these responsibilities will depend on the whole group of heritage items.

General Preservation Activities—Social Benefits and Fiscal Sustainability

22. Services and cash flows related to a government’s (or other public sector entity’s) general obligation to preserve heritage items represents a type of “social benefit” obligation, applying the wider, IPSAS 19, description of a social benefit¹. The general heritage preservation obligation arises from a government’s commitment to achieve particular policy goals and extends far into the future. The cash flows could be addressed by RPG 1, *Reporting on the Long-Term Sustainability of*

¹ IPSAS 19, *Provisions, Contingent Liabilities and Contingent Assets*, describes social benefits as “goods, services, and other benefits provided in the pursuit of the social policy objectives of a government.” CP, *Recognition and Measurement of Social Benefits*, proposes that social benefits be defined to be “benefits payable to individuals and households, in cash or in kind, to mitigate the effect of social risks.”

an *Entity's Finances*, with heritage preservation falling within “current policy assumptions²” as defined in RPG 1. Applying this perspective, accounting for such obligations is partly addressed by RPG 1, but the recognition of such obligations could also depend on the outcome of the IPSASB’s Social Benefits Project.

23. Staff proposes that cash outflows arising from a general obligation (or responsibility or policy) to preserve heritage be discussed in this project’s CP. The discussion would note the relationship with the IPSASB’s work on fiscal sustainability and accounting for social benefits.

“Normal” Obligations to Preserve Heritage Items Held by Public Sector Entity

24. Where a public sector entity holds heritage items there could be both a general obligation to preserve heritage and specific “normal” obligations arising from the heritage items. Normal obligations are those that result, for example, in an accounts payable or salary payable.

Example 2: National Museum

25. A National Museum engages in heritage preservation activities that result in obligations to pay employees or to pay for purchased goods and services. Employees spend time cataloguing historic objects and, as a result, the entity incurs a salary payment obligation. In addition to these normal obligations, the National Museum has a general obligation to preserve heritage items. Its entire annual funding is dedicated to this aim. Reporting on the general obligation raises issues related to reporting on the sustainability of the museum’s finances.

Should Heritage Items Be Classified as Liabilities?

26. Separating out a general preservation obligation may help to explain some heritage related costs. Where heritage items have negative net cash flows, which suggests that they could be liabilities, that situation could be the result of a government choice to subsidize public access to heritage items. The non-exchange aspect is similar to governments’ decisions to make water supply or roads or education available for less than they cost.

Action Requested:

- (2) The IPSASB is asked to indicate whether it:
- (a) Agrees that public sector entities could have responsibilities to preserve heritage items that result in:
 - (i) Obligations similar to “obligations to provide social benefits”, and
 - (ii) Normal (exchange) obligations such as accounts or salary payables; and
 - (b) Agrees that the CP should discuss these two different types of obligations.

² RPG 1 defines current policy assumptions to be: “Current policy assumptions are those assumptions based on legislation or regulation in force at the reporting date with appropriate departures for defined circumstances.”

Issue 3: Heritage Items as Assets

27. This section discusses whether specific heritage items could be assets for financial reporting purposes. It applies the Conceptual Framework's definition of an asset established in paragraphs 5.6 to 5.13. To be an asset, a heritage item needs to be:
 - (a) A resource that is...
 - (b) Presently controlled by the entity....
 - (c) As a result of a past event.
28. The four heritage categories discussed below are aligned with definitions in UNESCO heritage conventions. Appendix A provides the UNESCO definitions, which were also provided to the IPSASB for its September meeting.
29. More information on the Conceptual Framework's discussion of "resource", "control" and "past event" is provided in Appendix B, which has an excerpt from the September Issues Paper. That excerpt also notes that:
 - (a) The Conceptual Framework's recognition criteria need to be met before an asset can be recognized; and
 - (b) If heritage items do not meet the asset definition they may still be recognized as "other resources" to better achieve the objectives of financial reporting.
30. Before considering the four categories of heritage items, there are brief discussions of two overarching issues:
 - (a) Meaning of "resource" when discussing heritage items; and
 - (b) Different factors that could identify subcategories of heritage assets that warrant either normal or special (heritage specific) accounting treatment.
31. Neither discussion involves an action point for the IPSASB. They are provided as context for the subsequent evaluations of heritage items.

Two Overarching Issues

Meaning of "Resource" for Heritage Items

32. The evaluation below of specific heritage items generally takes the view that, once capacity for control over a heritage item can be established, it will meet the definition of an asset. The underlying assumption is that heritage is valuable. A heritage item, due to its heritage character, is likely to either have service potential or generate future cash flows or both. But will a heritage item always be a resource? This subsection attempts to throw light onto that question by discussing two different views of value; heritage value and commercial or market value.
33. A heritage item is valuable from a heritage perspective because it is significant and (usually) either unique or rare. Experts (religious, scientific, archeologists, architects, etc.) or particular communities are able to explain the heritage item's significance. The heritage item provides service potential because it is appreciated either by a large group of people (for example, the nation, the city, all peoples of a particular faith) or a relatively small number of experts or enthusiasts.

