

Meeting: International Public Sector Accounting
Standards Board

Meeting Location: Toronto, Canada

Meeting Date: June 21–24, 2016

Agenda Item 9

For:
 Approval
 Discussion
 Information

Heritage

Project summary	Development of a Consultation Paper on accounting for heritage.	
Meeting objectives	Topic	Agenda Item
Decisions required at this meeting	1. Name and Structure of Consultation Paper (CP)	9.1.1
	2. Chapter 1—Approve	9.1.2
	3. Chapter 2—Identify revisions	9.1.3
	4. Chapter 3—Identify revisions	9.1.4
	5. Chapter 4—Identify revisions	9.1.5
	6. Directions from March 2016 meeting actioned	9.1.6
Other supporting items	Directions up to March 2016 meeting	9.2
	Decisions up to March 2016 meeting	9.3
	CP, Chapter 1, <i>Introduction</i>	9.4
	CP, Chapter 2, <i>Descriptions, Definitions and Categories of Heritage Items</i>	9.5
	CP, Chapter 3, <i>Heritage Items as Assets</i>	9.6
	CP, Chapter 4, <i>Recognition and Measurement of Heritage Assets</i>	9.7
	National Public Sector Standards Setters' Forum	9.8

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Consultation Paper's Name and Revised Structure**Question**

Does the IPSASB agree:

- (a) That the consultation paper (CP) should be named CP, *Accounting for Heritage*.
- (b) With the revised structure for the CP.

Detail—Name of Consultation Paper

1. In March 2016 the IPSASB directed that a recommendation on the CP's name be provided to its June meeting. Staff recommends that the CP be named CP, *Accounting for Heritage*. That name would be consistent with the CP's expected coverage, which is wider than heritage items, because it will also discuss heritage-related responsibilities and liability recognition issues raised by such responsibilities.
2. Other possible names for the CP include "CP, *Accounting for Heritage Items*", "CP, *Heritage*" or "CP, *Reporting Heritage-Related Information*". The IPSASB indicated in March that the "CP, *Heritage Assets*" would not be an appropriate name for the CP.
3. The Task Force on Accounting for Heritage (the Task Force) has indicated support for the name "CP, *Accounting for Heritage*".

Detail—Structure of Consultation Paper

4. The CP's draft structure, on the following page, reflects:
 - (a) IPSASB directions from its March 2016 meeting;
 - (b) Comments from the IPSASB Chair and Technical Director; and
 - (c) Comments received from the Task Force.
5. Note that this structure has coverage of heritage responsibilities and information needs (previously Section 5 of Chapter 1) towards the end of the CP. This location reflects discussions with the IPSASB Chair and the Technical Director.
6. Task Force members recommended that two further chapters be proposed for the CP:
 - (a) Chapter 8, *Accounting for Heritage and First-Time Adoption of Accruals IPSAS*; and
 - (b) Chapter 9, *Options for IPSASB Pronouncements on Accounting for Heritage*.
7. After further consideration, staff decided against revising the structure to include these two additional chapters. Instead, the coverage proposed for Chapter 8 has been included in Chapter 4. Staff notes that the coverage proposed for Chapter 9 would break with the IPSASB's established practice, where decisions on pronouncements are matters for the IPSASB to discuss and decide, rather than something for consultation with stakeholders.

Decisions required

The IPSASB is asked to confirm that it agrees:

- (a) That the CP should be named "Consultation Paper, *Accounting for Heritage*"; and
- (b) With the CP's structure on the following page.

DRAFT STRUCTURE—ACCOUNTING FOR HERITAGE CONSULTATION PAPER**1 Introduction to accounting for heritage**

- 1.1 Heritage items and financial reporting
- 1.2 IPSASB project
- 1.3 Previous IPSASB work on accounting for heritage
- 1.4 Approach in this Consultation Paper
- 1.5 CP's financial statements focus

2 Descriptions and definitions of “heritage”

- 2.1 Conceptual framework, heritage items and CP's inclusive approach to heritage identification
- 2.2 Proposed description of heritage items
 - 2.2.1 Definitions in financial reporting literature and government finance statistics
 - 2.2.2 Proposed description and its basis
 - 2.2.3 UNESCO categories and IPSAS asset categories
- 2.3 Subcategory issues
 - 2.3.1 Arising from particular categories of heritage
 - 2.3.2 Arising from financial reporting characteristics
- 2.4 Issues raised by the heritage/non-heritage boundary (use of a general description or objective criteria or legislation, etc.)

3 Heritage items as assets

- 3.1 Conceptual Framework and assets
- 3.2 Arguments for and against heritage items as assets
- 3.3 Heritage items as resources, their control and past event; different categories
- 3.4 Preliminary view on whether heritage items can be assets for financial reporting purposes

4 Measurement and recognition of heritage assets

- 4.1 Conceptual Framework and recognition of assets
- 4.2 Measurement of heritage assets, including measurement bases
- 4.3 Issues raised by measurement of heritage assets, including for particular categories
- 4.4 Different approaches to recognition of heritage assets

5 Heritage items and their Obligations

- 5.1 Conceptual Framework and obligations
- 5.2 Activities and resource outflows related to heritage
- 5.3 Responsibilities when an entity holds heritage items
- 5.4 Heritage related liabilities—alternative approaches

5.5 Liability issues raised by particular categories of heritage

6 Presentation in the Financial Statements-Heritage Information

6.1 Conceptual Framework and presentation

6.2 Different perspectives on presentation of heritage information

6.2.1 Display and disclosure—financial statements

6.2.2 Display and disclosure—outside of the financial statements

6.3 Presentation of heritage information—approaches

6.4 Presentation issues raised by particular categories of heritage

7 Presentation Outside of the Financial Statements-Heritage Information

7.1 Conceptual Framework and information outside of the financial statements

7.2 Public sector entities' heritage responsibilities

7.3 Service Performance and Other Types of Information

7.4 Information issues raised by particular categories of heritage

Appendix A: Examples of Heritage Items

Appendix B: Selected Bibliography

(Additional appendices may be included, after IPSASB decisions from review of draft chapters.)

Revised Chapter 1, Introduction to the Consultation Paper**Questions**

1. Does the IPSASB agree:
 - (a) That the revised Chapter 1 provides an adequate introduction for the CP;
 - (b) With Chapter 1's:
 - (i) Use of the words "heritage", "heritage items", "heritage resources" and "heritage assets"; and
 - (ii) Description of the CP's approach to its discussion of potential liabilities that relate to heritage items and heritage-related responsibilities, that is:
 - a. Liability that may arise when an entity has maintenance or preservation due to one more more heritage items that it controls; and
 - b. Liabilities that may arise when an entity carries out broad heritage preservation responsibilities that are independent of any heritage items that the entity controls.
2. What are the IPSASB's view on whether the two appendices on national jurisdictions' practices with respect to accounting for heritage should be updated and included in the CP?

Detail

8. The draft Chapter 1 (agenda item 9.4) is significantly different from the version considered at the IPSASB's March 2016 meeting, which is why a marked up version has not been provided. A comparison table, which matches paragraphs has been provide and is included at the end of the agenda item 9.4.
9. Chapter 1's ordering of topics and their content have changed to address the IPSASB's directions from March, including to:
 - (a) Avoid use of the phrase "heritage asset" to the extent possible;
 - (b) Focus chapter 1 on the financial reporting problems presented by heritage items' special nature, rather than the project brief's objectives; and
 - (c) Move the previous Section 5 (heritage responsibilities and information needs) into a separate chapter.
10. An earlier draft of this chapter was reviewed by the Task Force, which identified further revisions, with the main ones relating to more coverage of (a) obligations and liabilities, and (b) presentation and disclosure. Staff has included new paragraphs that provide an overview of the CP's coverage. These reflect the CP structure submitted to this meeting.
11. The IPSASB is also asked to provide direction on whether the two appendices should be updated and included in the CP. Arguably, because the CP will focus on applying the Conceptual Framework, evidence on national-level practices is less important. On the other hand this information could still be of interest and useful to stakeholders.

Decision required

The IPSASB is asked to approve Chapter 1.

Draft Chapter 2, Heritage Items and Heritage Categories

Questions

1. Does the IPSASB agree with:
 - (a) The selection and ordering of topics in Chapter 2?
 - (b) Addition of the word “archeological” to the working description for heritage items?
 - (c) Discussion of faithful representation of the heritage phenomenon and use of a principles–based approach to identify heritage items rather than relying on legislation or regulation;
 - (d) Use of a general description of heritage items in this CP, without attempting to establish criteria to objectively distinguish between heritage and non-heritage items?
 - (e) The four descriptions for each heritage category?
 - (f) The scope indicated by Chapter 2 for the CP’s discussion of accounting for heritage, which would cover all four categories of heritage, including intangible cultural heritage?
 - (g) Chapter 2’s discussion of intellectual property with its conclusion that intangible cultural heritage includes heritage items that are intellectual property?
 - (h) The Specific Matter for Comment (SMC) (see below) proposed to request constituents’ views on the topics covered in Chapter 2?

Detail

12. Chapter 2 (agenda item 9.5) aims to establish the CP’s scope, as indicated by the working description of heritage items and the four categories of heritage. It is based on IPSASB discussions from September 2015 through to March 2016. It also reflects Task Force review comments on an earlier version of this draft chapter.
13. In September 2015, the IPSASB agreed the working description for heritage items and the CP’s approach of using the four UNESCO categories as a starting point for its consideration of heritage accounting issues. The IPSASB directed staff to start by taking a broad, inclusive approach when identifying and discussing different types of heritage.

Chapter 2: IPSASB views on the selection and order of its topics?

14. Chapter 2 explains:
 - (a) How the working description for “heritage items” was developed;
 - (b) Why UNESCO definitions have been used as the starting point to identify the heritage categories used in the CP;
 - (c) Why and how the UNESCO definitions have been adapted to make them useful for a CP that addresses accounting for heritage; and
 - (d) Specific issues raised by (i) the identification of heritage items and (ii) the meaning of a heritage item within different categories of heritage.

Revision to Working Description of “Heritage Item”—Add “archeological”

15. Task Force comments on an earlier version of this chapter highlighted that for at least one national jurisdiction, the United Kingdom, explicit acknowledgement that heritage items include archeological items has been a sensitive issue. Task Force members and staff support this

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revision. This revision will make clear, early in the CP, that one of the major sources of heritage items (archeology) is under consideration in the CP, and included in the term “heritage item” is used. It does not change the substance of the working description.

Faithful Representation of the Heritage Phenomenon

16. Chapter 2 uses the idea that heritage is a “phenomenon” and then applies the Conceptual Framework’s qualitative characteristic of faithful representation. Faithful representation relates to “information that faithfully represents an economic or other phenomenon” and goes on to state that such information should “depict the substance of the underlying transaction, other event, activity or circumstance, which is not necessarily always the same as its legal form.” The view that heritage is a phenomenon supports a principles-based approach to identification of heritage items. The staff view is that “substance over legal form” is relevant to identification of heritage items, responsibilities and obligations. It applies to many different phenomenon. For example, it has already been applied to service performance information, as can be seen in paragraph 49 of RPG 3, *Reporting Service Performance Information*.

Heritage Items: Should CP Propose Criteria to Distinguish Heritage from Non-Heritage?

17. Chapter 2’s description of heritage items does not provide an objective set of criteria to distinguish between heritage and non-heritage items. Instead Chapter 2 discusses the importance of this for financial reporting and then proceeds on the assumption that such criteria can be developed.
18. Task Force members noted that present heritage guidelines provide scope for preparer manipulation, because heritage definitions are insufficiently robust. There should be a clear boundary. The question for IPSASB members is whether such criteria should be developed for inclusion in the CP, or whether instead this should be treated as a downstream issue, and considered again when, (for example) an exposure draft of an IPSAS is developed.

Categories of Heritage: Does the IPSASB agree with their descriptions?

19. Since September, IPSASB discussions and staff considerations have meant that the UNESCO definitions have been adapted to better meet the needs of a CP focused on financial reporting. The draft Chapter 2 provides an explanation of differences between the UNESCO definitions and the category descriptions. The question arises of whether the IPSASB agrees with continued use of the four categories and the proposed explanation, in Chapter 2, of why they have been used in the CP and how they have been revised to address the CP’s focus on accounting for heritage.

Scope of CP: Does the IPSASB agree that CP should discuss accounting for all four categories?

20. A specific issue, raised by Task Force members, is whether the CP should discuss intangible heritage items, given the newness of the idea of intangible heritage items and relative lack of knowledge or experience of this category. Present heritage legislation in the United Kingdom and France does not identify any intangible heritage items. No examples of accounting guidelines for intangible heritage have been found at the national level, although the issue is mentioned in IPSAS 31. There appear to be no valuation guidelines applicable to intangible heritage items. Furthermore, as previously discussed by the IPSASB, knowledge-in-action intangible heritage cannot be controlled and is not, therefore, an asset for financial reporting purposes. Intellectual property with heritage characteristics appears to always have a finite

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useful life, which arguably means that it cannot fall within the heritage items description, because it cannot be preserved indefinitely.

21. Task Force members also questioned whether intangible heritage items need special accounting treatment, or could be accounted for in the same way as other intangible items. IPSASB members have previously been open to that possibility, although there has also been comment on the need for disclosures on intangible cultural heritage items.
22. If the IPSASB shares this concern, then there are two ways to address it, either:
 - (a) Amend the description of heritage items to say that, in this CP, they are tangible items; or
 - (b) Retain the present heritage items description and the four categories, but explain at the end of Chapter 2 that the CP's scope is restricted to tangible heritage only.

Specific Matter for Comment

23. Whatever approach is taken to different categories of heritage, staff recommends that the CP include an SMC that requests constituents' views on whether further work on accounting for heritage should address all four categories of heritage or, instead, proceed to develop accounting guidelines on a smaller number of categories.
24. The CP could include the following SMC on Chapter 2:
 - (1) Do you agree:
 - (a) With the proposed working description of "heritage items"?
 - (b) That the four categories of heritage and the examples of heritage items in chapter 2 provide a sufficient basis for consideration of heritage accounting issues? (If not, please identify any further categories and/or examples that should be considered.)
 - (c) That accounting guidelines should be developed for all four categories. (If you disagree, please indicate for which category or categories accounting guidelines should not be developed.)

Decisions required

The IPSASB is asked to confirm that it agrees with:

- (a) Chapter 2's selection and ordering of topics;
- (b) Addition of the word "archeological" to the working description of heritage items;
- (c) Discussion of faithful representation of the heritage phenomenon and use of a principles-based approach to identify heritage items rather than relying on legislation or regulation;
- (d) Use of a general description of heritage items in this CP, without attempting to establish criteria to objectively distinguish between heritage and non-heritage items;
- (e) The descriptions for the four categories of heritage items;
- (f) The CP's scope, as indicated in Chapter 2, where all four categories of heritage are proposed for consideration in the remainder of the CP;
- (g) The proposals on how to address the specific issues raised in the final section of Chapter 2; and
- (h) The SMC on Chapter 2.

Draft Chapter 3, Heritage Items as Assets**Questions**

1. Does the IPSASB agree with:
 - (a) The selection and ordering of topics in draft Chapter 3?
 - (b) The arguments expressed for and against heritage items being assets for financial reporting purposes?
 - (c) The set of asset existence issues identified for particular categories and subcategories of heritage items?
 - (d) The Specific Matter for Comment (SMC) proposed to request constituents' views on whether heritage items could be assets for financial reporting purposes?
2. Does the IPSASB have a preliminary view on whether heritage items could be assets for financial reporting purposes?
3. Are there further points or issues that should be discussed in this chapter, in particular are there asset existence issues related to particular categories and subcategories of heritage items that should be discussed?

Detail

4. Draft Chapter 3 (agenda item 9.6) is based on IPSASB discussions from September 2015 through to March 2016. It has also benefited from the Task Force's discussion of heritage items as assets. The chapter applies the Conceptual Framework to heritage items and discusses whether such items could be assets for financial reporting purposes.
5. The IPSASB is asked to provide direction on draft Chapter 3, so that it can be further developed and brought back to the September 2016 IPSASB meeting for review and approval.

Specific Matter for Comment

25. Staff proposes that the CP include the following SMC on Chapter 3:
 - (1) Do you agree that some heritage items can meet the Conceptual Framework's definition of an asset?
 - (2) If yes, please indicate which types or categories of heritage items can, in your review, meet the definition of an asset and which cannot.

Decisions required

The IPSASB is asked to confirm:

- (a) The selection and ordering of topics in draft Chapter 3;
- (b) The arguments expressed for and against heritage items being assets for financial reporting purposes;
- (c) The set of asset existence issues identified for particular categories and subcategories of heritage items; and
- (d) The SMC proposed to request constituents' views on whether heritage items could be assets for financial reporting purposes?