34. The commercial value of an item is usually indicated by its market value. Heritage items are often valuable from a commercial perspective because they can be sold (purchased by investors or those who value them because they are heritage items). Heritage items can also be used to generate cash flows through charging the public to see them or renting them out to other entities.
35. These two values (heritage and commercial) will not necessarily be aligned. An item that is very important from a heritage perspective may have a low market value. Conversely, an item that is extremely valuable commercially, may have a low heritage value. This type of difference may be important when considering whether or not heritage items are “resources” for the purpose of financial reporting. Table 1 below provides examples that illustrate this type of value difference.

Table 1 Value of Heritage Items—Heritage and Market

Example	Heritage value	Market value	Comment
1. Historic document	very high	low	Foundation document for the nation, but not very old and many similar documents.
2. Rare animals	very high	illegal to trade	Although illegal to trade, the black market for rare animals may indicate that they have a high value.
3. Rare animals	very high	zero	A rare type of mud worm that is very significant to experts. No appeal to public or the market.
4. Marshlands	high	low	Significant ecological importance. Not useful for agriculture or building.
5. Ruin	high	zero	Ruins viewed by historians as very significant. No commercial value and no tourism appeal.
6. Historic building (country)	medium	low	Building viewed by historians as significant. Average value as residence.
7. Historic building (CBD)	low	very high	Historic, but many other buildings are similar. Location makes building valuable commercially.
8. Artwork (1)	very high	very high	Art by internationally recognized artist, whose paintings demand high prices. Locally viewed as national treasures.
9. Artwork (2)	high	low	Paintings of high significance locally, but not recognized as important internationally.
10. Artwork (3)	zero	low	Sculpture of a deposed ruler. Rescued from garbage dump by enthusiastic collector.

Factors that Indicate Heritage Assets Should Receive either Normal or Special Accounting Treating

36. The evaluation of items, which starts on the following page, focuses on whether or not heritage items could be assets. It has not attempted to consider whether particular subcategories of heritage assets would then warrant “normal” financial reporting or special heritage-specific financial reporting. When constituents consider whether heritage items are (or are not) assets it can be helpful to keep the accounting treatment issue separate from the asset issue. The two lists below identify factors that have been identified by different jurisdictions as important for deciding whether normal (or special) accounting treatment is appropriate for heritage assets.

Heritage Assets—Sub-Categories where normal accounting treatment appropriate

- (a) Heritage items that are used partly or primarily as operational assets (e.g. historic buildings that are also used as office buildings or heritage infrastructure that is a necessary and fully functional part of infrastructure to deliver normal services such as transportation (e.g. rail systems, railway stations, bridges, etc.) flood control or water supply.);
- (b) Heritage items that are used to generate positive cash flows (e.g. heritage artwork that is rented out or used to sell membership or tickets, etc.);
- (c) Heritage items that are held by an entity that does not have a primary aim of preserving heritage but instead holds heritage items for reasons peripheral to its primary aims (e.g. a ministry of finance that happens to hold heritage artwork);
- (d) Heritage items that will not exist indefinitely because their useful life:
 - (i) Has a predictable endpoint (e.g. biological assets such as animals or plants, intangible assets such as copyright which has a limited life); or
 - (ii) Would normally be viewed as limited for financial reporting purposes, due to either normal wear and tear or obsolescence (e.g. infrastructure, buildings, sculptures, artwork, etc.).

Heritage Assets—Sub-Categories where special accounting treatment appropriate

Heritage assets that:

- (a) Cannot (or should not) be valued in financial terms either because there are no equivalents, values are unknown and difficult to determine, their sacred nature makes a financial valuation offensive or the extent of the heritage asset is unknown so that its total value cannot be estimated.
 - (b) Do not depreciate, because their nature (physical or otherwise) is such that normal depreciation and obsolescence does not apply to them.
 - (c) Are expected to have an ever-increasing financial value, due to their increasing significance and/or rarity.
37. These factors have been important for accounting standard setters when considering appropriate accounting treatment for different types of heritage assets. They have not generally been applied to questions of whether or not a heritage item is an asset, because the focus below has been to apply the Conceptual Framework’s definition of an asset.

Group 1—Cultural Property

Cultural Property or Cultural Heritage—UNESCO

38. There are two UNESCO conventions that address the protection of “cultural property”, also called “cultural heritage”. Cultural property covers tangible, man-made non-living heritage items such as heritage buildings, archeological sites, monuments, works of art, manuscripts and collections. The UNESCO conventions allow that surrounding areas and buildings could also be heritage, because their protection may be necessary to protect heritage items contained within.
39. The 1972 UNESCO convention on “protecting the World Cultural and Natural Heritage” also describes “sites”. These primarily deal with “works of man” including archeological sites, but they also include the “combined works of nature and of man”. Examples of such “combined works of nature and man” could include:
 - (a) A palace and its surrounding parklands;
 - (b) An artist’s house and its surrounding gardens (e.g. Monet’s house and garden); and
 - (c) A rock face (cliff) that has been carved into a sculpture (or carved into a temple or burial places or ancient cave village).
40. Control over items such as buildings, artwork or collections can usually be established and will be indicated either through legal ownership or the laws applicable to discovery (applied, for example, when an archeological dig uncovers heritage items). The public may have general access to a particular cultural property item, for example sculptures in a public square. However rights to restrict access and responsibilities to preserve and protect items can usually be attributed to, for example, the relevant city, provincial or national government. The applicable public sector entity is usually able to remove or otherwise restrict access to an item if necessary to repair it or protect it.
41. The resource aspect of cultural property will generally be indicated by both service potential and potential future cash flows. However, this category includes archeological sites which, as discussed in more depth below under Group 2, *Underwater Cultural Heritage*, raise issues with respect to existence of a resource, which may be unknown until excavations have been carried out or further information collected.
42. Table 2 on the following page provides examples of cultural property and staff proposals on existence of “control” and “resource”. IPSASB members are asked to consider these examples and provide their views on classification in terms of “asset” or “not an asset”.