Draft Chapter 4, Recognition and Measurement of Heritage Assets**Questions**

6. Does the IPSASB agree with:
 - (a) The selection and ordering of topics in draft Chapter 4?
 - (b) The measurement bases proposed as potentially applicable to measurement of heritage assets (historical cost and market value)?
 - (c) The arguments expressed for and against heritage items being able to be recognized as assets for financial reporting purposes and included in the statement of financial position?
 - (d) The set of factors identified as important for an evaluation of the cost-benefit constraint applied to heritage assets?
 - (e) The discussion of measurement as it applies to different categories and subcategories of heritage assets?
7. Are there other issues that should be discussed in this chapter, in particular are there any:
 - (a) Further factors that should be raised as relevant to decisions on whether heritage asset should be recognized; and
 - (b) Further recognition issues raised by particular categories and subcategories of heritage assets?

Detail

8. This draft chapter is at a relatively early stage. The Task Force discussed this issue by teleconference during April, but did not view an earlier draft chapter, because staff wanted to hear Task Force members' views on the issue before firming up a draft chapter. The Task Force discussion has contributed significantly to this chapter's discussion of measurement issues raised by heritage assets and also potential measurement bases.
9. The IPSASB is asked to provide direction on draft Chapter 4, so that it can be further developed and brought back to the September 2016 IPSASB meeting for review and approval.

Decisions required

The IPSASB is asked to confirm:

- (a) The selection and ordering of topics in draft Chapter 4;
- (b) The measurement bases proposed for measurement of heritage assets;
- (c) The arguments expressed for and against heritage assets being able to be recognized as assets;
- (d) The factors identified as important for evaluation of the cost-benefit constraint when considering measurement of heritage assets; and
- (e) The discussion of measurement for different categories and subcategories of heritage assets.

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Directions from March 2016 Meeting—Actions since March and Other Actions Outstanding

Direction	Actions since March Meeting / Other actions outstanding'
<p>1. Rename "Heritage Assets" project as the "Heritage" project.</p> <p>2. With respect to the CP's structure:</p> <p>(a) Include chapter on obligations after those on heritage assets;</p> <p>(b) Rename subsection named "Heritage Assets Project";</p> <p>(c) Discuss category issues within each chapter; and</p> <p>(d) Cover asset recognition and measurement in one chapter.</p> <p>3. Use terminology that is accessible to non-accountants in the CP, e.g. use "resource" to provide a bridge to "asset".</p> <p>4. Include different views in the CP with respect to heritage:</p> <p>(a) Identification (e.g. principles versus list);</p> <p>(b) Classification as resources for financial reporting purposes and the meaning of "resource" in this context;</p> <p>(c) Measurement, including whether monetary values would achieve qualitative characteristics and constraints; and</p> <p>(d) Information needed for accountability and decision-making, including location of information on land and other heritage items (e.g. option of supplementary disclosures, other GPFR.</p> <p>5. For intangible heritage, CP should identify two subcategories (knowledge-in-action and intellectual property) and discuss:</p> <p>(a) Whether knowledge-in-action can be assets for financial reporting purposes, since cannot be controlled by entity;</p> <p>(c) Whether intellectual property heritage items are heritage items, since have limited useful life (e.g. copyright); and</p> <p>5. Have CP's discussion of heritage-related obligations apply the Conceptual Framework, not IPSAS 19.</p> <p>6. Revise draft Chapter 1 as follows:</p> <p>(a) Start with problem that heritage presents for financial reporting;</p> <p>(b) Move Section 5 on heritage-related information needs into a separate chapter; and</p> <p>(c) Remove references to project outcomes.</p> <p>7. The chapter on heritage-related information needs should:</p> <p>(a) Cover entities with different types of heritage responsibilities;</p> <p>(b) Discuss forward-looking information on funding availability linked to planning/budgeting rather than fiscal sustainability;</p> <p>(c) Drive the discussion of where information on heritage items should be reported using special characteristics of heritage; and</p> <p>(d) Address other types of information that GPFR users would need about heritage items, if they are not recognized as assets.</p>	<p>1. Project name changed on website and in subsequent agenda papers.</p> <p>2. Draft structure for CP revised as per directions received and resubmitted to June IPSASB meeting.</p> <p>3. Development of draft chapters applies the direction to use terminology that is accessible to non-accountants.</p> <p>4. Draft chapters 2 to 4 developed with regard to directions received relevant to those chapters, and specifically:</p> <p>(a) Chapter 2 discussed different ways to identify heritage items;</p> <p>(b) Draft Chapter 3 discusses the meaning of "resource"; and</p> <p>(c) Draft Chapter 4 discusses measurement of heritage items.</p> <p>Actions on directions with respect to chapters on (a) obligations and liabilities, and (b) heritage responsibilities and information for users of GPFRs will be applied to those chapters as they are drafted for the IPSASB's September meeting.</p> <p>5. Draft Chapters 2, 3 and 4 reflect directions on intangible heritage.</p> <p>6. Draft Chapter 1 revised as directed and resubmitted to June IPSASB meeting.</p> <p>7. Directions on the separate chapter on heritage-related information needs will guide development of that chapter for submission to the IPSASB's September meeting.</p>
<i>No outstanding directions from previous meetings.</i>	<i>See agenda paper 9.2 for previous meetings' directions and related actions.</i>

Directions issued up to March 2016

Meeting	Direction	Actions
December 2015	<ol style="list-style-type: none"> 1. Apply Conceptual Framework asset definition to heritage items in the four UNESCO convention categories and discuss possible criteria applicable to asset existence. 2. Develop the draft description of public sector activities related to heritage and possible information needs, focusing on information reported in the financial statements and link discussion to the Conceptual Framework. 3. Apply the Conceptual Framework to obligations raised by heritage items. Specifically, discuss: <ol style="list-style-type: none"> (a) Different responsibilities and situations that could result in a present obligation for an entity, including consideration of whether there is a liability or just a generic, undefined commitment to preserve heritage in different situations. (b) Whether there is any substantive difference between obligations related to heritage items (e.g. maintenance of such items) and similar obligations related to non-heritage items. (c) Whether the special nature of a heritage item necessarily results in obligations of a special nature. 	<ol style="list-style-type: none"> 1. The March agenda paper applied the asset definition to (a) two broad categories of intangible heritage items and (b) different concepts of a natural heritage item. Cultural heritage items, which the IPSASB had previously indicated met the asset definition, were discussed in terms of measurement and recognition. 2. A revised description of public sector activities related to heritage and information needs included in draft Chapter 1 submitted to March meeting. 3. March agenda paper included analysis of obligations to preserve heritage items, applying the Conceptual Framework definition to discuss whether liabilities exist in different situations, while draft Chapter 1 discussed other information that could be reported with respect to heritage preservation responsibilities, in the context of the Conceptual Framework's coverage of users' information needs.
September 2015	<ol style="list-style-type: none"> 1. Amend the proposed description of heritage items (in agenda item 13.1). 2. Apply the working description of heritage items, as amended, in subsequent agenda papers. 3. Begin by taking a wide, inclusive approach to types of heritage items. 4. Apply the Conceptual Framework's asset definition to selection of heritage items. 5. Consider whether heritage items could either (a) meet the definition of a liability, or (b) involve a related liability to preserve the item. 	<ol style="list-style-type: none"> 1 and 2. Heritage description revised for IPSASB's September input, and the revised description used in all subsequent agenda papers. 3. Wide, inclusive approach taken, applying four UNESCO categories of heritage (cultural heritage property, intangible heritage, natural heritage and underwater cultural heritage), and broadening further where appropriate. 4. December 2015 agenda paper applied Conceptual Framework's asset definition to selection of heritage items. 5. December 2015 and March 2016 agenda papers discussed heritage related obligations, including application of the Conceptual Framework definition of a liability to obligations raised by heritage items. 6. December 2015 agenda paper discussed reporting of heritage related information in a general purpose

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Meeting	Direction	Actions
	6. Discuss arguments for and against reporting information on heritage items in a general purpose financial report (GPFR) or in another type of report.	financial report (GPFR) or in another type of report, while draft Chapter 1 submitted to March 2016 meeting discussed the same issue, applying IPSASB directions from December.
June 2015	1. Initiate a project on accounting for heritage, as per the approved project brief. 2. Establish a Task Force that includes an expert in heritage valuation.	Project initiated. First agenda paper provided to September 2015 meeting. Task Force established, active from April 2016, and includes participant recommended by the IVSC as expert in heritage valuation.

Decisions up to and including March 2016

Meeting	Decisions
March 2016	<p>Rename the “Heritage Assets” project as the “Heritage” project.</p> <p>Have a separate chapter in the CP on heritage responsibilities and information needs.</p>
December 2015	<p>Support for a draft description of heritage related activities as useful background for reporting on heritage.</p> <p>The description of activities should include conservation, which is wider than preservation and includes activities such as restoration, reconstruction, rehabilitation and adaptation in addition to preservation.</p> <p>The working description of “heritage items” should remain focused on “preservation”, without reference to conservation.</p> <p>Heritage status reports are outside of this project’s scope.</p> <p>The CP should focus on reporting information about heritage items that are controlled and have the potential to be assets.</p>
September 2015	<p>Support for:</p> <p>(1) Working description of heritage items, as per description used in subsequent agenda paper and draft CP.</p> <p>(2) Broad approach, with consideration of four categories of heritage items: cultural property heritage, underwater cultural heritage, natural heritage and intangible heritage, based on the UNESCO definitions of different heritage categories.</p>
June 2015	<p>Approved the “Heritage Assets” project brief.</p>

CONSULTATION PAPER: ACCOUNTING FOR HERITAGE**CHAPTER 1****1—Introduction**

1. The preservation of heritage is an important responsibility for governments and other public sector entities, particularly where they hold heritage items. Governments' aims often also extend beyond preservation, to include restoration and improvement of heritage items, as well as the enhancement of communities' access to, and enjoyment of, their heritage.
2. Many public sector entities hold heritage items. The Preface to *The Conceptual Framework for General Purpose Financial Reporting by Public Sector Entities* (the Conceptual Framework) identifies this as a distinguishing feature of the public sector, and explains that:

Governments and other public sector entities may hold items that contribute to the historical and cultural character of a nation or region—for example, art treasures, historical buildings, and other artifacts. They may also be responsible for national parks and other areas of natural significance with native flora and fauna. Such items and areas are not generally held for sale, even if markets exist. Rather, governments and public sector entities have a responsibility to preserve and maintain them for current and future generations¹.
3. This CP considers whether a heritage item held by an entity represents a resource under the control of the reporting entity. It also considers whether heritage-related responsibilities result in obligations that the entity should report. Where an entity holds heritage items, it is responsible for their preservation, which can be conceived as an obligation to incur preservation expenses once they become due and payable, or an open-ended obligation to preserve the heritage items indefinitely.
4. Some public sector entities, for example museums or departments responsible for laws to preserve and enhance a nation's heritage, may have heritage-related service performance responsibilities and collect information on a portfolio of heritage that goes beyond those items that the entity holds. This CP also briefly discusses this type of situation, although it is not the main focus of this CP.

Heritage Items' Special Characteristics

5. Accountants view heritage items as having special characteristics that raise both conceptual and practical issues for financial reporting. Heritage items' special characteristics are usually described, by public sector accounting standard setters, as including the factors listed below²:
 - (a) Their value in cultural, environmental, educational and historical terms may not be fully reflected in monetary terms;

¹ Paragraph 15 of the *Preface to the Conceptual Framework*.

² Based on the list of special characteristics in paragraph 6 of the South African Accounting Standards Board's (ASB–South Africa) GRAP 103, *Heritage Assets*, which captured characteristics described in other accounting standard setters' pronouncements and the academic literature on accounting for heritage.

- (b) They are often irreplaceable;
 - (c) They are protected, preserved, kept unencumbered, cared for and/or conserved by public sector entities;
 - (d) There are often ethical, legal and/or statutory restrictions or prohibitions that restrict or prevent sale, transfer or destruction by the holder or owner;
 - (e) They may have a long, possibly indefinite useful life due to constant or increasing cultural, environmental, educational, natural scientific, technological, artistic or historical significance; and
 - (f) Their value increases over time, where “value” is either monetary, community-based or both.
6. Financial reporting issues that accountants and stakeholders concerned to preserve heritage often identify as resulting from these special characteristics include:
- (a) *Preservation*: If an entity’s responsibility is to preserve heritage items rather than to earn revenue or generate cash flows from them, is a heritage item a resource or an obligation from the entity’s perspective?
 - (b) *Value*: If monetary value does not convey the true value of a heritage item, should such items be valued in monetary terms and then reported in the financial statements?
 - (c) *Restrictions on use*: Given restrictions on entities’ ability to use, transfer or sell heritage items, should heritage items be shown as assets in the financial statements?
 - (d) *Guardianship*: Can a reporting entity be said to control a heritage item for financial reporting purposes, when it holds the item for the benefit of current and future generations?
7. After discussing heritage items in terms of whether they could be assets for financial reporting purposes, this CP then discusses heritage-related responsibilities and whether they could result in liabilities. For example:
- (a) When, and in what circumstances, could an entity’s stewardship over a heritage item that it holds indicate obligations and the possible existence of a liability?
 - (b) Could some entities have obligations arising from their heritage preservation responsibilities, in addition to obligations that may arise more directly from their holdings of heritage items?

2—Background to the IPSASB’s Heritage Project

8. Accounting for heritage has been a challenging topic for the IPSASB and for national accounting standard setters for many years. Worldwide there are a range of different views on how to account for heritage items, including different perspectives on heritage definitions, whether such items are assets or liabilities for financial reporting purposes, whether they should be recognized and, if recognized, how they should be measured. Standard setters also have had different perspectives on heritage-related disclosures, which include both enhanced disclosures in the financial statements and provision of information on heritage items and heritage responsibilities in supplementary reports, outside of the general purpose financial report (GPFR) that includes the financial statements.

IPSASs and IPSASB's 2006 Consultation Paper

9. The IPSASB first considered heritage accounting during development of IPSAS 17, *Property, Plant and Equipment* (IPSAS 17). IPSAS 17 includes paragraphs on accounting for heritage assets. They describe heritage assets and allow reporting entities to recognize them. If an entity chooses to recognize some or all of its heritage assets, then it needs to make the disclosures identified in the Standard. Entities are not required to apply IPSAS 17's measurement requirements. The Standard takes the approach of allowing for different heritage accounting practices, but supports transparency by specifying that measurement approaches should be disclosed, including, for example, whether or not the entity depreciates some or all of the heritage items that it has recognized as assets.
10. The IPSASB took a similar approach in IPSAS 31, *Intangible Assets* (IPSAS 31). IPSAS 31 includes paragraphs on accounting for intangible heritage assets, which are based on those in IPSAS 17. In effect, the IPSASB's approach in these two Standards acknowledged the difficult financial reporting issues raised by heritage items, and allowed preparers or national jurisdictions to determine their accounting for heritage until this topic could be considered in depth.
11. In 2004 the IPSASB commenced a heritage assets project in collaboration with the United Kingdom's Accounting Standards Board (the ASB—UK). A CP, *Accounting for Heritage Assets under the Accrual Basis of Accounting*, was published in February 2006. The CP consisted of a discussion paper developed and approved by the ASB—UK, with an introduction and preface developed by the IPSASB's Heritage Assets Subcommittee. After reviewing submissions in late 2006, the IPSASB decided to defer further work until its Conceptual Framework had been completed.

National Standard Setters' Pronouncements

12. The IPSASB's 2006 CP included two appendices with comprehensive summaries of national standard setters' accounting treatments relevant to heritage items. These have been updated for more recent developments³ and are included as Appendix A and Appendix B of this CP. They demonstrate the wide range of different accounting approaches that exist at the national level for heritage items.

IPSASB's Heritage Project

13. With completion of the Conceptual Framework, published in November 2014, the IPSASB had the conceptual toolkit to once again consider accounting for heritage. Furthermore, the IPSASB's 2013–2014 strategy and work plan consultation found that constituents agreed that accounting for heritage should be an IPSASB priority.

Accounting for Heritage and the Public Interest

14. As noted in paragraph 10 above, present IPSASs allow entities to report on heritage items using different accounting practices. The description of a "heritage asset" in present IPSASs also allows

³ *Question for IPSASB:* The two appendices have not been updated, and IPSASB members will be asked to indicate whether these appendices should be included in the CP. If so, they will need to be updated. Staff is aware of heritage accounting developments that have occurred in several national jurisdictions since the 2006 CP was compiled, for example France, South Africa and the United Kingdom.

inconsistent practices with respect to categorization of assets as either heritage or non-heritage assets. This has negative consequences for the public interest because it impacts on the quality of information reported. There are costs for both preparers and users when financial reporting standards allow this type of discretion. Development of new IPSASB guidelines on accounting for heritage is expected to enhance the quality of information that GPFs provide for users' needs, thereby improving accountability and decision making, which supports the public interest.

Task Force and the Project's First Phase—A Consultation Paper

15. A project brief for the Heritage Project was approved in June 2015. The first IPSASB discussion occurred in September 2015.
16. A Task Force (the Task Force on Accounting for Heritage) was established in late January 2016, and began its contributions to the project in April 2016. The Task Force advises on heritage accounting issues, including measurement and valuation of heritage. Task Force members, their colleagues and technical advisors have provided invaluable support to this project. The Task Force consists of Amanda Botha (South Africa), Michel Camoin (France), Howard (Mike) Blake (Australia), Domenic Savini (United States of America), Bernard Schatz (Austria), Adriana Tiron Tudor (Romania), and David Tomback (United Kingdom).
17. The project's objectives include to develop a CP highlighting the main options for heritage accounting. This CP is the Heritage Project's first publication. Constituents' comments on the options and issues identified in this CP will be important input to the IPSASB's development of an exposure draft (ED) on heritage accounting guidelines, which is the intended next phase of this project.

Approach in this Consultation Paper

A Broader, More Inclusive Approach

18. In the past, most accounting standard setters have focused on heritage items as possible assets. They have not considered accounting issues raised by heritage responsibilities and possible liabilities. Furthermore, the focus has been on tangible, non-living heritage items such as historic buildings, artwork and museum collections. These heritage items have been described as "heritage assets". Starting with a heritage asset, accounting standard setters have considered whether such items should be recognized, how they should be measured, the type of information that should be reported, and whether information should be presented in the financial statements or disclosed elsewhere. The IPSASB's previous CP on this topic took this approach. However, the proposals in that CP did not gain support from IPSASB stakeholders. One concern was that it had not considered other types of heritage, particularly natural heritage.
19. This CP takes a broader, more inclusive approach to both its description of heritage items and its consideration of heritage accounting issues. It discusses:
 - (a) Issues raised by heritage items as resources, which could be assets for financial reporting purposes;
 - (b) The significance of heritage-related responsibilities for reporting of liabilities; and
 - (c) Other types of information, outside of the financial statements, which reporting entities with significant heritage responsibilities may present.

20. This CP also considers a broad set of different types of heritage items. It starts with the four categories of heritage used in what this CP terms “the UNESCO definitions”. These UNESCO definitions of heritage are enshrined in the UNESCO developed international conventions for the protection of heritage⁴. The four categories are:
- (a) Cultural heritage,
 - (b) Underwater cultural heritage
 - (c) Intangible cultural heritage, and
 - (d) Natural heritage.
21. Applying these UNESCO definitions, heritage items range from tangible items such as historic buildings, historic artifacts, shipwrecks and archeological areas to intangible items such as language and dance, which rely on continued use for their preservation. Heritage items may also include natural heritage, which covers nature reserves and parks that support combinations of living and non-living items including rare ecological systems and populations of rare animals.
22. Second, by first developing a description of “heritage items” rather than a definition of “heritage assets” this CP allows for separate discussion of whether and when different heritage items could be assets for the purposes of financial reporting. As discussed in Chapter 2, this CP proposes the following 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 archeological, architectural, agricultural, artistic, cultural, environmental, historical, natural, scientific and technological importance.

Application of the Conceptual Framework

23. This CP applies the Conceptual Framework to heritage, considers the special characteristics of heritage items, and discusses how to meet users’ needs for information about heritage items, given their special characteristics, and about heritage-related responsibilities. It also takes into consideration the IPSASB’s policies with respect to IFRS convergence and reduction of unnecessary differences between IPSAS and GFS reporting guidelines.
24. Application of the Conceptual Framework to the special characteristics of heritage items and to public sector entities’ heritage preservation responsibilities is what drives this CP’s discussion of users’ information needs, element definition, recognition and measurement, and presentation (display and disclosure) of heritage-related information in both the financial statements and in GPFs that do not include the financial statements.

⁴ Article 1, 1954 *Convention for the Protection of Cultural Property in the Event of Armed Conflict with Regulations for the Execution of the Convention* defines “cultural property”, as does Article 1 of the 1970 *Convention on the Means of Prohibiting and Preventing the Illicit Import, Export and Transfer of Ownership of Cultural Property*. Article 1 of the 1972 *Convention on Protecting the World Cultural and Natural Heritage* defines “cultural heritage” and “natural heritage”. Article 1, 2001 *Convention on Safeguarding the Underwater Cultural Heritage*, defines “underwater cultural heritage”. Article 2, 2003 *Convention on Safeguarding the Intangible Cultural Heritage*, defines “intangible cultural heritage”.

IPSASB Policies and Pronouncements, and Standard Setters' Views on Accounting for Heritage

25. This CP also takes into account the following IPSASB documents:
- (a) *Process for Reviewing and Modifying IASB Documents;*
 - (b) *Process for Considering GFS Reporting Guidelines during Development of IPSASs;* and
 - (c) *Recommended Practice Guideline (RPG) 3, Reporting Service Performance Information.*
26. The IPSASB's Heritage Project is not an IFRS convergence project. However, IFRS relevant to heritage accounting issues and a sample of for-profit national standard setters' accounting pronouncements have been reviewed so that proposals herein take into account private, for-profit practices with respect to accounting for heritage.
27. An overview of the IPSASB's previous considerations of heritage accounting and of national accounting standard setters' pronouncements on this topic are provided in Section 2 above and in the appendices to this CP. These have been reviewed to understand the special characteristics of heritage, as previously identified by accounting standard setters, and accounting approaches developed to address those characteristics.

Overview of the Structure of this Consultation Paper

Chapters 2 and 3: Heritage Items, Resources and Assets

28. Although this CP takes a broader approach than previous IPSASB considerations of accounting for heritage, the question of whether or not heritage items are assets for financial reporting purposes remains an important question. Two further questions about meaning lie beneath that question:
- (a) What do we mean by a "heritage item"?
 - (b) What do we mean by an "asset" within the context of financial reporting?
29. The first question is discussed in the next chapter, Chapter 2, which proposes a working description of a heritage item, identifies and describes the four categories of heritage discussed in this CP, and then discusses how to identify a "heritage item". That last point can also be described as an "accounting unit" question, because accounting often involves decisions about grouping things together into one larger unit or breaking them down into separate, smaller units in order to provide meaningful information to users of the financial reports.
30. Then Chapter 3 discusses the second question of whether or not heritage items are assets for financial reporting purposes. This is not a straightforward question within the context of financial reporting. Everyone agrees that heritage items are precious, valuable things. In common, everyday speech the word "asset" can be used to mean "something of value". Applying this everyday meaning, most would agree that heritage items are assets, because they are either valuable or valued by the community or both. But does the same conclusion result if the financial reporting definition of an asset is applied?
31. This CP applies the Conceptual Framework's definition of an asset to consider whether heritage items should be considered assets for financial reporting purposes. As will be discussed in Chapter 3, existence of an asset for financial reporting purposes involves two further words; "resource" and "control". The Conceptual Framework has established guidance on the meaning of these two words within the context of financial reporting and the development of IPSASB pronouncements.

Chapters 4, 5 and 6: Financial Statement Recognition, Obligations and Liabilities, and Presentation

32. The next three chapters—Chapters 4, 5 and 6—then apply the Conceptual Framework to other financial reporting issues raised by the special nature of heritage items. As for Chapter 3, these three chapters focus on heritage-related information in the financial statements. They apply the Conceptual Framework chapters that address definition, recognition and measurement within the context of information presented in the financial statements. Specifically, these three chapters address the following topics:
- (a) Chapter 4 considers the recognition of heritage assets, building on Chapter 3’s discussion of heritage items as assets for financial reporting purposes. This discussion focuses on asset measurement, which is an essential part of asset recognition.
 - (b) Chapter 5 considers whether heritage-related obligations could result in liabilities and, if so, at what point (or in what circumstances) a heritage-related obligation would result in a liability that can or should be recognized in the financial statements.
 - (c) Chapter 6 describes issues related to presentation of heritage information in the financial statements, which considers, for example, whether one or more separate line items should be displayed on the face of the statements and what type of information should be disclosed in the notes. This chapter builds upon earlier chapters to explore presentation related to the recognition of heritage items as assets and related responsibilities as liabilities. Chapter 7 (see below) develops information presentation options raised by non-recognition of heritage items, while also considering a broader set of heritage-related information.

Chapter 7, Other Information Needs—Reporting Outside of the Financial Statements

33. Chapter 7 takes a broader look at heritage-related information. It describes public sector entities’ heritage responsibilities, and discusses what heritage-related information should be made publicly available to support those responsibilities. The Conceptual Framework has established that users’ needs could result in information reported outside of the GPFR that includes the financial statements. Applying that new approach the IPSASB has already developed three “recommended practice guidelines” (RPGs) that can be applied to such information. These address reporting of service performance information, information on the sustainability of public finances, and financial statements discussion and analysis. IPSAS 24, *Reporting Budget Information*, provides guidelines on how to present budget information in the financial statements.
34. Many national jurisdictions already report heritage-related information that is important for heritage preservation, important to the general public, but does not form part of a financial report. Such information is within the purview of heritage specialists. It is not “accounting information”. Chapter 7 discusses the inter-relationship between these two areas of reporting, as they apply to reporting heritage-related information:
- (a) *GPFR information*: Information for financial reporting purposes; and
 - (b) *Other information*: Information outside of the GPFRs.
35. Chapter 7 discusses the boundary between these two types of information, as this applies to the issue of reporting heritage-related information.

[Appendices have not been updated for developments since the 2006 consultation paper]

APPENDIX A: DEFINITIONS OF HERITAGE ASSETS (EXCERPT FROM 2006 CONSULTATION PAPER)

As noted in Chapter 1 of this CP, financial reporting pronouncements generally address accounting for “heritage assets”, which is why the table below, developed for the 2006 consultation paper, focuses on heritage *assets* rather than heritage *items*.

Jurisdiction	Source	Definition	Other defining criteria/cited examples
ASB UK	FRS 15 <i>Tangible Fixed Assets</i>	No specific definition.	Refers to inalienable, historic and similar assets of particular historic, scientific or artistic importance.
UK	Charity Commission <i>2005 Charities SORP</i>	Assets of historical, artistic or scientific importance that are held to advance the preservation, conservation and educational objectives of charities and through public access contribute to the achievement of the purposes of such charities and include the land, buildings, structures, collections, exhibits or artefacts that are preserved or conserved and are central to the educational objectives of such charities.	Charities with preservation objectives may hold specified or historic buildings or a complex of historic or architectural importance or a site where a building has been or where its remains can be seen. Conservation charities may hold land relating to the habitat needs of species, or the environment generally, including areas of natural beauty or scientific interest. Museums and art galleries hold collections and artefacts to educate the public and to promote the arts and sciences.
UK	Chartered Institute of Public Finance and Accountancy <i>2005 SORP for local authorities</i>	No definition of heritage assets. Definition of community assets: ‘assets that the local authority intends to hold in perpetuity, that have no determinable useful life, and that may have restrictions on their disposal.’	Examples of community assets are parks and historic buildings.
UK	HM Treasury and devolved administrations <i>Government Financial Reporting Manual</i>	Assets that are intended to be preserved in trust for future generations because of their cultural, environmental or historical associations.	They are held by the entity in pursuit of its overall objectives in relation to the maintenance of the heritage. Non-operational heritage assets are those that are held primarily for this purpose. Operational heritage assets are those that, in addition to being held for heritage purposes, are also used by the entity for other activities or to provide other services (the most common example being buildings).
UK	English Heritage <i>Managing local authority heritage assets – some guiding principles for decision makers, June 2003</i>		Heritage assets include: scheduled monuments and other archaeological remains; historic buildings both statutorily listed and those of more local importance; conservation areas; historic

Jurisdiction	Source	Definition	Other defining criteria/cited examples
			landscapes, including registered parks and gardens, cemeteries and registered battlefields; and historic elements of the wider public realm, including publicly owned and managed spaces and recreational parks.
IPSASB	IPSAS 17 <i>Property, plant and equipment</i>	No generic definition. Notes that some assets are described as heritage assets because of their cultural, environmental, or historical significance.	Examples are historical buildings and monuments, archaeological sites, conservation areas and nature reserves, and works of art. Characteristics often displayed by heritage assets include: Cultural, environmental, educational and historical value unlikely to be fully reflected in a financial value based purely on market price; Legal/statutory obligations may impose prohibitions or severe restrictions on disposal by sale; Often irreplaceable and value may increase overtime even if physical condition deteriorates; Difficult to estimate useful lives which could be several hundred years.
FASB United States	FAS 116 <i>Accounting for contributions received and contributions made</i>	No generic definition	Reference to collections with the following characteristics: (a) held for public exhibition, education or research in furtherance of public service rather than financial gain (b) protected, kept unencumbered, cared for, and preserved (c) subject to an organizational policy that requires the proceeds from sales of collection items to be used to acquire other items for collections.
FASAB United States	SFFAS 29 <i>Heritage assets and stewardship land</i>	Property, plant and equipment unique for one or more of the following reasons: Historical or natural significance; Cultural, educational, or artistic (eg aesthetic) importance; or Significant architectural characteristics	Heritage assets consist of: <ul style="list-style-type: none"> Collection type heritage assets, such as objects gathered and maintained for exhibition, eg museum collections, art collections and library collections; and

Jurisdiction	Source	Definition	Other defining criteria/cited examples
			<ul style="list-style-type: none"> Non-collection type heritage assets, eg parks, memorials, monuments and buildings Heritage assets are generally expected to be preserved indefinitely. Heritage assets may in some cases be used to serve two purposes - a heritage function and general government operations. In cases where a heritage asset serves two purposes, it should be considered a multi-use heritage asset if the predominant use of the assets is in general government operations. Heritage assets having incidental use in government operations are not multi-use heritage assets; they are simply heritage assets.
GASB United States	Statement 34 <i>Basic financial statements – and managements’ discussion and analysis – for State and Local governments</i>	No generic definition. Reference to works of art and historical treasures.	Characteristics of collections defined as for FAS 116.
CICA Canada	Public Sector Handbook Section PS 3150, <i>Tangible Capital Assets</i>	No generic definition.	Works of art and historical treasures are property that has cultural, aesthetic or historical value that is worth preserving perpetually
CICA Canada	CICA Handbook Section 4440 <i>Collections held by not-for-profit organizations</i>	No generic definition.	Collections are works of art, historical treasures or similar assets that are (i) held for public exhibition or research; (ii) protected, cared for and preserved; and (iii) subject to an organizational policy that requires any proceeds from their sale to be used to acquire other items to be added to the collection or for the direct care of the existing collection.
ASB South Africa	GRAP 17 <i>Property, plant and equipment</i>	As IPSAS 17. ASB’s recent consultation included proposed definitions of heritage assets.	Heritage assets used for heritage purposes only are defined as inalienable and/or other items that are normally held for their unique cultural, environmental, historical, natural or artistic significance rather than for use in the day-to-day

Jurisdiction	Source	Definition	Other defining criteria/cited examples
			operations of the entity. Heritage assets used or held for multi purposes are defined as inalienable and/or other items that are normally held for their unique cultural, environmental, historical, natural or artistic significance, but are also used to generate future economic benefits or service potential.
FRSB New Zealand	FRS 3 <i>Accounting for property, plant and equipment</i> NZ IAS 16 <i>Property, plant and equipment</i>	Reference to heritage assets and community assets but no specific definitions.	Artefacts of cultural or historical significance.
New Zealand	<i>Valuation guidance for cultural and heritage assets. New Zealand Treasury, November 2002</i>	Cultural and heritage assets defined as assets that are held for the duration of their physical lives because of their unique cultural, historical, geographical, scientific, and/or environmental attributes. They assist holders of the assets to meet their objectives in regard to exhibition, education, research and preservation, all of which are directed at providing a cultural service to the community.	Cultural and heritage assets include, but are not limited to general collections in libraries; heritage collections in libraries; museum collections; art gallery collections; historical documents, historical monuments and heritage assets held in local authority trusts.
AASB Australia	The generic Standard AASB 116 <i>Property, Plant and Equipment</i> applies except when it conflicts with AAS 27 <i>Financial reporting by local governments</i> , AAS 29 <i>Financial reporting by government departments</i> and AAS 31 <i>Financial reporting by government</i> and then those standards apply.	AASs 29 and 31 explicitly refer to heritage assets and community assets but no specific definitions.	Examples of heritage assets are historical buildings and monuments. Examples of community assets are parks and recreational reserves.
France	Central Government Accounting Standards Standard 6 <i>Tangible Assets</i>	No generic definition. Reference to assets that have only historical or cultural uses with an unmeasurable service potential related	

Jurisdiction	Source	Definition	Other defining criteria/cited examples
		directly to their symbolic value, and works of art.	
Germany North Rhine Westphalia	Municipal accounting standards	No generic definition. Reference to movable assets for the maintenance of culture, works of art, exhibits and other moveable cultural objects, architectural monuments and archaeological monuments.	
UNESCO	<i>Convention concerning the protection of the world cultural and natural heritage, November 1972</i>	<p>The following shall be considered as “cultural heritage”:</p> <ul style="list-style-type: none"> • 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 man, and areas including archaeological sites which are of outstanding universal value from the historical, aesthetic, ethnological or anthropological point of view. <p>The following shall be considered as “natural heritage”:</p> <ul style="list-style-type: none"> • 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: ACCOUNTING FOR HERITAGE (*Appendix 2 in 2006 Consultation Paper*)