Table 2 Cultural Property—Asset Definition

Example	Asset?	
	Control (Legal Right) &....	...Resource
1) Land beneath an historic building (e.g. under a palace)	Yes. Owned by relevant entity	Yes, service potential
2) Land under gardens that are integral to an historic building (e.g. Monet's garden at Giverny)	Yes. Owned by relevant entity	Yes, service potential
3) Land that forms an historic open space (e.g. Times Square, New York)	Yes. Owned by relevant city council	Yes, service potential
4) Land—Sacred grounds; several international religions involved	Yes. National government responsible for preservation. No, not owned by any individual.	Yes—service potential (unique heritage and culture, tourism) No—offensive to treat as “asset”
5) Cemeteries or gravestones with specific significance	Ownership unclear or belongs to private entity	Yes, service potential No, offensive to treat as “asset”
6) Historic manuscripts such as constitutions, declarations, treaties, religious books or scripts.	Held by national government or other public entity on behalf of the Nation/State	Yes, service potential (and cash flows)
7) (a) Statue of respected ruler (b) Statue of deposed ruler	Yes, owned by relevant entity e.g. city, state or federal government	(a) Service potential (b) Service potential zero. Cash flow may still be positive
(8) Structure beneath buildings Ancient buildings e.g. Rome	Yes. Owner of building controls.	No. (No additional resource until excavated.)
(9) Structure beneath buildings (3) Ancient sewer system e.g. Paris	Yes. Owner of system (e.g. city council) controls.	Yes. (Not heritage item under UNESCO definition)
(10) Graffiti artwork by famous artist (e.g. Banksy) on bridge	Yes, owned by bridge owner (e.g. city council)	Resource unclear (Owner may propose to paint over.)

Group 2—Underwater Cultural Heritage

Underwater Cultural Heritage—UNESCO

43. According to the UNESCO convention on “underwater cultural heritage” this means all traces of human existence having a cultural, historical or archaeological character which have been partially or totally under water, periodically or continuously, for at least 100 years. The following examples are given:
- (a) Sites, structures, buildings, artefacts and human remains, together with their archaeological and natural context;
 - (b) Vessels, aircraft, other vehicles or any part thereof, their cargo or other contents, together with their archaeological and natural context; and
 - (c) Objects of prehistoric character.
44. The following types of underwater structures are not part of underwater cultural heritage, according to the UNESCO definition:
- (a) Pipelines and cables placed on the seabed shall not be considered as underwater cultural heritage.
 - (b) Installations other than pipelines and cables, placed on the seabed and still in use, shall not be considered as underwater cultural heritage.
45. Table 3 on the following page provides examples of underwater cultural heritage with staff proposals on existence of “control” and “resource”. IPSASB members are asked to consider these examples and provide their views on their classification in terms of “asset” or “not an asset”.

Resource and Measurement Uncertainty

46. This category raises questions with respect to existence of a resource. The value of underwater cultural heritage and even whether it is a resource may be unknown until excavations have been carried out. For example, a discovered ship may or may *not* be worth salvaging, due to its significance. Similarly, underwater structures may be archeologically significant but located such that the best course is to leave them in-situ, without public or expert access, with the result that they do not have service potential nor do they generate cash flows. The high costs and amount of effort needed to make underwater heritage available to the public, so that it can provide a heritage service (e.g. support understanding of a nation’s history) may mean that it is not worth doing so.
47. The discovery aspect of underwater cultural heritage also raises recognition issues related to measurement uncertainty. For example, the legislation of a particular jurisdiction may provide the national government with legal ownership over all “discovered” heritage items. But the extent of discovered items and their actual value in terms of service potential or cash flows (if cash flows are relevant) may be impossible to estimate. Difficulty with respect to estimating the value of general rights over archeological sites exists for both underwater and on-land cultural heritage, as on-going discoveries with respect to both illustrate. For example, recent discoveries with respect to the Pylos archeological site³ have uncovered very valuable and unexpected treasures, previously

³ See, for example, the New York Times article at: http://www.nytimes.com/2015/10/27/science/a-warriors-grave-at-pylos-greece-could-be-a-gateway-to-civilizations.html?_r=0

unknown even though excavations in that area have continued since at least the 1930s. During excavations for a new tunnel system beneath Istanbul's harbor ships dating back to Byzantium times were discovered, with the extent and significance of these initially unclear⁴.