Jurisdiction	Standard	Recognition	Measurement	Disclosure	Notes
ASB UK	FRS 15 <i>Tangible Fixed Assets</i>	Requires recognition where heritage assets can be measured reliably and costs of doing so are not significant. Encourages but does not require retrospective capitalisation.	Cost. Donated assets measured at current value.	Requires disclosure of reasons for accounting treatment, and of the age, nature and scale of the assets and use made of them.	Standard's requirements supplemented by Charities SORP and Government Financial Reporting Manual.
IPSASB	IPSAS 17 <i>Property, plant and equipment</i>	Not required unless heritage assets meet definition of PPE.	For recognised heritage assets entity is permitted but not required to apply measurement requirements.	For recognised heritage assets, standard PPE disclosures are required.	Does not address treatment of un-recognised heritage assets.
FASB United States	FAS 116 <i>Accounting for contributions received and contributions made</i>	Permits non-recognition of donated works of art, historical treasures and similar assets if added to collections that are not capitalised and are held under specified conditions. Requires such contributions to be reported on face of statement of activities separately from revenues, expenses, gains and losses.	Fair value. In absence of quoted market prices then quoted market prices for similar assets, independent appraisals or valuation techniques.	For non-recognised collections requires description of collections, including relative significance and accounting and stewardship policies for collections. And for deaccessed items, a description and fair value.	First time adoption encourages but does not require capitalisation of collections either retrospectively or prospectively.
	FAS 93 <i>Recognition of depreciation by not-for-profit organizations</i>	Permits policy of no depreciation for individual works of art or historical treasures* with extraordinarily long lives			* asset individually has cultural, aesthetic, or historical value that is worth preserving perpetually and holder has ability to protect and preserve essentially

Jurisdiction	Standard	Recognition	Measurement	Disclosure	Notes
					undiminished the service potential of the asset and is doing so.
FASAB United States	SFFAS 29 <i>Heritage assets and stewardship land</i>	Requires cost of acquisition, construction, reconstruction or improvement of heritage assets to be expensed. Donations are not recognised. Requires cost of acquisition, betterment or reconstruction of multi-use heritage assets* to be capitalised and depreciated. * predominant use of heritage asset is in general government operations.	Expense measured at cost. Donated multi-use heritage assets capitalised at fair value.	Requires detailed disclosures for heritage assets and multi-use heritage assets: Statement of how they relate to mission of entity, description of stewardship policies (concerning acquisition, maintenance, use and disposal), description of each major category, quantification in terms of physical units* for each major category: physical units held, acquisitions and withdrawals, fair value of donations if known and condition of assets. * may be a collection or group of assets located at one facility.	SFFAS 29 issued July 2005 is effective for reporting periods beginning 30 September 2005 and replaces the reporting requirements for heritage assets set out in SFFAS 6, SFFAS 8 and SFFAS 16. Stewardship disclosures are essential to fair presentation.
GASB United States	GASBS 34 <i>Basic financial statements – and managements’ discussion and analysis – for State and Local governments</i>	Requires capitalisation of historical treasures not held in collections. Encourages but does not require capitalisation of collections and additions to those collections (whether purchased or donated) if collection meets specified conditions.	Capitalised at cost or, where donated, at fair value. Depreciation not required for capitalised collections or individual items that are inexhaustible.	For collections not capitalised, description of collection and reasons for non-capitalisation. Usual fixed asset disclosures for collections that are capitalised.	

Jurisdiction	Standard	Recognition	Measurement	Disclosure	Notes
CICA Canada	Public Sector Handbook Section PS 3150, <i>Tangible Capital Assets</i>	Works of art and historical treasures would not be recognized as tangible capital assets in government financial statements because a reasonable estimate of the future benefit associated with such property cannot be made.		The nature of the works of art and historical treasures held by the government should be disclosed.	
CICA Canada	CICA Handbook section 4440 <i>Collections held by not-for-profit organizations</i>	Recognition of collection not required although it is not precluded (collection items are excluded from the definition of capital assets).	Not specified [by inference, works of art and historical treasures not held in collections are measured at cost if known and fair value if cost is not known]	Description of collection, accounting policies followed, details of any significant changes to the collection in the period, expenditures on collection items in the period, proceeds of sales of collection items in period and how the proceeds were used.	Only applies to works of art, historical treasures or similar assets held as part of a collection. If not held as part of a collection accounting requirements for PPE apply.
ASB South Africa	GRAP 17 <i>Property, plant and equipment</i>	Not required even though the definition and recognition criteria of PPE are met. The recent discussion paper proposes that multi-purpose heritage assets should be recognised as an asset in accordance with PPE recognition requirements, and that the costs of acquisition, improvement,	For recognised heritage assets entity is not required to apply measurement requirements. The recent discussion paper proposes that multi-purpose heritage assets should be measured in accordance with PPE measurement requirements.	For recognised heritage assets, standard PPE disclosures are required. The recent discussion paper proposes the disclosure requirements in PPE be applied to multi purpose heritage assets. In addition, relevant and useful information disclosed in notes for both types of heritage assets.	Existing requirements based on IPSAS 17.

Jurisdiction	Standard	Recognition	Measurement	Disclosure	Notes
		reconstruction or renovation of assets used for heritage purposes only, be expensed when incurred.			
FRSB New Zealand	FRS-3 <i>Accounting for property, plant and equipment</i> NZ IAS 16 <i>Property, plant and equipment</i>	Requires recognition of all cultural and heritage assets that meet the definition of PPE and can be reliably measured.	Initial recognition at cost. Revaluation permitted using fair value, other market based evidence or depreciated replacement cost*. Donated assets measured at fair value.	No special requirements for heritage assets.	* Standard supplemented by valuation guidance issued by NZ Treasury for government bodies.
AASB Australia	The generic Standard AASB 116 <i>Property, Plant and Equipment</i> applies except when it conflicts with AAS 27 <i>Financial reporting by local governments</i> , AAS 29 <i>Financial reporting by government departments</i> and AAS 31 <i>Financial reporting by government</i> and then those standards apply.	Requires recognition providing it is probable future economic benefits arise and a cost or other value can be measured reliably.	Initial recognition at cost. Donated assets initially measured at fair value.	No specific disclosure requirements.	Standards supplemented by Government Finance Minister's Orders and similar orders made in each state and territory.
France	Central Govt Account Standards	Requires recognition to ensure consistency between physical and	Value at a non-revisable notional cost, or exceptionally at reproduction	Requires typical balance sheet note disclosures. Statement listing assets such	First time adoption: applies to assets with no directly observable market value and

Jurisdiction	Standard	Recognition	Measurement	Disclosure	Notes
	Standard 6 <i>Tangible Assets</i>	accounting inventories.	cost. Works of art must be recognised at a notional value. Market value for multi-purpose heritage assets. For all heritage assets, subsequent additions recognised at acquisition cost. Donations recognised at market value.	as historical monuments.	with an unmeasurable service potential related directly to their symbolic value
Germany North Rhine Westphalia	Municipal accounting standards	Requires recognition on first time adoption.	For significant moveable heritage assets – actual or notional insurance value. Other works of art, exhibits and monuments – notional value (€1). Subsequent additions recognised at cost.	No specific disclosure requirements. Accounting and valuation methods should be disclosed in a note.	Accruals based accounting standards are currently being introduced in the German Länder. Each Land may develop its own special regulations to apply to heritage assets.

CHAPTER 1—COMPARISON BETWEEN MARCH AND JUNE VERSIONS

June Version—Paragraph(s)	March Paragraph(s)
<p>1—Introduction</p> <p>36. The preservation of heritage is an important responsibility for governments and other public sector entities, particularly where they hold heritage items. Governments’ aims often also extend beyond preservation, to include restoration and improvement of heritage items, as well as the enhancement of communities’ access to, and enjoyment of, their heritage.</p>	<p>1. The preservation of heritage is an important responsibility for governments and other public sector entities. Chapter 2 discusses what is meant by “heritage”, proposes a description of heritage items and considers different definitions of heritage. (See below for rest of original paragraph 1.) <u>particularly where they hold heritage items. Governments’ aims often also extend beyond preservation, to include restoration and improvement of heritage items, as well as the enhancement of communities’ access to, and enjoyment of, their heritage.</u></p>
<p>37. Many public sector entities hold heritage items. The Preface to The Conceptual Framework for General Purpose Financial Reporting by Public Sector Entities (the Conceptual Framework) identifies this as a distinguishing feature of the public sector, and explains that:</p> <p style="padding-left: 40px;">Governments and other public sector entities may hold items that contribute to the historical and cultural character of a nation or region—for example, art treasures, historical buildings, and other artifacts. They may also be responsible for national parks and other areas of natural significance with native flora and fauna. Such items and areas are not generally held for sale, even if markets exist. Rather, governments and public sector entities have a responsibility to preserve and maintain them for current and future generations⁵.</p>	<p>2. Many public sector entities hold heritage items. This involvement with heritage is a distinguishing feature of the public sector. The Preface to <i>The Conceptual Framework for General Purpose Financial Reporting by Public Sector Entities</i> (the Conceptual Framework) <u>identifies this as a distinguishing feature of the public sector, and</u> explains that:</p> <p style="padding-left: 40px;">Governments and other public sector entities may hold items that contribute to the historical and cultural character of a nation or region—for example, art treasures, historical buildings, and other artifacts. They may also be responsible for national parks and other areas of natural significance with native flora and fauna. Such items and areas are not generally held for sale, even if markets exist. Rather, governments and public sector entities have a responsibility to preserve and maintain them for current and future generations².</p>
<p>38. Some public sector entities, for example museums of departments responsible for laws to preserve and enhance a nation’s heritage, may have heritage-related service performance responsibilities and collect information on a portfolio of heritage that goes beyond those items that the entity holds. This CP also briefly discusses this type of situation, although it is not the main focus of this CP.</p>	<p><i>Not in March version</i></p>

⁵ Paragraph 15 of the *Preface to the Conceptual Framework*.

<p>39. This CP considers whether a heritage item held by an entity represents a resource under the control of the reporting entity. It also considers whether heritage-related responsibilities result in obligations that the entity should report. Where an entity holds heritage items, it is responsible for their preservation, which can be conceived as an obligation to incur preservation expenses once they become due and payable, or an open-ended obligation to preserve the heritage items indefinitely.</p>	<p><i>Not in March version</i></p>
<p><i>Heritage Items' Special Characteristics</i></p> <p>40. Accountants view heritage items as having special characteristics that raise both conceptual and practical issues for financial reporting. Heritage items' special characteristics are usually described, by public sector accounting standard setters, as including the factors listed below⁶:</p> <ul style="list-style-type: none"> (c) Their value in cultural, environmental, educational and historical terms may not be fully reflected in monetary terms; (d) They are often irreplaceable; (e) They are protected, preserved, kept unencumbered, cared for and/or conserved by public sector entities; (f) There are often ethical, legal and/or statutory restrictions or prohibitions that restrict or prevent sale, transfer or destruction by the holder or owner; (g) They may have a long, possibly indefinite useful life due to constant or increasing cultural, environmental, educational, natural scientific, technological, artistic or historical significance; and (h) Their value increases over time, where "value" is either monetary, community-based or both. 	<p>23 The majority of standard setters have focused on physical, non-living heritage such as historic buildings, museum collections, artwork and precious moveable physical items of historic or cultural importance. Heritage is indicated by the cultural or historic significance of items and the likelihood that they will have either a very long life or an indefinitely long life, because they are preserved for future generations. Recognition and initial measurement of heritage assets are viewed as difficult both because the value of heritage items could be difficult or costly to ascertain and because any financial value is viewed as inappropriate given the over-riding heritage value of such items, as well as their likely unavailability for sale or disposal in the ordinary course of events. In addition, subsequent measurement of heritage items, which for property, plant and equipment generally involves depreciation, is viewed as open to debate because the worth and value of heritage items is expected to either remain constant or grow over time.</p>

⁶ Based on the list of special characteristics in paragraph 6 of the South African Accounting Standards Board's (ASB—South Africa) GRAP 103, *Heritage Assets*, which captured characteristics described in other accounting standard setters' pronouncements and the academic literature on accounting for heritage.

<p>41. Financial reporting issues that accountants and stakeholders concerned to preserve heritage often identify as resulting from these special characteristics include:</p> <p>(a) <i>Preservation</i>: If an entity's responsibility is to preserve heritage items rather than to earn revenue or generate cash flows from them, is a heritage item a resource or an obligation from the entity's perspective?</p> <p>(b) <i>Value</i>: If monetary value does not convey the true value of a heritage item, should such items be valued in monetary terms and then reported in the financial statements?</p> <p>(c) <i>Restrictions on use</i>: Given restrictions on entities' ability to use, transfer or sell heritage items, should heritage items be shown as assets in the financial statements?</p> <p>(d) <i>Guardianship</i>: Can a reporting entity be said to control a heritage item for financial reporting purposes, when it holds the item for the benefit of current and future generations?</p>	<p><i>Not in March version</i></p>
<p>42. After discussing heritage items in terms of whether they could be assets for financial reporting purposes, this CP then discusses heritage-related responsibilities and whether they could result in liabilities. For example:</p> <p>(c) When, and in what circumstances, could an entity's stewardship over a heritage item that it holds indicate obligations and the possible existence of a liability?</p> <p>(d) Could some entities have obligations arising from their heritage preservation responsibilities, in addition to obligations that may arise more directly from their holdings of heritage items?</p>	<p><i>Not in March version</i></p>

<p>2—Background to the IPSASB’s Heritage Project</p>	<p><u>2—Background to the IPSASB’s Heritage Project</u></p>
<p>43. Accounting for heritage has been a challenging topic for the IPSASB and for national accounting standard setters for many years. Worldwide there are a range of different views on how to account for heritage items, including different perspectives on heritage definitions, whether such items are assets or liabilities for financial reporting purposes, whether they should be recognized and, if recognized, how they should be measured. Standard setters also have had different perspectives on heritage-related disclosures, which include both enhanced disclosures in the financial statements and provision of information on heritage items and heritage responsibilities in supplementary reports, outside of the general purpose financial report (GPFR) that includes the financial statements.</p>	<p>16. Accounting for heritage assets—has been a challenging topic for the IPSASB and for national <u>accounting</u> standard setters for many years. Worldwide there are a range of different views on how to account for heritage items, including different perspectives on heritage definitions, whether such items are assets <u>or liabilities</u> for financial reporting purposes, whether they should be recognized and, if recognized, how they should be measured. <u>Standard setters also have had different perspectives on heritage-related disclosures, which include both enhanced disclosures in the financial statements and provision of information on heritage items and heritage responsibilities in supplementary reports, outside of the general purpose financial report (GPFR) that includes the financial statements.</u></p>
<p><i>IPSASs and IPSASB’s 2006 Consultation Paper</i></p> <p>44. The IPSASB first considered heritage accounting during development of IPSAS 17, <i>Property, Plant and Equipment</i> (IPSAS 17). IPSAS 17 includes paragraphs on accounting for heritage assets. They describe heritage assets and allow reporting entities to recognize them. If an entity chooses to recognize some or all of its heritage assets, then it needs to make the disclosures identified in the Standard. Entities are not required to apply IPSAS 17’s measurement requirements. The Standard takes the approach of allowing for different heritage accounting practices, but supports transparency by specifying that measurement approaches should be disclosed, including, for example, whether or not the entity depreciates some or all of the heritage items that it has recognized as assets.</p>	<p><i>Present</i> <i>IPSASs and IPSASB’s 2006 Consultation Paper</i></p> <p>17. The IPSASB first considered heritage accounting during development of IPSAS 17, <i>Property, Plant and Equipment</i> (IPSAS 17). IPSAS 17 includes paragraphs on accounting for heritage assets. They describe heritage assets and allow reporting entities to recognize them. If an entity chooses to recognize some or all of its heritage assets, then it needs to make the disclosures identified in the Standard. Entities are not required to apply IPSAS 17’s measurement requirements. The Standard takes the approach of allowing for different heritage accounting practices, but supports transparency by specifying that measurement approaches should be disclosed, including, for example, whether or not the entity depreciates some or all of the heritage items that it has recognized as assets.</p>
<p>45. The IPSASB took a similar approach in IPSAS 31, <i>Intangible Assets</i> (IPSAS 31). IPSAS 31 includes paragraphs on accounting for intangible heritage assets, which are based on those in IPSAS 17. In effect, the IPSASB’s approach in these two Standards acknowledged the difficult financial reporting issues raised by heritage items, and allowed preparers or national jurisdictions to determine their accounting for heritage until this topic could be considered in depth.</p>	<p>18. The IPSASB took a similar approach in IPSAS 31, <i>Intangible Assets</i> (IPSAS 31). IPSAS 31 includes paragraphs on accounting for intangible heritage assets, which are based on those in IPSAS 17. Heritage accounting may also be relevant to the two IPSASs on impairment and to IPSAS 27, <i>Agriculture</i>, although these three standards do not refer to heritage assets.</p> <p>19. In effect, the IPSASB’s approach in these two Standards acknowledged the difficult financial reporting issues raised by heritage items, and allowed preparers or national jurisdictions to determine their accounting for heritage assets—until this topic could be considered in depth.</p>

<p>46. In 2004 the IPSASB commenced a heritage assets project in collaboration with the United Kingdom's Accounting Standards Board (the ASB—UK). A CP, <i>Accounting for Heritage Assets under the Accrual Basis of Accounting</i>, was published in February 2006. The CP consisted of a discussion paper developed and approved by the ASB—UK, with an introduction and preface developed by the IPSASB's Heritage Assets Subcommittee. After reviewing submissions in late 2006, the IPSASB decided to defer further work until its Conceptual Framework had been completed.</p>	<p>20. In 2004 the IPSASB commenced a heritage assets project in collaboration with the United Kingdom's Accounting Standards Board (the UK-ASB—UK). A CP, <i>Accounting for Heritage Assets under the Accrual Basis of Accounting</i>, was published in February 2006. The CP consisted of a discussion paper developed and approved by the UK-ASB—UK, with an introduction and preface developed by the IPSASB's Heritage Assets Subcommittee. As stated above, <u>after</u> reviewing submissions in late 2006, the IPSASB decided to defer further work until after its Conceptual Framework had been completed.</p>
<p><i>National Standard Setters' Pronouncements</i></p> <p>47. The IPSASB's 2006 CP included two appendices with comprehensive summaries of national standard setters' accounting treatments relevant to heritage items. These have been updated for more recent developments⁷ and are included as Appendix A and Appendix B of this CP. They demonstrate the wide range of different accounting approaches that exist at the national level for heritage items.</p>	<p><i>National Standard Setters' Pronouncements</i></p> <p>21. The IPSASB's 2006 consultation paper <u>CP</u> included two appendices with comprehensive summaries of national standard setters' accounting treatments for <u>relevant to</u> heritage asset <u>items</u>. These have been updated for more recent developments³ and <u>are</u> included as Appendix A and Appendix B of this CP. They demonstrate the wide range of different accounting approaches that exist at the national level for heritage items.</p>
<p>IPSASB's Heritage Project</p> <p>48. With completion of the Conceptual Framework, published in November 2014, the IPSASB had the conceptual toolkit to once again consider accounting for heritage. Furthermore, the IPSASB's 2013–2014 strategy and work plan consultation found that constituents agreed that accounting for heritage should be an IPSASB priority.</p>	<p><i>Not in March version</i></p>

⁷ *Question for IPSASB:* The two appendices have not been updated, and IPSASB members will be asked to indicate whether these appendices should be included in the CP. If so, they will need to be updated. Staff is aware of heritage accounting developments that have occurred in several national jurisdictions since the 2006 CP was compiled, for example France, South Africa and the United Kingdom.

<p><i>Accounting for Heritage and the Public Interest</i></p> <p>49. As noted in paragraph 10 above, present IPSASs allow entities to report on heritage items using different accounting practices. The description of a “heritage asset” in present IPSASs also allows inconsistent practices with respect to categorization of assets as either heritage or non-heritage assets. This has negative consequences for the public interest because it impacts on the quality of information reported. There are costs for both preparers and users when financial reporting standards allow this type of discretion. Development of new IPSASB guidelines on accounting for heritage is expected to enhance the quality of information that GPFs provide for users’ needs, thereby improving accountability and decision making, which supports the public interest.</p>	<p><i>Not in March version</i></p>
<p><i>Task Force and the Project’s First Phase—A Consultation Paper</i></p> <p>50. A project brief for the Heritage Project was approved in June 2015. The first IPSASB discussion occurred in September 2015.</p>	<p><i>The IPSASB’s Heritage Assets Project</i></p> <p>6. This consultation paper (CP) is the first publication from the IPSASB’s Heritage Assets Project since project brief approval in June 2015.</p>
<p>51. A Task Force (the Task Force on Accounting for Heritage) was established in late January 2016, and began its contributions to the project in April 2016. The Task Force advises on heritage accounting issues, including measurement and valuation of heritage. Task Force members, their colleagues and technical advisors have provided invaluable support to this project. The Task Force consists of Amanda Botha (South Africa), Michel Camoin (France), Howard (Mike) Blake (Australia), Domenic Savini (United States of America), Bernard Schatz (Austria), Adriana Tiron Tudor (Romania), and David Tomback (United Kingdom).</p>	<p><i>Heritage Assets Task Force</i></p> <p>9. After IPSASB discussions in September and December of 2015, a Heritage Assets Task Force (the Task Force) was established in January 2016. The Task Force has advised on heritage accounting issues, including measurement and valuation of heritage, and provided significant direction and support to this project.</p> <p>10. The Task Force has representation from IPSASB members, national standard setters and the valuation community. It consists of Amanda Botha (South Africa), Michel Camoin (France), Annalien Carstens (South Africa), Howard (Mike) Blake (Australia), Bernard Schatz (Austria), Adriana Tiron Tudor (Romania), and David Tomback (United Kingdom).</p>

<p>52. The project's objectives include to develop a CP highlighting the main options for heritage accounting. This CP is the Heritage Project's first publication. Constituents' comments on the options and issues identified in this CP will be important input to the IPSASB's development of an exposure draft (ED) on heritage accounting guidelines, which is the intended next phase of this project.</p>	<p><i>The IPSASB's Heritage Assets Project</i></p> <p>7. The objectives for this project are to:</p> <p>(a) Issue a revised IPSAS 17, Property, Plant and Equipment, (or other IPSAS), with additional requirements and/or more detailed guidance on heritage assets; and</p> <p>(b) Produce a CP highlighting the main options for accounting and disclosure and an Exposure Draft (ED) of proposed requirements and guidance related to heritage assets, as intermediate products.</p> <p>8. The project's rationale, as explained in the project brief, is to:</p> <p>...provide more detailed requirements and guidance on accounting for heritage assets in a revised IPSAS 17 or another IPSAS. The project may also result in more detailed requirements and guidance on accounting for heritage assets that are not property, plant and equipment, for example intangible heritage assets or heritage assets that meet the definition of biological assets. The project will consider development of an IPSAS, a Recommended Practice Guideline, and the possibility of doing both in order to address both information in the financial statements and information reported outside of the financial statements. [Paragraph 2.1.]</p>
<p>Approach in this Consultation Paper</p> <p><i>A Broader, More Inclusive Approach</i></p> <p>53. In the past, most accounting standard setters have focused on heritage items as possible assets. They have not considered accounting issues raised by heritage responsibilities and possible liabilities. Furthermore, the focus has been on tangible, non-living heritage items such as historic buildings, artwork and museum collections. These heritage items have been described as "heritage assets". Starting with a heritage asset, accounting standard setters have considered whether such items should be recognized, how they should be measured, the type of information that should be reported, and whether information should be presented in the financial statements or disclosed elsewhere. The IPSASB's previous CP on this topic took this approach. However, the proposals in that CP did not gain support from IPSASB stakeholders. One concern was that it had not considered other types of heritage, particularly natural heritage.</p>	<p><i>Not in March version</i></p>

<p>54. This CP takes a broader, more inclusive approach to both its description of heritage items and its consideration of heritage accounting issues. It discusses:</p> <ul style="list-style-type: none"> (d) Issues raised by heritage items as resources, which could be assets for financial reporting purposes; (e) The significance of heritage-related responsibilities for reporting of liabilities; and (f) Other types of information, outside of the financial statements, which reporting entities with significant heritage responsibilities may present. 	<p>3—Approach taken in this CP <i>Inclusive Approach—Heritage and Accounting Issues</i></p> <p>11. This CP begins by taking an inclusive approach to both its description of heritage items and its consideration of heritage accounting issues. Previously there has been a tendency to focus on tangible, non-living heritage items such as historic buildings, artwork and museum collections....</p>
<p>55. This CP also considers a broad set of different types of heritage items. It starts with the four categories of heritage used in what this CP terms “the UNESCO definitions”. These UNESCO definitions of heritage are enshrined in the UNESCO developed international conventions for the protection of heritage⁸. The four categories are:</p> <ul style="list-style-type: none"> (e) Cultural heritage, (f) Underwater cultural heritage (g) Intangible cultural heritage, and (h) Natural heritage. 	<p>11. (Continued) ...This CP takes the four categories of heritage used in UNESCO conventions for the protection of heritage as its starting point. These four categories cover cultural property, intangible heritage, natural heritage and underwater heritage. By first developing a description of “heritage items” rather than a definition of “heritage assets” it allows for separate discussion of whether and when different heritage items could be assets for the purposes of financial reporting.</p>
<p>56. Applying these UNESCO definitions, heritage items range from tangible items such as historic buildings, historic artifacts, shipwrecks and archeological areas to intangible items such as language and dance, which rely on continued use for their preservation. Heritage items may also include natural heritage, which covers nature reserves and parks that support combinations of living and non-living items including rare ecological systems and populations of rare animals.</p>	<p>1. (Continued) ...In brief, heritage items range from tangible items such as historic buildings, historic artifacts, shipwrecks and archeological areas to intangible items such as language and dance, which rely on continued use for their preservation, and natural heritage, which covers nature reserves and parks that support combinations of living and non-living items including rare ecological systems and populations of rare animals. The critical shared aspect for all of these examples of heritage is that they are precious enough and important enough to be preserved for present and future generations.</p>

⁸ Article 1, 1954 *Convention for the Protection of Cultural Property in the Event of Armed Conflict with Regulations for the Execution of the Convention* defines “cultural property”, as does Article 1 of the 1970 *Convention on the Means of Prohibiting and Preventing the Illicit Import, Export and Transfer of Ownership of Cultural Property*. Article 1 of the 1972 *Convention on Protecting the World Cultural and Natural Heritage* defines “cultural heritage” and “natural heritage”. Article 1, 2001 *Convention on Safeguarding the Underwater Cultural Heritage*, defines “underwater cultural heritage”. Article 2, 2003 *Convention on Safeguarding the Intangible Cultural Heritage*, defines “intangible cultural heritage”.

<p>57. Second, by first developing a description of “heritage items” rather than a definition of “heritage assets” this CP allows for separate discussion of whether and when different heritage items could be assets for the purposes of financial reporting. As discussed in Chapter 2, this CP proposes the following working description of “heritage items”:</p> <p style="padding-left: 40px;">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 archeological, architectural, agricultural, artistic, cultural, environmental, historical, natural, scientific and technological importance.</p>	<p><i>Not in March version</i></p>
<p><i>Application of the Conceptual Framework</i></p> <p>58. This CP applies the Conceptual Framework to heritage, considers the special characteristics of heritage items, and discusses how to meet users’ needs for information about heritage items, given their special characteristics, and about heritage–related responsibilities. It also takes into consideration the IPSASB’s policies with respect to IFRS convergence and reduction of unnecessary differences between IPSAS and GFS reporting guidelines.</p>	
<p>59. Application of the Conceptual Framework to the special characteristics of heritage items and to public sector entities’ heritage preservation responsibilities is what drives this CP’s discussion of users’ information needs, element definition, recognition and measurement, and presentation (display and disclosure) of heritage–related information in both the financial statements and in GPFRs that do not include the financial statements.</p>	<p>13. Application of the Conceptual Framework to the special characteristics of heritage items is what drives this CP’s discussion of users’ information needs, element definition, recognition and measurement, and presentation of heritage–related information in the financial statements.</p>
<p><i>IPSASB Policies and Pronouncements, and Standard Setters’ Views on Accounting for Heritage</i></p> <p>60. This CP also takes into account the following IPSASB documents:</p> <p style="padding-left: 40px;">(d) <i>Process for Reviewing and Modifying IASB Documents</i>;</p> <p style="padding-left: 40px;">(e) <i>Process for Considering GFS Reporting Guidelines during Development of IPSASs</i>; and</p> <p style="padding-left: 40px;">(f) <i>Recommended Practice Guideline (RPG) 3, Reporting Service Performance Information</i>.</p>	<p>14. This CP also takes into account the following IPSASB documents:</p> <p style="padding-left: 40px;">(g) <i>Process for Reviewing and Modifying IASB Documents</i>;</p> <p style="padding-left: 40px;">(h) <i>Process for Considering GFS Reporting Guidelines during Development of IPSASs</i>; and</p> <p style="padding-left: 40px;">(i) <i>Recommended Practice Guideline (RPG) 3, Reporting Service Performance Information</i>.</p>

<p>61. The IPSASB's Heritage Project is not an IFRS convergence project. However, IFRS relevant to heritage accounting issues and a sample of for-profit national standard setters' accounting pronouncements have been reviewed so that proposals herein take into account private, for-profit practices with respect to accounting for heritage.</p>	<p><i>Not in March version</i></p>
<p>62. An overview of the IPSASB's previous considerations of heritage accounting and of national accounting standard setters' pronouncements on this topic are provided in Section 2 above and in the appendices to this CP. These have been reviewed to understand the special characteristics of heritage, as previously identified by accounting standard setters, and accounting approaches developed to address those characteristics.</p>	<p>15. An overview of the IPSASB's previous considerations of heritage accounting and of national accounting standard setters' pronouncements on this topic are provided in Section 4 below and in the appendices to this CP. These have been reviewed to understand the special characteristics of heritage, previously identified by accounting standard setters, and accounting approaches developed to address those characteristics.</p>
<p>Overview of the Structure of this Consultation Paper <i>Chapters 2 and 3: Heritage Items, Resources and Assets</i></p> <p>63. Although this CP takes a broader approach than previous IPSASB considerations of accounting for heritage, the question of whether or not heritage items are assets for financial reporting purposes remains an important question. Two further questions about meaning lie beneath that question:</p> <ul style="list-style-type: none"> (i) What do we mean by a "heritage item"? (j) What do we mean by an "asset" within the context of financial reporting? 	<p><i>Not in March version</i></p>
<p>64. The first question is discussed in the next chapter, Chapter 2, which proposes a working description of a heritage item, identifies and describes the four categories of heritage discussed in this CP, and then discusses how to identify a "heritage item". That last point can also be described as an "accounting unit" question, because accounting often involves decisions about grouping things together into one larger unit or breaking them down into separate, smaller units in order to provide meaningful information to users of the financial reports.</p>	<p><i>Not in March version</i></p>

<p>65. Then Chapter 3 discusses the second question of whether or not heritage items are assets for financial reporting purposes. This is not a straightforward question within the context of financial reporting. Everyone agrees that heritage items are precious, valuable things. In common, everyday speech the word “asset” can be used to mean “something of value”. Applying this everyday meaning, most would agree that heritage items are assets, because they are either valuable or valued by the community or both. But does the same conclusion result if the financial reporting definition of an asset is applied?</p>	<p><i>Not in March version</i></p>
<p>66. This CP applies the Conceptual Framework’s definition of an asset to consider whether heritage items should be considered assets for financial reporting purposes. As will be discussed in Chapter 3, existence of an asset for financial reporting purposes involves two further words; “resource” and “control”. The Conceptual Framework has established guidance on the meaning of these two words within the context of financial reporting and the development of IPSASB pronouncements.</p>	<p><i>Not in March version</i></p>

Chapters 4, 5 and 6: Financial Statement Recognition, Obligations and Liabilities, and Presentation

Not in March version

67. The next three chapters—Chapters 4, 5 and 6—then apply the Conceptual Framework to other financial reporting issues raised by the special nature of heritage items. As for Chapter 3, these three chapters focus on heritage-related information in the financial statements. They apply the Conceptual Framework chapters that address definition, recognition and measurement within the context of information presented in the financial statements. Specifically, these three chapters address the following topics:

- (k) Chapter 4 considers the recognition of heritage assets, building on Chapter 3's discussion of heritage items as assets for financial reporting purposes. This discussion focuses on asset measurement, which is an essential part of asset recognition.
- (l) Chapter 5 considers whether heritage-related obligations could result in liabilities and, if so, at what point (or in what circumstances) a heritage-related obligation would result in a liability that can or should be recognized in the financial statements.
- (m) Chapter 6 describes issues related to presentation of heritage information in the financial statements, which considers, for example, whether one or more separate line items should be displayed on the face of the statements and what type of information should be disclosed in the notes. This chapter builds upon earlier chapters to explore presentation related to the recognition of heritage items as assets and related responsibilities as liabilities. Chapter 7 (see below) develops information presentation options raised by non-recognition of heritage items, while also considering a broader set of heritage-related information.