Table 3: Underwater Cultural Heritage—Asset Definition

Example	Asset?	
	Control (Legal Right) &....Resource
(1) Shipwreck HMS Erebus ⁵	Yes. MoU allocates control ⁶	Yes
(2) Shipwreck Titanic	Yes. Salvage rights belong to discoverer	Yes. (Not heritage item—UNESCO definition)
(3) Shipwreck Unknown	Yes. Salvage rights belong to discoverer	No. Not yet established, therefore no asset
(4) Submerged building (a) Building—buried under new construction; (b) Contents—saved	Yes. Rights belong to relevant public sector entity	(a) No, unable to save (b) Yes, items discovered will be extracted, studied and displayed
(5) Submerged building: Raised from seabed	Yes. Rights belong to relevant public sector entity	Yes
(6) Submerged building: Diving site	Yes. Rights belong to relevant public sector entity	Possibly yes. (Access means scope to generate service potential and/or cash flows)
(7) Building foundation e.g. Venice	Yes. Owner of building controls.	No. (No additional resource until excavated.)

Relevant Financial Reporting Standards—Exploration or Mining?

48. Underwater cultural heritage raises issues similar to those raised by oil and gas exploration or by mining for minerals. There is a discovery aspect, where the value of what is discovered is initially unknown. There is also a project aspect, where the project of exploration or excavation may involve significant costs over a long period of time. There is hope that the project will find important heritage items, but no certainty that this will happen. There also may be generally accepted accounting practice (GAAP) applicable to salvage operations, which could be considered for application to this group of heritage items.

⁴ An article describing this discovery is available at <http://discovermagazine.com/2015/sept/13-city-layers>. See also: <https://rcac.ku.edu.tr/en/stories-hidden-harbor-shipwrecks-yenikapi-0>

⁵ Historically important shipwreck discovered in Canadian waters: See, for example, articles here: <http://www.pc.gc.ca/eng/culture/franklin/index.aspx>, and here <http://www.canadiangeographic.ca/franklin-expedition/franklin-wreck-discovered-article.asp>

⁶ A Memorandum of Understanding (MOU) was signed in August 1997 between Great Britain, as owner of the vessels, and Canada, as the nation in whose water they were lost. If found, the MOU assigns control over site investigation, excavation or recovery of either wrecks or their contents to Canada. Mandated to protect and present subjects of national significance, Parks Canada is the responsible federal agency for the search and subsequent preservation of the vessels.

Group 3—Intangible Heritage Items

UNESCO Intangible Cultural Heritage

49. “Intangible cultural heritage” captures “practices, representations, expressions, knowledge, and skills”. Examples include:
- (a) Oral traditions and expressions, including language as a vehicle of the intangible cultural heritage;
 - (b) Performing arts;
 - (c) Social practices, rituals and festive events; and
 - (d) Traditional craftsmanship⁷.
50. Intangible heritage appears to be “owned” by a whole community. Its existence depends on continued use and appreciation by the community. Arguably, unless the general good is transformed into a specific right that can be controlled by one entity, these heritage items will not be assets for an entity. Rights are indicated by a trade mark, license, copyright or a more general legal ability to exclude others from using the heritage item.
51. One question raised by the identification of such specific rights (e.g. an audio recording of the national anthem) is whether they will necessarily be heritage items. Some of the examples below, e.g. mass-produced national flags are not heritage items (and nor are they intangible). A second question raised is whether all rights over intangible resources necessarily have a finite life, or whether they can have an indefinite life. Staff is not aware of any cases where a national government has established open-ended rights for itself over a heritage intangible item.
52. Table 4 on the following page provides examples to illustrate this distinction between the general good, which is not able to be controlled, and a legal right where control and resource are likely to exist. The table includes staff proposals on existence of “control” and “resource” over the specific rights, for the IPSASB’s consideration.

Application of Criteria from IPSAS 31, Intangible Assets

53. IPSAS 31, *Intangible Assets*, discusses identification of an asset, when dealing with a selection of common intangible items. (Relevant extracts from IPSAS 31 are provided in Appendix C.) IPSAS 31 identifies the following criteria if an intangible item is to be an “asset”:
- (a) Identifiability:
 - (i) Is separable, i.e., is capable of being separated or divided from the entity and sold, transferred, licensed, rented, or exchanged, either individually or together with a related contract, identifiable asset or liability, regardless of whether the entity intends to do so; or
 - (ii) Arises from binding arrangements (including rights from contracts or other legal rights), regardless of whether those rights are transferable or separable from the entity or from other rights and obligations.

⁷ The convention also identifies “instruments, objects, artefacts and cultural spaces” as part of “intangible cultural heritage”. From an accounting perspective these would not be classified as tangible items.

- (b) Control over a resource.
- (c) Existence of future economic benefits or service potential.