<p><i>Chapter 7, Other Information Needs—Reporting Outside of the Financial Statements</i></p> <p>68. Chapter 7 takes a broader look at heritage-related information. It describes public sector entities' heritage responsibilities, and discusses what heritage-related information should be made publicly available to support those responsibilities. The Conceptual Framework has established that users' needs could result in information reported outside of the GPFR that includes the financial statements. Applying that new approach the IPSASB has already developed three "recommended practice guidelines" (RPGs) that can be applied to such information. These address reporting of service performance information, information on the sustainability of public finances, and financial statements discussion and analysis. IPSAS 24, <i>Reporting Budget Information</i>, provides guidelines on how to present budget information in the financial statements.</p>	<p><i>Not in March version</i></p>
<p>69. Many national jurisdictions already report heritage-related information that is important for heritage preservation, important to the general public, but does not form part of a financial report. Such information is within the purview of heritage specialists. It is not "accounting information". Chapter 7 discusses the inter-relationship between these two areas of reporting, as they apply to reporting heritage-related information:</p> <ul style="list-style-type: none"> (n) <i>GPFR information</i>: Information for financial reporting purposes; and (o) <i>Other information</i>: Information outside of the GPFRs. <p>70. Chapter 7 discusses the boundary between these two types of information, as this applies to the issue of reporting heritage-related information.</p>	<p><i>Not in March version</i></p>
<p><i>No equivalent in June version:</i></p>	<p>2—IPSASB's Heritage Assets Project <i>Need for a Heritage Assets Project</i> 3. Present IPSASs allow entities to report on heritage items using different accounting practices. The description of a "heritage asset" in present IPSASs also allows inconsistent practices with respect to categorization of assets as heritage assets. This has negative consequences for the public interest because it impacts on the quality of information reported. There are costs for both preparers and users when financial reporting standards allow this type of discretion.</p>

<p><i>No equivalent in June version:</i></p>	<p>4. The IPSASB has long recognized the need to address accounting for heritage. Work began on a consultation paper in 2004, which was then issued in 2006. After considering responses to that paper, further work was deferred until after completion of the Conceptual Framework. With the Conceptual Framework's completion the opportunity now exists to improve the IPSASB's suite of standards by either:</p> <p>(a) Revising existing IPSASs to better address accounting for heritage assets; or</p> <p>(b) Developing a new IPSAS on accounting for heritage.</p>
<p><i>No equivalent in June version:</i></p>	<p>5. This is expected to enhance the quality of information that General Purpose Financial Reports (GPFs) provide for users' needs, thereby improving accountability and decision making, which supports the public interest. This project was identified as a priority for the IPSASB during its 2013-2014 strategy and work plan consultation. Constituents' responses to that consultation supported treating accounting for heritage assets as an IPSASB priority.</p>
<p><i>No equivalent in June version:</i></p>	<p>8. The project's rationale, as explained in the project brief, is to:</p> <p>...provide more detailed requirements and guidance on accounting for heritage assets in a revised IPSAS 17 or another IPSAS. The project may also result in more detailed requirements and guidance on accounting for heritage assets that are not property, plant and equipment, for example intangible heritage assets or heritage assets that meet the definition of biological assets. The project will consider development of an IPSAS, a Recommended Practice Guideline, and the possibility of doing both in order to address both information in the financial statements and information reported outside of the financial statements. [Paragraph 2.1.]</p>
<p><i>No equivalent in June version:</i></p>	

<p><i>No equivalent in June version:</i></p>	<p>12. Prior to considering heritage assets, this CP considers the more fundamental questions of public sector entities' involvement with heritage and the information needs that users of GPFERs could have for information about heritage, given these different types of involvement. That discussion frames the CP's subsequent focus which, consistent with the project's scope, is on what information should be reported in the <i>financial statements</i>, further focusing primarily on information about heritage assets, but also discussing information on heritage-related obligations.</p>
<p><i>No equivalent in June version:</i></p>	<p>22. When developing accounting for heritage national standard setters have focused on "heritage assets". The main accounting issues raised by heritage assets are:</p> <p>(a) The definition of a "heritage asset" and the types of heritage asset for which a pronouncement should be development;</p> <p>(b) Recognition of a heritage asset, where recognition could be viewed as appropriate for all heritage assets that meet the applicable recognition criteria, a defined subset of such assets or no heritage assets; and</p> <p>(c) Measurement of heritage assets, including whether subsequent measurement should involve depreciation.</p>
<p><i>Not in June version of chapter 1. (Content of the previous section 5 will form a separate chapter in the CP.)</i></p>	<p>5—Public Sector Entities' Heritage Responsibilities and Information Needs</p> <p>24. This CP focuses on information about heritage items reported in the financial statements. However, it is important to place this within the wider context of governments' heritage aims and the wide-ranging set of activities undertaken by public sector entities in order to achieve those aims. Financial information is likely to be only one part, albeit an important part, of the overall set of heritage-related information available to the public.</p>
<p><i>Not in June version of chapter 1. (Content of the previous section 5 will form a separate chapter in the CP.)</i></p>	<p><i>Information Needs</i></p> <p>25. This CP focuses on information about heritage items reported in the financial statements. However, it is important to place this within the wider context of governments' heritage aims and the wide-ranging set of activities undertaken by public sector entities in order to achieve those aims. Financial information is likely to be only one part, albeit an important part, of the overall set of heritage-related information available to the public.</p>

Not in June version of chapter 1. (Content of the previous section 5 will form a separate chapter in the CP.)

~~*Governments' Heritage Preservation and Conservation Aim*~~

~~26. National governments and other levels of government aim to preserve the nation's and local communities' heritage. In pursuit of this aim governments are likely to establish legislation and regulation to protect heritage items. National governments also sign up to UNESCO conventions to protect the world's heritage, which includes international level identification of heritage items. UNESCO conventions cover the following four types of heritage:~~

- ~~(a) Cultural property, which covers physical items such as buildings, sculptures and artwork;~~
- ~~(b) Natural heritage, which covers land and water areas and the living items (plants and animals) that inhabit those areas;~~
- ~~(c) Intangible heritage; and~~
- ~~(d) Underwater heritage.~~

Not in June version of chapter 1. (Content of the previous section 5 will form a separate chapter in the CP.)

~~27. Given governments' over-arching aim to preserve heritage, public sector entities' activities in pursuit of that aim could include any and all of the following:~~

- ~~(a) Development of legislation and regulation for heritage preservation and conservation;~~
- ~~(b) Definition, classification, identification and listing of heritage items;~~
- ~~(c) Reporting on heritage items (descriptions, extent, status, trends with respect to their preservation; service performance related to heritage items);~~
- ~~(d) 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;~~
- ~~(e) Enforcement of legislation, which could involve prevention of destruction or removal of heritage items, enforcement of restrictions on heritage item sales, and other steps to prevent loss or alienation of heritage items;~~
- ~~(f) Holding, conservation, preservation and management of heritage assets (for example, the activities of public sector entities such as museums, art galleries, zoos, nature reserves, etc.);~~
- ~~(g) Education activities related to heritage items (e.g. appreciation and preservation);~~
- ~~(h) Construction of fences, buildings, etc. to protect and preserve heritage items; and~~
- ~~(i) Enforcement of restrictions on construction and other industry activities that could destroy or damage heritage items.~~

<p><i>Not in June version of chapter 1. (Content of the previous section 5 will form a separate chapter in the CP.)</i></p>	<p><i><u>Public Sector Entities and Heritage Responsibilities</u></i></p> <p>28. The list of public sector activities above indicates that the extent to which a public sector entity focuses on heritage is likely to vary. The following three heritage responsibilities can be identified:</p> <ul style="list-style-type: none"> (a) Heritage items are held by the public sector entity and the entity is directly responsible for their preservation; (b) Heritage preservation is the primary (or a very important) service performance objective for the entity—museums, art galleries, department or ministry primarily responsible for legislation, monitoring or management of heritage; and (c) Heritage related services are a relatively small part of what the entity does—customs officials, police, schools, universities.
<p><i>Not in June version of chapter 1. (Content of the previous section 5 will form a separate chapter in the CP.)</i></p>	<p>29. The responsibility of holding one or more heritage items affects the largest number of public sector entities. Holding heritage items, with the ability to control access to them, is not restricted to entities such as museums, art galleries, or agencies responsible for national parks or national wildlife reserves. For example, schools, universities and hospitals may have heritage buildings or heritage artwork. Similarly, an entity responsible for every-day activities such as water supply or provision of rail transportation may operate using infrastructure or buildings that have been identified as heritage items. There are, for example, many beautiful, historic and architecturally significant railway stations.</p>
<p><i>Not in June version of chapter 1. (Content of the previous section 5 will form a separate chapter in the CP.)</i></p>	<p>30 Only a relatively small number of entities have the provision of heritage services as their service performance objectives.</p>

<p><i>Not in June version of chapter 1. (Content of the previous section 5 will form a separate chapter in the CP.)</i></p>	<p><i>Primary Focus of Consultation Paper—Accounting for Heritage Items Held</i></p> <p>31. This CP primarily focuses on entities' accounting for the heritage items that they hold. Furthermore, its main focus is on information reported in the financial statements. Partly this is due to the Heritage Asset Project's intended focus as indicated by the project's title and its brief. However, it also reflects:</p> <ul style="list-style-type: none"> (a) The Conceptual Framework's description of what information falls within the scope of financial reporting; and (b) IPSASB pronouncements that already go some way towards addressing other heritage-related information in financial reports. <p>These points are discussed in more detail below.</p>
<p><i>Not in June version of chapter 1. (Content of the previous section 5 will form a separate chapter in the CP.)</i></p>	<p><i>Entities with Major Heritage Preservation Responsibilities—Other Types of Information</i></p> <p>32. Public sector entities with major responsibilities for heritage preservation may also produce the following types of heritage-related information:</p> <ul style="list-style-type: none"> (a) Budget information that helps users to understand the budget available for heritage activities and the entity's actual application of that budget; (b) Financial sustainability information that helps users to understand the entity's ability to provide heritage preservation services into the future; and (c) Service performance information focused on the heritage-related services that the entity provides; (d) Reports on heritage items, including lists of, and status reports on, heritage items.
<p><i>Not in June version of chapter 1. (Content of the previous section 5 will form a separate chapter in the CP.)</i></p>	<p>33. Of these four types of information the first three fall within the scope of financial reporting and the IPSASB has already issued pronouncements on them which an entity can use to report information relevant to assessment of its heritage preservation services. These information sets focus on a reporting entity and deal with information on either its finances or the services that it provides. By contrast, the fourth type of report focuses on heritage items, without restriction to those held by a particular entity. As discussed below, this type of "heritage status" report does not fall within the scope of financial reporting.</p>

<p><i>Not in June version of chapter 1. (Content of the previous section 5 will form a separate chapter in the CP.)</i></p>	<p>Budget Information and an Entity's Heritage Related Commitments</p> <p>34. A public sector entity responsible for heritage preservation should have a budget to deliver on that commitment. Depending on the entity, the approved budget may support preservation of a broad set of heritage items, including heritage that is not held by the entity and may not even be held in the public sector. Users of its financial reports hold the entity accountable for its budget usage and its achievement of heritage related service performance objectives. IPSAS 24, Presentation of Budget Information in Financial Statements, covers reporting on budgets and their usage.</p>
<p><i>Not in June version of chapter 1. (Content of the previous section 5 will form a separate chapter in the CP.)</i></p>	<p>Reporting of Information on Long-Term Sustainability of Entity's Finances</p> <p>35. Financial sustainability information helps users to understand whether an entity can continue to exist and deliver its intended services. Given the future orientation of heritage preservation, where the focus is on preservation for future generations, long-term financial sustainability information for such entities is likely to be important to users of their financial reports. The IPSASB has issued RPG 1, Reporting on the Long-Term Sustainability of an Entity's Finances, which provides guidelines on reporting such information.</p>

<p><i>Not in June version of chapter 1. (Content of the previous section 5 will form a separate chapter in the CP.)</i></p>	<p>Reporting of Service Performance Information</p> <p>36. Where a public sector entity's responsibilities have a significant focus on heritage related services, the entity may, depending on national reporting requirements or guidelines, report service performance information on its heritage related activities. The IPSASB has issued a recommended practice guideline (RPG) on reporting service performance information. RPG 3, <i>Reporting Service Performance Information</i> (RPG 3), explains that:</p> <p style="padding-left: 40px;">Service performance information is information on the services that the entity provides, an entity's service performance objectives and the extent of its achievement of those objectives. Service performance information assists users of GPFERs (hereafter termed "users") to assess the entity's service efficiency and effectiveness. [paragraph 1, RPG 3]</p> <p>37. RPG 3 provides guidelines for such reporting, while allowing sufficient flexibility to ensure that national jurisdictions and individual public sector entities effectively and appropriately address users' service performance information needs and report information that is relevant to their service performance objectives. Given the guidance already provided in RPG 3 this CP does not discuss further the topic of heritage related service performance information.</p>
<p><i>Not in June version of chapter 1. (Content of the previous section 5 will form a separate chapter in the CP.)</i></p>	<p>Status of Heritage Items—Lists, Conditions and Other Developments</p> <p>38 As is evident from the list of activities above, some public sector entities (for example, a government department responsible for legislation to preserve heritage) will have heritage preservation responsibilities that are not restricted to those items that the entity holds. Many of the activities listed above apply to all heritage items within a jurisdiction, regardless of whether they are held by:</p> <p style="padding-left: 40px;">Public or private sector entities;</p> <p style="padding-left: 40px;">Reporting entities or entities not required to present a GPER.</p> <p>39 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 GPER. 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.</p>

<p><i>Not in June version of chapter 1. (Content of the previous section 5 will form a separate chapter in the CP.)</i></p>	<p>40 Where a public sector entity has a general responsibility to preserve heritage that entity is likely to produce publicly available listings or status reports on heritage items, which cover all relevant heritage items regardless of whether they are controlled by public sector entities. For example, a “Ministry of Heritage Buildings,” whose primary role is to preserve heritage buildings could publish a status report called “The State of the Nation’s Heritage Buildings”, which included the following information:</p> <p>A list of all heritage buildings, based on definitions and a schedule in legislation;</p> <p>A quality indicator (A, B, C or “at risk”) for each building, showing their state of preservation; and</p> <p>Discussion of heritage building preservation, covering a broad set of public sector and private sector initiatives and achievements.</p> <p>41 Such reports provide important information on heritage preservation and could be referenced in an entity’s service performance information. However, as discussed below, they do not, in themselves, fall within the scope of financial reporting.</p>
<p><i>Not in June version of chapter 1. (Content of the previous section 5 will form a separate chapter in the CP.)</i></p>	<p><i>Scope of Financial Reporting, Users’ Needs and Information about the Entity</i></p> <p>42 The Conceptual Framework supports a more comprehensive scope for financial reporting than that solely encompassed by the financial statements. Consistent with this more comprehensive scope, the IPSASB has issued three recommended practice guidelines (RPGs) that address information presented outside of the financial statements; RPG 1, <i>Reporting on the Long-Term Sustainability of an Entity’s Finances</i>, RPG 2, <i>Financial Statement Discussion and Analysis</i>, and RPG 3, <i>Reporting Service Performance Information</i>. Consistent with the Conceptual Framework’s description of what information could be reported in “more comprehensive scope” GPFs, in each case the information reported:</p> <p>Enhances, complements, or supplements the financial statements;</p> <p>Responds to certain aspects of the objectives of financial reporting; and</p> <p>Relates to the matters addressed within the scope of financial reporting.</p>

<p><i>Not in June version of chapter 1. (Content of the previous section 5 will form a separate chapter in the CP.)</i></p>	<p>43 The Conceptual Framework further explains that the scope of financial reporting is determined by the information needs of the primary users of GPFs and the objectives of financial reporting.</p> <p>44 The Conceptual Framework outlines the factors that determine what may be encompassed within the scope of financial reporting. It explains that the primary users of GPFs are resources providers and service recipients. They are interested in information about the resources provided to the entity and services received from the entity. They need information about the entity that is useful to them for accountability purposes and for decision-making purposes. Information for these purposes helps users to hold the entity accountable and make decisions about the entity. Examples of information useful for these purposes focus on the entity. For example, users of GPFs are likely to need information about the entity's performance, its liquidity and its sustainability.</p>
<p><i>Not in June version of chapter 1. (Content of the previous section 5 will form a separate chapter in the CP.)</i></p>	<p><i>Heritage Status Reports Outside of Financial Reporting's Scope</i></p> <p>45 The type of information provided in a listing of heritage items or a status report on heritage does not report only on heritage items held by the reporting entity. Instead, it aims to provide a full listing and/or description of heritage items, covering items in public and private ownership. Information in the financial statements focuses on resources controlled by the reporting entity. This type of reporting on resources held by many different entities does not fit within the scope of financial reporting, which has information about the entity as its focus. However, as noted above, some entities may report heritage-related service performance information and, in that situation, refer to heritage status information as outcome information. This will depend on the entity's service performance objectives and choice of performance indicators.</p>

DRAFT CHAPTER 2— DESCRIPTION OF A HERITAGE ITEM AND CATEGORIES OF HERITAGE**Overview of Chapter**

1. This chapter proposes a working description for “heritage items” and describes the four categories of heritage items for discussion in this CP. It then discusses heritage item identification issues that arise when developing financial reporting guidelines applicable to heritage items. The chapter begins by highlighting the Conceptual Framework’s references to items that have what are commonly identified as heritage characteristics and to heritage assets.

The Conceptual Framework—Heritage Items and Heritage Assets

2. Paragraph 15 of the Preface to the Conceptual Framework introduces the idea that public sector entities may “...hold items that contribute to the historical and cultural character of a nation or region—for example, art treasures, historical buildings, and other artifacts.” It then states that [public sector entities] “...may also be responsible for national parks and other areas of natural significance with native flora and fauna.” The paragraph concludes by stating that:

Such items and areas are not generally held for sale, even if markets exist. Rather, governments and public sector entities have a responsibility to preserve and maintain them for current and future generations.

3. Paragraph 15 does not use the word “heritage”. However the idea of “items that contribute to the historical and cultural character of a nation or region—for example, art treasures, historical buildings, and other artifacts” is similar to the description of heritage assets in IPSAS 17’s paragraph 10, which states that:

Some assets are described as heritage assets because of their cultural, environmental, or historical significance. Examples of heritage assets include historical buildings and monuments, archaeological sites, conservation areas and nature reserves, and works of art.

4. IPSAS 31, *Intangible Assets*, uses similar wording as follows:

Some intangible assets are described as intangible heritage assets because of their cultural, environmental, or historical significance.

5. Chapter 5 of the Conceptual Framework refers to heritage assets when it discusses the meaning of “resource” in the definition of an asset for financial reporting purposes. Paragraph 5.9 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.

6. So the Conceptual Framework identifies heritage assets and gives examples of heritage assets, while also using the idea of such assets to illustrate some characteristics that public sector assets may exhibit. As noted in Chapter 1, one of the characteristics of public sector entities is that they hold heritage items and have a responsibility to preserve and maintain them for current and future generations.

7. The Conceptual Framework does not define a heritage item or a heritage asset. The description of a heritage item proposed below and the heritage categories described in this chapter aim to be consistent with the Conceptual Framework's references to heritage.

The Conceptual Framework—Faithful Representation of Phenomenon

8. Accounting for heritage involves identification of heritage-related phenomena, including both heritage items and heritage-related responsibilities and obligations. The Conceptual Framework states that:

To be useful in financial reporting, information must be a faithful representation of the economic and other phenomena that it purports to represent. Faithful representation is attained when the depiction of the phenomenon is complete, neutral, and free from material error. Information that faithfully represents an economic or other phenomenon depicts the substance of the underlying transaction, other event, activity or circumstance—which is not necessarily always the same as its legal form. [Paragraph 3.10.]

9. How to identify heritage-related phenomena so that the phenomenon can be faithfully represented is discussed in the last subsection of this chapter, within the context of objective identification of heritage items. Heritage-related responsibilities and obligations arise through entities' responsibilities with respect to heritage items, which may arise either from an entity holding heritage items or through other arrangements, for example legislation that makes a public sector entity responsible for preserving a particular category of heritage items.

Working Description of "Heritage Item"

10. This CP uses the following working description for "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 archeological, architectural, agricultural, artistic, cultural, environmental, historical, natural, scientific and technological importance.

11. In subsequent chapters of this CP, when accounting issues raised by heritage items are discussed, the term "heritage item" is used with the meaning given above.

Preserved for Present and Future Generations

12. In this working description the phrase "preserved for present and future generations" has been used rather than the phrase "conserved for present and future generations". Heritage-related legislation often uses the word "conserve" to describe what should occur with respect to heritage. Conservation involves both preservation and, where possible, improvement. Thus, for example, conservation of natural heritage lands could include activities that improve the biodiversity and long-term viability of such lands. Use of the word "preserved" establishes a lower threshold for identification of heritage items, by capturing items that are expected to be preserved, which also includes items that are conserved, since they are both preserved and improved.

Reasons to Preserve—Open-Ended List

13. In this working description the list of reasons for preservation is open-ended. Reasons are "not limited to" those listed. The trend for heritage definitions has been towards longer lists of references to specific disciplines. (For example, a reference in one definition to items that are significant for

their “historic, artistic and scientific interest” will, in later definitions, be expanded to include other reasons for significance, such as their “archeological, architectural, agricultural, military and technological” interest.) Furthermore, most definitions introduce an open-ended aspect by introducing their lists of reasons (or disciplines) with phrases such as “for example” or “including”. An open-ended approach allows for evolving views on why things might become heritage items. The idea is to future proof the working description.

Sources Considered to Develop this Working Description of Heritage Items

14. To develop this working description of heritage items, the following sources were considered:
 - (a) Dictionaries;
 - (b) International conventions on the protection of heritage (UNESCO definitions);
 - (c) IPSASB pronouncements, including the Conceptual Framework; and
 - (d) Financial reporting and statistical accounting publications.
15. These sources describe heritage items as being important, valuable, rare, significant, of interest, old, historical and handed down from generation to generation. Usually these sources also convey the idea that such items should be protected, preserved, maintained or conserved.
16. Financial reporting definitions and descriptions usually focus on the term “heritage asset” and usually refer to characteristics relevant to asset recognition and measurement. For example, they may refer to the idea that heritage assets are difficult to value. This CP has not included that type of “special for financial reporting” characteristic into its working description of a heritage item. Instead, such characteristics are considered in subsequent chapters, where relevant to the financial reporting issue for discussion. (This issue is discussed further in the last section of this chapter.)

Dictionary Meanings for Heritage

17. Three English language dictionaries were reviewed—the Cambridge (On-line) Dictionary, the Meriam Webster Dictionary and the Collins Dictionary. The meanings of heritage in these three dictionaries were consistent, with only minor variation in how the meaning was expressed and in the examples given. The dictionaries convey that heritage items:
 - (a) Are part of the culture and history of a group, nation or society.
 - (b) Were created in the past and still have historical importance.
 - (c) Have been transmitted from the past or handed down by tradition.
 - (d) Include things such as traditions, achievements, beliefs, languages, buildings and areas.
18. For example, the Meriam Webster Dictionary states that heritage means:
The traditions, achievements, beliefs, etc., that are part of the history of a group or nation.
Examples of heritage in a sentence: 1. Hospitality is a cherished Southern heritage. 2. This farm is my heritage from my father, as it was for him from his father.

Source: <http://www.merriam-webster.com/dictionary/heritage>

UNESCO Definitions of Heritage

19. The United Nations Educational, Scientific and Cultural Organization (UNESCO) develops international conventions for the protection of heritage¹. These conventions define four broad categories of heritage:

- (a) Cultural heritage (originally called “cultural property”);
- (b) Underwater cultural heritage;
- (c) Intangible cultural heritage; and
- (d) Natural heritage.

20. Appendix C provides the full text for these heritage definitions and the examples and commentary to explain them, as excerpts from the international conventions. The discussion below focuses on text relevant to development of the heritage items working description. For example, the first international convention on heritage protection, dated 1954, describes heritage property items as being “of great importance to the cultural heritage of every people”:

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;

21. The next two cultural heritage definitions focus on “importance” and “value”, as follows:

...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...[1970 Convention]

... [items] which are of outstanding universal value from the point of view of history, art or science [1972 Convention]

22. For natural heritage the idea of “outstanding universal value” is used. The conventions on underwater cultural heritage and intangible cultural heritage do not emphasize value or importance. The underwater cultural heritage uses an age-related approach, so that items that have been under the water for 100 years or more will be viewed as heritage. The intangible cultural heritage definition identifies items:

...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.

¹ Article 1, 1954 *Convention for the Protection of Cultural Property in the Event of Armed Conflict with Regulations for the Execution of the Convention* defines “cultural property”, as does Article 1 of the 1970 *Convention on the Means of Prohibiting and Preventing the Illicit Import, Export and Transfer of Ownership of Cultural Property*. Article 1 of the 1972 *Convention on Protecting the World Cultural and Natural Heritage* defines “cultural heritage” and “natural heritage”. Article 1, 2001 *Convention on Safeguarding the Underwater Cultural Heritage*, defines “underwater cultural heritage”. Article 2, 2003 *Convention on Safeguarding the Intangible Cultural Heritage*, defines “intangible cultural heritage”.

23. These UNESCO definitions are designed to address different heritage protection situations. In a financial reporting context consistency of approach is important and, for that reason, this CP uses a single working description applied across all categories of heritage. The generic idea of the importance or significance of heritage items, which the UNESCO definitions convey, is evident in the working description.

Financial Reporting—National Standard Setters

24. Chapter 1 noted that Appendix A provides a comprehensive list of national standard setters' descriptions and definitions of "heritage assets", which was compiled for the 2006 IPSASB-ASB (UK) CP. As for definitions of heritage, these financial reporting definitions convey ideas of significance, importance or rarity, while linking this to ideas of history, culture and community or society's interests in different areas of endeavor. These definitions also convey the ideas of preservation for future generations. After consideration of national standard setters' definitions of heritage assets the 2006 CP then proposed the following definition of a heritage asset:

An asset with historic, artistic, scientific, technological, geophysical or environmental qualities that is held and maintained principally for its contribution to knowledge and culture and this purpose is central to the objectives of the entity holding it. [IPSASB-ASB (UK) CP, 2006]

25. This definition includes the objectives of the entity holding the heritage item as an important factor when deciding whether or not an item is a heritage asset. This would mean that the same item could change its classification from being non-heritage to heritage (or vice versa) if transferred between entities with different objectives.
26. This CP does not link its heritage items description to the holding entity. It focuses on the special characteristics of a heritage item, independent of the holding entity. However, this does not prevent subsequent consideration of whether special accounting for heritage items should depend on an entity's objectives. For example, an approach could be used of requiring any public sector entity that does not have heritage preservation as a central objective to recognize all the heritage items that it holds (where they meet the definition of an asset and the asset recognition criteria), while an entity that does heritage preservation as its central objective would not be required to recognize its heritage items. The question arises, however, of whether and in what circumstances the Conceptual Framework envisages that an entity's objectives should impact on how it reports.

Statistical Accounting

27. Three sources were reviewed to understand how statistical accounting, including Government Finance Statistics (GFS) reporting guidelines, describes and classifies heritage items. The sources reviewed were the:
- (a) System Of National Accounts (SNA 2008);
 - (b) Government Finance Statistics Manual (GFSM 2014); and
 - (c) European System of Accounts (ESA 2010).
28. Appendix D provides a summary of these sources and extracts from them, as of October 2015. Statistical accounting uses the following terms applicable to one or more type of heritage item:
- (a) "Public monuments" and "valuables" in SNA 2008;
 - (b) "Heritage assets" and "valuables" in GFSM 2014; and

(c) “Heritage asset”, “historic monuments” and “valuables” in ESA 2010.

29. The GFSM 2014 describes heritage assets as follows:

Heritage assets, which are assets that a government intends to preserve indefinitely because they have unique historic, cultural, educational, artistic, or architectural significance. (Paragraph 7.11, page 173)

30. The ESA 2010 mentions heritage assets as follows:

Some assets are more specific to government: heritage assets, like historic monuments; infrastructure assets, such as roads and communications facilities; and equity stakes in public corporations that are without private equivalent. (Paragraph 20.144, page 20)

31. The heritage items working description above encompasses these descriptions and is consistent with them, although it widens the basis on which items could be considered heritage items.

Categories of Heritage Items

32. This CP discusses accounting for heritage, where heritage items and heritage responsibilities are considered in light of four categories of heritage:

- (a) Cultural heritage;
- (b) Underwater cultural heritage;
- (c) Intangible cultural heritage; and
- (d) Natural heritage.

33. These categories are described as follows:

- (a) *Cultural heritage*: Cultural heritage means movable or immovable property that is a heritage item². This category covers tangible, non-living, human-made heritage items that are not underwater. Examples include monuments of architecture, art or history, whether religious or secular; archaeological sites; buildings 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 of the property defined above.
- (b) *Underwater cultural heritage*: Underwater cultural heritage means cultural heritage items that have been partially or totally under water, periodically or continuously for long enough to be considered habitually underwater. This category covers underwater tangible, human-made heritage items. Examples of underwater heritage items include (i) sites, structures, buildings, artefacts and human remains; (ii) vessels, aircraft, other vehicles or any part thereof, their cargo or other contents; and (iii) objects of prehistoric character.
- (c) *Intangible cultural heritage*: Intangible cultural heritage covers two broad subcategories of intangible heritage items; “knowledge-in-action” and “intellectual property” intangible cultural heritage.

² Here, and in the descriptions for the other three categories of heritage, the phrase “heritage item” applies the working description from paragraph 10 of this chapter, so “heritage item” means an item that is expected, because of its rarity, importance and/or significance, to be held for the benefit of present and future generations and preserved indefinitely.

- (i) Knowledge-in-action intangible cultural heritage means the practices, representations, expressions, knowledge, skills that are heritage items. Examples include oral traditions and expressions, including language as a vehicle of the intangible cultural heritage; performing arts; social practices, rituals and festive events; knowledge and practices concerning nature and the universe; and, traditional craftsmanship.
 - (ii) Intellectual property intangible cultural heritage means intangible heritage items such as intellectual property, and trademarks (including brand names and publishing titles), computer software, patents, copyrights, and rights over motion picture films. Examples include rights over recordings of significant historical events, rights to use historic or culturally significant films, rights to reproduce television series or other electronic media; rights over music titles; and rights to use the likeness of a significant public person or literary creation on, for example, postage stamps or collectible coins.
- (d) *Natural heritage*: Natural heritage means natural features, areas or sites that are heritage items. Natural heritage includes natural features consisting of physical and biological formations or groups of such formations; geological and physiographical formations and precisely delineated areas which constitute habitats; and, natural sites or precisely delineated natural areas.

Discussion of Cultural Heritage and its Relationship to Other Categories of Heritage

34. The first category, cultural heritage, includes items that are related to the other three categories of heritage. For example,
- (a) Musical instruments, craft tools and sacred spaces are related to the knowledge-in-action subcategory of intangible cultural heritage, however they would either be treated as ordinary physical items (non-heritage) or included in cultural heritage, if they are heritage items, because they are tangible items.
 - (b) Historic celluloid films, heritage audiotapes, heritage photographs, historic computers and film projectors are related to the intellectual property subcategory of intangible cultural heritage, however they would either be treated as ordinary physical items (non-heritage) or included in cultural heritage, if they are heritage items, because they are tangible items.
 - (c) Natural history collections such as shells, insects, stuffed animals and mineral collections are related to natural heritage, however they would be treated as cultural heritage, because they no longer form part of a natural feature, area or site.
 - (d) Artifacts from shipwrecks and shipwrecks themselves become cultural heritage items once they have been moved from under the water and included as land exhibits.
35. The classification of land, as a heritage item, is discussed in the last section of this chapter, where further discussion of the intellectual property subcategory of intangible cultural heritage is also provided.

Basis for these Four Categories of Heritage

36. These four categories of heritage are based on four categories identified in UNESCO-developed international conventions for the protection of heritage. The UNESCO categories have been used as a starting point because:

- (a) They were developed by heritage experts dedicated to the protection of heritage;
 - (b) Most national governments have signed up to the international conventions so their approach to categories is likely to be familiar to public sector entities responsible for heritage preservation; and
 - (c) Starting with these categories (and their related definitions and illustrative examples) supports a broader approach to heritage issues than would be the case if the CP focused exclusively on financial reporting categories such as “property, plant and equipment” or “intangibles”.
37. However, these UNESCO definitions have been adapted to:
- (a) Use a more consistent, principles-based approach to identify heritage items across the different categories;
 - (b) Allow heritage identification to occur at a national or local level rather than an international or universal level; and
 - (c) Support the discussion of accounting for heritage by expanding and aligning the descriptions to allow for financial reporting categories as well.
38. The next subsection describes the main changes made to adapt each UNESCO category to be useful for this CP’s discussion of heritage accounting issues.

Changes to Adapt the UNESCO Categories

Consistent Use of “Heritage Items” instead of Various Descriptors

39. As mentioned earlier, the UNESCO definitions used for these four categories use a variety of descriptors to convey the importance of heritage items. These range from “of universal importance” to “have been under the water for 100 years or more”. This CP consistently applies the “heritage item” working description to each category, which means that descriptors such as “of universal importance” have been removed and replaced with reference to heritage items.