Table 4: Intangible Cultural Heritage—Asset Definition

General (Not Asset)	Specific—Asset?	
	Control (Legal Right) and....Resource
1) Knowledge (e.g. traditional craftwork)	Specific expression (e.g. book or licensed trade practice) with copyright or license: Yes	Generate cash flows or has service potential: Yes
2) Performing arts (e.g. dances)	Specific song, dance, film or routine that is owned by an artist or entity (e.g. ballet company, theatre, music company, etc.) Yes.	As above: Yes
3) National flag	Company can own the machinery to create flags of a particular size and quality and the resulting inventory. Yes.	As above: Yes
4) National anthem	Audio or video recording of particular group or singer owned by music company: Yes	As above: Yes
5) Symbol—Louvre museum	Right to use the “Louvre” name, which can be sold to others, e.g. museum in Abu Dhabi called “Louvre”: Yes.	As above: Yes
6) Symbol—Champagne	Use of symbol legally restricted to wines produced in one region. (Whose control?)	Service potential or cash flow, for whom?
7) Dance—Waltz, haka, disco	Particular haka (dance) that has been licensed to one group: Yes.	Cash flow or service potential: Yes.
8) Social—Baseball	Particular baseball field, merchandize, copyrights or licensing over uniform, etc. Yes.	Cash flow: Yes.

54. IPSAS 31’s discussion of “control over a resource” focuses on legal rights, but notes that control could arise through other means. Generally control does not exist over items such as
- (a) Skilled staff and the knowledge that they have;
 - (b) Training of staff; or
 - (c) Relationships between an entity and others.
55. Applying IPSAS 31 control would not exist over the knowledge in people’s heads. That consideration is relevant to intangible heritage items such as traditional craftsmanship. IPSAS 31’s view that control does not exist over “skilled staff” is relevant to considering whether an individual person identified as a heritage item could also be treated as an asset by a public sector entity.

Group 4—Natural Heritage

56. According to the applicable UNESCO convention “natural heritage” consists of
- (a) Natural features consisting of physical and biological formations or groups of such formations, which are of outstanding universal value from the aesthetic or scientific point of view;
 - (b) Geological and physiographical formations and precisely delineated areas which constitute the habitat of threatened species of animals and plants of outstanding universal value from the point of view of science or conservation; and
 - (c) Natural sites or precisely delineated natural areas of outstanding universal value from the point of view of science, conservation or natural beauty.
57. For this discussion the concept of natural heritage has been widened to include items that might, based on common understanding, be viewed as natural heritage items. Therefore the following list extends that taken from the UNESCO convention:
- (a) Physical things such as areas of land, mountains, geological formations, bodies of water (rivers, lakes, waterfalls, reefs);
 - (b) Plants, animals and all naturally-occurring or non-domestic living things (trees, grasses, birds, fishes, mammals, reptiles, insects, marine life, etc.);
 - (c) Ecological systems, which combine both physical things (e.g. a jungle or marshland) with its naturally-occurring inhabitants (e.g. in the case of a jungle this would include trees, insects, birds, etc.);
 - (d) Zoos: Holdings of endangered species; and
 - (e) Parks: Combinations of man-made and natural areas, for example national parks that include education centers, trails and viewing platforms.
58. Fossils and fossil collections, along with mineral collections, could be viewed as natural heritage. However the UNESCO descriptions of “cultural property” cover “scientific collections” and “rare collection and specimens of fauna, flora, minerals and anatomy, and objects of paleontological interest” as types of cultural property.

Issues Raised by Natural Heritage—Preservation for Future Generations

59. Living heritage items such as plants and animals have finite life expectancies. Arguably, this means that they should not be classified as heritage items, because they cannot be preserved for future generations. Two issues raised by this view are whether each type of natural item below could be viewed as heritage items:
- (a) Collections of living things that are expected to be preserved indefinitely, for example historic gardens that include specific plant collections; zoological collections; a reef or marshland with its collection of living animals; defined groups of wild animals such as herds of elephants or gorilla colonies; and, intact habitats protecting an ecological system that consists of both plants and animals (e.g. island reserves for rare birds, insects, reptiles).

- (b) Heritage items that can live for hundreds of years, for example long-lived trees such as the New Zealand kauri (over a thousand years old) or North American redwoods (500–700 years) or Japanese bonsai trees (over 800 years).
60. Table 5 below provides examples of natural heritage with staff proposals on existence of “control” and “resource”. IPSASB members are asked to consider these examples and provide their views on their classification in terms of “asset” or “not an asset”.

Table 5 Natural Heritage—Asset Definition

Example	Asset?	
	Control (Legal Right) &....	...Resource
(1) National parks restricted use (conservation and tourism)	Yes. Owned by national government	Yes
(2) Donated land with restriction to use as park	Yes. Owned by city council	Yes
(3) Historic hunting grounds; several tribes have rights and access restricted to them	Yes. National government responsible for preservation. Not owned by any individual.	Yes—service potential (unique national culture) No—Benefits others
(4) Sacred grounds; several international religions involved	Yes. National government responsible for preservation. Not owned by any individual.	Yes—service potential (unique heritage and culture, tourism) No—Benefits others
(5) Island reserve for rare animals with no access for tourism	Yes, public sector entity owns and controls access	Yes—service potential (protects natural heritage)
(6) Endangered snails living in the wild, only valued by scientists	No, not controlled by an entity	Yes—service potential (part of natural heritage)
(7) Rare lizards living in the wild	No, not controlled by an entity	Yes—service potential (part of natural heritage); and Yes—can generate cash flows through illegal trading
(8) Rare birds held in national zoo	Yes, public sector entity owns and controls access	Yes—service potential
(9) Bonsai trees (200+ years old)	Yes, an entity can control	Yes—service potential
(10) “Tane Mahuta”, Waipoua forest (1000+ years old)	Yes, an entity can control	Yes—service potential

Action Requested:

- (3) The IPSASB is asked to discuss and indicate whether it agrees with staff proposals on existence of control and a resource for the heritage item examples for each category below:
- (a) Cultural property;
 - (b) Underwater cultural heritage;
 - (c) Intangible cultural heritage; and
 - (d) Natural or biological.

Next steps:

61. Staff will develop a further issues paper for the IPSASB's March 2016 meeting.

APPENDIX A: CULTURAL HERITAGE—DEFINITIONS FROM UNESCO CONVENTIONS

Cultural Property

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

Article 1. Definition of cultural property

For the purposes of the present Convention, the term 'cultural property' shall cover, irrespective of origin or ownership:

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

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

Article 1

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

- (a) Rare collections and specimens of fauna, flora, minerals and anatomy, and objects of palaeontological interest;
- (b) property relating to history, including the history of science and technology and military and social history, to the life of national leaders, thinkers, scientists and artist and to events of national importance;
- (c) products of archaeological excavations (including regular and clandestine) or of archaeological discoveries ;
- (d) elements of artistic or historical monuments or archaeological sites which have been dismembered;
- (e) antiquities more than one hundred years old, such as inscriptions, coins and engraved seals;
- (f) objects of ethnological interest;
- (g) property of artistic interest, such as:
 - (i) pictures, paintings and drawings produced entirely by hand on any support and in any material (excluding industrial designs and manu-factured articles decorated by hand);

- (ii) original works of statuary art and sculpture in any material;
- (iii) original engravings, prints and lithographs ;
- (iv) original artistic assemblages and montages in any material;
- (h) rare manuscripts and incunabula, old books, documents and publications of special interest (historical, artistic, scientific, literary, etc.) singly or in collections ;
- (i) postage, revenue and similar stamps, singly or in collections;
- (j) archives, including sound, photographic and cinematographic archives;
- (k) articles of furniture more than one hundred years old and old musical instruments.

(See also the definition for “cultural and natural heritage”, which is further below.)

Underwater Cultural Heritage

(Excerpt from the 2001 Convention on “Safeguarding the Underwater Cultural Heritage”)

Article 1 – Definitions: For the purposes of this Convention:

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

Intangible Cultural Heritage

(Excerpt from 2003 Convention, “Safeguarding the Intangible Cultural Heritage”)

Article 2 – Definitions: For the purposes of this Convention:

1. The “intangible cultural heritage” means the practices, representations, expressions, knowledge, skills – as well as the instruments, objects, artefacts and cultural spaces associated therewith – that communities, groups and, in some cases, individuals recognize as part of their cultural heritage. This intangible cultural heritage, transmitted from generation to generation, is constantly recreated by communities and groups in response to their environment, their interaction with nature and their history, and provides them with a sense of identity and continuity, thus promoting respect for cultural diversity and human creativity. For the purposes of this Convention, consideration will be given solely to such intangible cultural heritage as is compatible with existing international human rights instruments, as well as with the requirements of mutual respect among communities, groups and individuals, and of sustainable development.

2. The “intangible cultural heritage”, as defined in paragraph 1 above, is manifested inter alia in the following domains:
 - (a) oral traditions and expressions, including language as a vehicle of the intangible cultural heritage;
 - (b) performing arts;
 - (c) social practices, rituals and festive events;
 - (d) knowledge and practices concerning nature and the universe;
 - (e) traditional craftsmanship.

Cultural and Natural Heritage—1972 Convention “Protecting the World Cultural and Natural Heritage”

I. Definitions of the cultural and the natural heritage,

Article 1

For the purposes of this Convention, the following shall be considered as ‘cultural heritage’:

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

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

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

Article 2

For the purposes of this Convention, the following shall be considered as ‘natural heritage’:

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

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

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

APPENDIX B: EXCERPT FROM IPSASB SEPTEMBER 2015 AGENDA ITEM 13.1

Issue 3: Can Heritage Items be “Assets”?

- B30. This section aims to support IPSASB members’ discussion of whether heritage items could be considered “assets” for financial reporting purposes⁸. Depending on the results of this discussion the IPSASB may form a preliminary view on this question, which could be included in the CP.
- B31. Staff recommendation is that the CP should:
- (a) Discuss the issue of whether heritage items can be considered assets; and
 - (b) Include the IPSASB’s preliminary view on this issue.
- B32. The IPSASB may also consider that the CP should include a Specific Matter for Comment (SMC) on this issue.

Issue—Does the fundamental nature of all heritage items prevent them being “assets”

- B33. Some heritage items will not be assets for financial reporting purposes. For example, a language can be a heritage item, but its existence depends on wide usage and, by its very nature, the language as a “resource” cannot be “controlled” by a single entity. The issue is whether that type of argument (or others) leads to a conclusion that all heritage assets cannot, by their very nature, be assets for financial reporting purposes.
- B34. Staff notes that many of the arguments previously used to argue that heritage items should not be treated as assets have effectively been addressed in the definition of an asset in the Conceptual Framework, where heritage assets are mentioned. Given different constituent views on this question, staff recommends that it be discussed in the CP. However, the Conceptual Framework coverage could be viewed as indicating that an SMC is not appropriate, because the IPSASB has already reached a view on this issue.

Asset Classification, Recognition Criteria and “Other Resources”

- B35. A view that heritage items can meet the definition of an asset does not automatically result in either recognition or non-recognition. The Conceptual Framework’s recognition criteria may also need to be met before an asset can be recognized. Conversely, if heritage items are not capable of meeting the asset definition, there may still be scope for their recognition as “other resources” that do not meet the definition of an asset. Paragraph 5.4 explains that this could be the case when “...necessary to better achieve the objectives of financial reporting”.

Objectives of GPFs, Information Needs of GPF Users (Accountability and Decision-Making)

- B36. Arguments about whether heritage items are assets take place in the over-arching context of the objectives of GPFs, which are to provide useful information to users of GPFs. Information is used for the purpose of holding a reporting entity accountability and making decisions, including decisions on resource usage and service performance.

⁸ This discussion does not attempt to carry out a detailed application of the asset definition to a particular category of assets and a particular series of events that, given those category-specific circumstances, establish that a resource for the entity exists and the past event has occurred that gives the entity control over that resource.

- B37. There is general agreement that public sector entities holding heritage items should be held accountable for those items. Members of the public need to know whether heritage items are being cared for and whether resources applied are adequate to ensure heritage items' security, protection and preservation. Management of heritage items should allow for an appropriate amount of public access, so that a community gains the many educational, inspirational and other benefits of holding such items.
- B38. There is disagreement on whether reporting financial information on the value of heritage items should be provided in a GPF. There are different views on whether that would support the appropriate type of accountability and decision-making needed for heritage items. One view is that recognition of heritage assets is a necessary starting point for good management, and generates significant benefits in terms of information for users of GPFs. An alternative view is that representing heritage items as assets in the financial statements directs attention away from what should be the primary concern, which is to preserve and maintain these items for present and future generations. Furthermore publishing information on the financial value of heritage items conveys the misleading impression that they are "up for sale".

Conceptual Framework—Definition of an Asset

- B39. Chapter 5 of the Conceptual Framework, and specifically paragraphs 5.6 to 5.13, address the definition of an asset. To be an asset, a heritage item needs to meet the three aspects of an asset, which are set out in the Conceptual Framework definition of an asset. The heritage items should:
- (c) Be a resource that is...
 - (d) Presently controlled by the entity....
 - (e) As a result of a past event.

Resource and Present Control

- B40. Chapter 5 of the Conceptual Framework describes a resource as an item with service potential or the ability to generate economic benefits. Benefits include the ability to use a resource to provide services. Service potential is the capacity to provide services that contribute to achieving the entity's objectives. Service potential enables an entity to achieve its objectives without necessarily generating net cash inflows. Paragraph 5.9 includes "heritage" as one type of asset when it states that:

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

- B41. Control of a resource means that the entity is able to use the resource so as to derive the benefit of the service potential or economic benefits embodied in the resource in the achievement of its service delivery or other objectives. All four indicators of control appear relevant to heritage items:
- (f) Legal ownership;

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

B42. Paragraph BC5.12 notes an issue related to heritage assets when it states that:

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

Support for View that Heritage Items are “Assets”

Heritage Items are Resources

B43. The primary value of a heritage item is usually considered to be its service potential. Given the nature of heritage items their presence in a community seems, unquestionably, to provide services. The public sector entity holding the heritage item is responsible for an item with significant service potential. The service potential either directly contributes to the entity’s own primary service performance objectives as a service provider or provides indirect support for the entity’s service performance objectives. For example, heritage artworks directly contribute to the entity’s service performance objectives where they are held by an art museum that has the service objective of allowing members of the public to enjoy, appreciate and gain access to significant artworks. By contrast, heritage artworks indirectly support the service performance objectives of a government ministry where they decorate the ministry’s head office, providing a sense of history and purpose related to the function of that part of government, while also impressing visitors.

B44. Heritage items can also be viewed as valuable items because they could potentially generate economic benefits in the form of inwards cash flows for the entity holding the items. Such economic benefits could arise through one or more of the following:

- (j) Sale of tickets to view the items;
- (k) Sale of related merchandising;
- (l) Loan or rent of the item to other entities; and
- (m) Sale of the item itself.

B45. With respect to point (d), despite restrictions that prevent the sale of many heritage items, there are also many heritage items that are able to be sold so long as they remain inside the national jurisdiction. There are also heritage items that can be sold to entities outside of the national jurisdiction. History shows that, in times of significant economic distress, a government may also decide to sell (or rent out) heritage items that ordinarily would be expected to remain fully under the control of the national, state or local government.

Heritage Items are Controlled as a Result of a Past Event

B46. Given the importance and value of heritage items it is usually possible to establish which entity presently has control over the item. That entity is able to control and restrict access to the heritage item, and is responsible for protection and preservation of the heritage item. The past event may

arise through purchase, transfers involving non-exchange or other types of transactions, or discovery.

Support for View that Heritage Items are not “Assets”

Heritage Items are not Resources

B47. Arguments against heritage items being resources focus on the entity's very limited (or non-existent) ability to use a heritage item to generate cash flows. Many heritage items cannot be sold, they are not inalienable, and access to them by members of the public is free or, if there is a charge, the cost of access is still far below the entity's cost to preserve the heritage item. Some have argued that heritage items are liabilities, because they involve cash outflows rather than cash inflows.

Heritage Items are not Controlled by the Entity

B48. The main arguments against control over heritage assets are:

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

B49. In brief, a holding entity can only decide on the management and (within limits) use of heritage items. The holder does not have other economic rights such as usufruct, alienation and destruction, which are associated with control over non-heritage assets.

APPENDIX C: IPSAS 31, *INTANGIBLE ASSETS*—EXCERPTS

IPSAS 31, *Intangible Assets*

Definitions

An **intangible asset** is an identifiable non-monetary asset without physical substance.

Research is original and planned investigation undertaken with the prospect of gaining new scientific or technical knowledge and understanding.

Development is the application of research findings or other knowledge to a plan or design for the production of new or substantially improved materials, devices, products, processes, systems or services before the start of commercial production or use.

IPSAS 31 Grey letter on Intangible Assets

Intangible Assets

17. Entities frequently expend resources, or incur liabilities, on the acquisition, development, maintenance, or enhancement of intangible resources such as scientific or technical knowledge, design and implementation of new processes, or systems, licenses, intellectual property, and trademarks (including brand names and publishing titles). Common examples of items encompassed by these broad headings are computer software, patents, copyrights, motion picture films, lists of users of a service, acquired fishing licenses, acquired import quotas, and relationships with users of a service.

18. Not all the items described in paragraph 17 meet the definition of an intangible asset, i.e., identifiability, control over a resource, and existence of future economic benefits or service potential. If an item within the scope of this Standard does not meet the definition of an intangible asset, expenditure to acquire it or generate it internally is recognized as an expense when it is incurred.

19. An asset is identifiable if it either:

(a) Is separable, i.e., is capable of being separated or divided from the entity and sold, transferred, licensed, rented, or exchanged, either individually or together with a related contract, identifiable asset or liability, regardless of whether the entity intends to do so; or

(b) Arises from binding arrangements (including rights from contracts or other legal rights), regardless of whether those rights are transferable or separable from the entity or from other rights and obligations.

20. For the purposes of this Standard, a binding arrangement describes an arrangement that confers similar rights and obligations on the parties to it as if it were in the form of a contract.

Control of an Asset

21. An entity controls an asset if the entity has the power to obtain the future economic benefits or service potential flowing from the underlying resource and to restrict the access of others to those benefits or that service potential. The capacity of an entity to control the future economic benefits or service potential from an intangible asset would normally stem from legal rights that are enforceable in a court of law. In the absence of legal rights, it is more difficult to demonstrate control. However, legal enforceability of a right is not a necessary condition for control because an entity may be able to control the future economic benefits or service potential in some other way.

22. Scientific or technical knowledge may give rise to future economic benefits or service potential. An entity controls those benefits or that service potential if, for example, the knowledge is protected by legal rights such as copyrights, a restraint of trade agreement (where permitted), or by a legal duty on employees to maintain confidentiality.

23. An entity may have a team of skilled staff and may be able to identify incremental staff skills leading to future economic benefits or service potential from training. The entity may also expect that the staff will continue to make their skills available to the entity. However, an entity usually has insufficient control over the expected future economic benefits or service potential arising from a team of skilled staff and from training for these items to meet the definition of an intangible asset. For a similar reason, specific management or technical talent is unlikely to meet the definition of an intangible asset, unless it is protected by legal rights to use it and to obtain the future economic benefits or service potential expected from it, and it also meets the other parts of the definition.

24. An entity may have a portfolio of users of its services or its success rate in reaching intended users of its services and expect that, because of its efforts in building relationships with users of its services, those users will continue to use its services. However, in the absence of legal rights to protect, or other ways to control the relationships with users of a service or the loyalty of those users, the entity usually has insufficient control over the expected economic benefits or service potential from relationships with users of a service and loyalty for such items (e.g., portfolio of users of a service, market shares or success rates of a service, relationships with, and loyalty of, users of a service) to meet the definition of intangible assets. In the absence of legal rights to protect such relationships, exchange transactions for the same or similar noncontractual customer relationships provide evidence that the entity is nonetheless able to control the expected future economic benefits or service potential flowing from the relationships with the users of a service. Because such exchange transactions also provide evidence that the relationships with users of a service are separable, those relationships meet the definition of an intangible asset.

Future Economic Benefits or Service Potential

25. The future economic benefits or service potential flowing from an intangible asset may include revenue from the sale of products or services, cost savings, or other benefits resulting from the use of the asset by the entity. For example, the use of intellectual property in a production or service process may reduce future production or service costs or improve service delivery rather than increase future revenues (e.g., an on-line system that allows citizens to renew driving licences more quickly on-line, resulting in a reduction in office staff required to perform this function while increasing the speed of processing).

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