Exclude Surroundings and Other Items that are not Heritage Items

40. The consistent use of the heritage item working description results in two further, category-specific changes. The first one is that the following two sets of items, included under UNESCO’s definition of cultural heritage, have been *excluded* from the CP’s description of cultural heritage:
- (a) Buildings whose main and effective purpose is to preserve or exhibit the movable cultural heritage property and refuges intended to shelter, in the event of armed conflict, the movable cultural heritage property;
 - (b) Centers containing a large amount of cultural property, known as ‘centers containing monuments’.
41. This ensures that items that are not “heritage items” are excluded from this category. The buildings covered by point (a) may be new or temporary buildings with no cultural significance, which do not meet the heritage item description. “Centers containing monuments” could include a mixture of old and new buildings. The 1954 Convention includes these two things in its definition because effective protection of cultural heritage requires protection of structures that house or otherwise hold

such property. However, the financial reporting context requires a consistent, principled approach to identify heritage items by their heritage characteristics.

Include Dual–Use Items that are Heritage Items

42. For underwater cultural heritage, the exclusion of “dual–use” heritage items has been removed. In this CP, dual–use heritage items, which also occur in other categories of heritage, are still considered heritage items. For underwater cultural heritage, the UNESCO definition highlights dual–use underwater cultural heritage as including (a) pipelines and cables placed on the seabed, and (b) other installations that are still in use. To be heritage items these would still need to meet the heritage item description, i.e. the items would need to be “...expected, because of their rarity, importance and/or significance, to be held for the benefit of present and future generations and preserved indefinitely”.
43. Subsequent discussions in this CP may lead to a conclusion that dual–use heritage items should be accounted for differently from other heritage items. Rather than attempt to define such items to be “non–heritage”, this issue can be explicitly considered within the context of accounting for heritage items.

Link to Financial Reporting and its Focus

44. Two changes have been made to link descriptions to a financial reporting perspective. First, the ideas of “tangible” and “non–living” have been included in the description of cultural heritage. Some accounting standard setters use the term “property, plant and equipment” while others use the term “tangible, fixed assets”. The word “property” is already included in the original definition, and these extra words provide a further link to financial reporting ideas relevant to this type of heritage item.
45. Second the description of intangible cultural heritage has been revised to include reference to intangible items usually considered in a financial reporting context. The revised description has both the original set of heritage items, which this CP has called “knowledge–in–action” intangible cultural heritage, and also something called “intellectual property” intangible cultural heritage. The description of this second group is based on descriptions in IPSAS 31, which provides examples of “intangible resources” and “intangible heritage assets”, as follows:
 - (a) *Intangible resources are:*...resources such as scientific or technical knowledge, design and implementation of new processes, or systems, licences, 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 licences, acquired import quotas, and relationships with users of a service. [paragraph 17]
 - (b) *Intangible heritage assets:* Some intangible assets are described as intangible heritage assets because of their cultural, environmental, or historical significance. Examples of intangible heritage assets include recordings of significant historical events and rights to use the likeness of a significant public person on, for example, postage stamps or collectible coins. [Paragraph 12]

Natural Heritage

46. This CP applies the UNESCO approach of focusing on biological formations, areas, sites and habitats when considering natural heritage. That approach to natural heritage can be contrasted with alternatives such as focusing on either (a) populations of living organisms or an ecosystem, or (b) individual living organisms (plants and animals). The description of this category has not been adjusted, other than to incorporate the term heritage item, as for the other three categories.
47. Although there is an IPSAS that addresses living organisms (IPSAS 27, *Agriculture*) and which includes coverage of “biological assets” such as forests and herds of animals, that Standard focuses on accounting for plants and animals within a commercial, agricultural context. The IPSASB discussed whether individual organisms, for example a redwood tree or a lion, could be viewed as heritage items. While the IPSASB acknowledged the importance of protecting individual organisms and noted that some living organisms can live for very long periods of time, even hundreds of years, the IPSASB decided that individual living organisms are not “heritage items”, because they all have finite lives and cannot, therefore, be expected to be preserved indefinitely. Only in exceptional circumstances does a living organism live long enough to be appreciated by more than one or two generations. The norm is for such organisms to live and die during one generation.
48. Populations of living organisms (for example) whales or bald eagles can be preserved and could, therefore be viewed as heritage items. However, this approach to natural heritage, which differs from the UNESCO definition, also does not work well within a financial reporting context. A reporting entity can be held accountable for the area of land that it manages and report information on how it is carrying out its responsibilities with respect to that land and its role in protecting endangered species inside that area. But groups of animals (whales or bald eagles, for example) cannot be held or controlled, when living in the wild. Therefore, this CP describes natural heritage items as areas, sites, or habitats, using the same approach as used in the UNESCO definition.

Heritage Item Subcategories and Accounting

49. Subsequent chapters in this CP will discuss accounting for heritage items. Those chapters are likely to identify subcategories of particular relevance to accounting issues such as whether heritage items should be:
 - (a) Disclosed in supplementary schedules;
 - (b) Recognized as assets in the financial statements; and/or
 - (c) Depreciated, revalued or impaired;
50. For example, discussions of whether a resource exists and whether an entity controls that resource (relevant to existence of an asset for financial reporting purposes) is likely to differ between different categories of heritage and between different subsets within the same category. Heritage land, for example, raises different accounting issues from heritage buildings. Resource existence could be more difficult to determine when looking at underwater cultural heritage or an archeological site, by contrast to collections of artifacts in a museum.

Heritage Item Identification Issues

51. This subsection considers other heritage item identification issues, and specifically whether:
- (a) Heritage items can be identified objectively;
 - (b) Heritage items should be described partly by reference to the special financial reporting problems that they raise;
 - (c) Expenditures on heritage items are also heritage items;
 - (d) Land should be considered a heritage item; and
 - (e) There exist examples of intellectual property with heritage characteristics.

Can Heritage Items be Identified Objectively?

52. As discussed above, definitions and descriptions of heritage items emphasize the importance, significance or value of heritage items. They may also emphasize heritage item's sacred or historic nature and their rarity. These characteristics prompt the following questions:
- (a) What number of people or proportion of the total group should value an item before it should be treated as "significant" or "valuable" and therefore recognized as a heritage item?
 - (b) How old does something have to be in order to be "historic"?
 - (c) Is it possible to identify relatively new items as heritage items, because a nation or community views them as special, important, significant and therefore part of their heritage, which should be preserved for future generations?
53. Underneath these questions lies the more fundamental issue of how to objectively and consistently identify heritage items. Some argue that objective identification is not possible, because heritage is like beauty, it is in the eye of the beholder. Others move to the opposite extreme and argue that only a narrow set of heritage items—those specifically identified in national legislation—should be counted as heritage. This issue is important to any discussion of accounting for heritage items.

Faithful Representation of Heritage Items

54. Financial reporting needs a clear, objective boundary between heritage items and non-heritage items. Users of GPFRs expect consistent classification of heritage items by different GPFR preparers, so that information reported will meet the qualitative characteristics of financial reporting. Classification of heritage should provide representationally faithful information, which reflects the substance of the heritage phenomenon rather than its legal form.
55. This would be particularly important, if financial reporting requirements are different for heritage items by comparison to other, non-heritage items. But even just the separate display of a line item for heritage items would require a clear boundary between heritage and non-heritage items, so that the separate line item provides useful information for GPFR users. With respect to presentation of information, the Conceptual Framework states:

All material transactions, events, and other items reported are presented in a manner that conveys their substance rather than their legal or other form so that the qualitative characteristics of relevance and representational faithfulness are achieved. [Paragraph 8.29]

56. The working description for heritage items does not, in itself, provide an objective way to distinguish between heritage and non-heritage items. It states that heritage items are rare, significant or important. How are those characteristics to be assessed? Can they be assessed objectively?

Principles-Based Approach or Official Lists of Heritage Items?

57. National jurisdictions have developed different ways to objectively identify heritage items. For example, some use:
- (a) Schedules or lists enshrined in legislation or regulation;
 - (b) Criteria or principles enshrined in legislation or regulation;
 - (c) A defined review and approval process, involving expert recommendation and independent review; or
 - (d) A combination of two or more of the three approaches above.
58. This ensures that heritage items are identified in a very objective way, such that there would be little if any need for professional judgment by preparers, when they classify items as heritage items.
59. From a financial reporting perspective there appear to be two problems with relying on heritage legislation as the sole means by which heritage items are identified. First, such legislation does not have a financial reporting purpose. Its role will be related to heritage preservation. To fulfil that role, it may be that only a small subset of heritage items is identified, for example, those that warrant special funding or a special level of protection. Within one national jurisdiction there may be several different pieces of legislation that define heritage. One may describe the penalties for when heritage items are damaged or vandalized. Another piece of legislation may explain when heritage items warrant special government funding for their protection. The two lists of heritage items may be different. Does either list fully reflect all heritage items, so that the substance of the heritage phenomenon is captured? Furthermore, does either list necessarily focus exclusively on items that are, in substance, heritage items?
60. A second problem is that reporting entities may encounter heritage items that have not yet been reviewed, and which are not included on any official list. "New" heritage items may appear because they are:
- (a) Purchased or received through donation from other governments or private collectors;
 - (b) Discovered, for example through excavations that uncover previously unknown heritage items or through reassessments of items that were not viewed as heritage items;
 - (c) Created, as in the construction of iconic buildings or creative works of art; or
 - (d) Come to be appreciated by society or particular groups within society to such a degree that they meet the description of heritage items because people have recognized the rarity, importance or significance of such items.
61. Either of these two problems could mean that heritage items are excluded from coverage, so that information reported in a GPFR does not faithfully represent an entity's heritage portfolio.
62. The first problem also runs the risk that items that, in substance, are not heritage items may nonetheless be included in the definition. That problem is evident in the UNESCO definition of cultural heritage property, where whole cities can be labelled heritage property, because protection

of the city is necessary to protect the heritage items that exist within the city. The 1954 Convention for the *Protection of Cultural Property in the Event of Armed Conflict* includes “centers containing a large amount of cultural property” within its definition of cultural property. That definition makes sense when attempting to protect heritage buildings in the event of armed conflict, but it is not a useful approach for financial reporting purposes.

Development of Objective Criteria—Part of Project’s Next Stage

63. This CP does not attempt to develop specific, objective (and auditable) criteria to distinguish between heritage and non-heritage items. That task is treated as something for the next stage of the Heritage Project, when guidelines on accounting for heritage are planned for development. Instead this CP applies an assumption that such criteria can be developed, while noting that identification of heritage items should generate information that meets the qualitative characteristics of financial reporting. Whether or not items have been identified as heritage items by legislation, regulation or the completion of a legislated process is likely to be relevant to such identification, but not conclusive. The focus should be on the substance of the heritage phenomenon rather than a reliance on whatever legal form is available in a particular national jurisdiction.

Should the description of “heritage items” include special financial reporting characteristics?

64. Accounting standard setters often link their descriptions of heritage items to characteristics of particular importance for financial reporting. For example, the value of heritage items can be very difficult to measure in monetary terms. Thinking ahead to such issues a description of heritage items could include one or more of these characteristics, for example:

Heritage items are items for which meaningful measurement is impossible. Their value increases rather than decreases over time, which makes depreciation inappropriate.

65. This CP has not used this approach for its description of heritage items. Instead it attempts to keep separate what are essentially two different issues:
- (a) Identification of heritage items; and
 - (b) Discussion of the financial accounting issues raised by heritage items.

Are New Investments in Heritage also Heritage items?

66. Public sector entities expend large amounts on heritage. New expenditures in order to preserve or conserve heritage items, or to expand public access to heritage items include:
- (a) Replacement of the roof, foundation or other parts of a heritage building;
 - (b) Replacement or reinforcement of large sections of a heritage edifice such as the Eiffel Tower;
 - (c) Cleaning of a heritage painting;
 - (d) Development of databases and electronic media for heritage (e.g. access to high quality electronic representations of historic paintings and collections of other heritage items and virtual tours of museums or art galleries);
 - (e) Construction of a new security system or a new air conditioning system for a historic building or a new pedestal for an important sculpture;
 - (f) Building of new structures, for example:

- (i) Structures to ensure safe access by the public (barriers, viewing platforms, protection from the risk of falling stones),
 - (ii) Gift shops,
 - (iii) Security fences, or
 - (iv) Parking lots (for museums, or historic buildings or other heritage sites; and
- (g) Construction of fire breaks, flood protection or other security arrangements for national parks and other natural heritage items.
67. Some investments clearly create items that are not heritage items, e.g. building a separate gift shop or a parking lot. Arguably such items should be classified as ordinary, non-heritage property, plant and equipment for financial reporting purposes. In other cases the investment augments the existing asset (for example, replacing the roof or an historic building or restoring a heritage painting), and arguably could be viewed as part of the heritage item, even though the expenditure is new and the financial reporting challenges usually associated with heritage items (e.g. measurability) do not apply.
68. This CP proposes that:
- (a) Investments separate from a heritage item (e.g. parking lot for an historic building) should be considered non-heritage items; while,
 - (b) Investments in a heritage item (e.g. a new roof for an historic building) should be considered heritage items.
69. Then Chapter 4, which discusses the general issue of whether heritage items can be recognised as assets for financial reporting purposes, also discusses arguments for and against recognizing new investments in heritage items (e.g. the new roof example) as assets for financial reporting purposes.

Is Land a Heritage Item?

70. There appear to be four situations where land could be viewed as a heritage item:
- (a) Land underneath and around a heritage item (for example, land under an historic building);
 - (b) A particular open space (for example, a town square, a piazza or space related to cultural practices of importance);
 - (c) Land underneath or forming natural heritage (e.g. a park, conservation area, or land beneath a heritage forest or other type of natural habitat); and
 - (d) Land forming a natural formation (e.g. land component of a heritage mountain).
71. In each case land seems to be an integral part of the heritage item, without which the heritage item cannot exist or survive. Thus, for example, take away the land and there is no place for the historic building to stand or for the town square or natural habitat to exist. In some cases, it is true, a historic building can be moved to another location, so that the land underneath it is available for alternative uses. This is the case in marginal or exceptional cases, rather than the norm.
72. There also appear to be situations where governments possess land without classifying it as a natural park. The land could be described as wilderness. It is held by a public sector entity, but is

either unmanaged or unmanageable. It may be viewed as without value, when considered from an environmental, scientific study, species protection, ecological or tourism perspective. It may also be viewed as having no (or very little) commercial value.

73. The land's role as an integral part of the heritage item is an argument in favor of treating heritage-related land as either a heritage item in itself or as part of the overall heritage item. Whether or not heritage land is an asset for financial reporting purposes, and other financial reporting issues could then be applied to this subcategory of heritage land.
74. An argument against viewing land as a heritage item is that land does not appear to involve active preservation. Heritage items are "...expected to be held for the benefit of present and future generations and preserved indefinitely." But land will usually continue indefinitely, without the need for human intervention.
75. There are two further perspectives, however, that suggest that heritage land does need to be preserved. First the land's role *as heritage* may need to be preserved. For example, if the land area of national parks is steadily decreasing over time, because it is being sold for commercial forestry needs, housing or other non-heritage uses, then the "heritage land" is not being preserved. A second argument is that land can be threatened in other ways. Preservation of the land underneath and around a heritage building (or nature reserve) can be an essential part of protecting the building (or nature reserve). Coastal erosion threatens many historic buildings in the United Kingdom, for example, and the costs of protecting those buildings by preserving the land upon which they stand are very high. Land may also require restoration after earthquakes or protection from mining or other underground activity such as subway construction or laying of infrastructure (electricity, water supply, etc.).
76. This CP allows that land can be a heritage item.

Intangible Cultural Heritage—Intellectual Property

77. This subsection provides examples of the different types of intellectual property that public sector entities create. It discusses:
 - (a) Connections between intellectual property and heritage items; and
 - (b) Whether there could be examples of intellectual property that are heritage items.
78. Intellectual property deals with intangible rights, rather than the physical item in which they are embodied. For example, the right to reproduce the Beatles' music and the right to reproduce the book *To Kill a Mockingbird* are intangible items. By contrast original copies of the music or the original manuscript of the book are tangible items and, given their historic and cultural significance would likely be viewed as heritage items.

Public Sector Entities Create Intellectual Property and Have Rights

79. Governments and other public sector entities have long been involved in the creation of intangible intellectual property rights. This is a natural consequence of public sector entities' involvement in many areas, including areas such as:
 - (a) Education, where they develop textbooks and other educational material that they develop;

- (b) Public broadcasting, where they develop films, radio and television broadcasts, which could involve news, documentaries, speeches by historically important people, poetry readings or music; and
 - (c) Citizenship, where they develop databases of identity information such as births, deaths and marriages documentation.
80. In each case, the public sector entity responsible for development of the intellectual property is likely to own the copyright or reproduction rights over that property.
81. Public sector entities may have naming rights that relate to tangible heritage items. For example, the French Government owns rights over the culturally significant name “Le Louvre” and has the ability to earn revenue from those rights, as it has already done. Trademarks such as Le Louvre have an indefinite useful life, so they can be preserved for future generations and the question that arises is whether the name itself is a heritage item.

Intellectual Property Rights over Heritage Items

82. These intellectual property rights can relate to tangible heritage items, with the result that the rights themselves could be regarded as heritage items. Similarly, a national reference library or national art museum may create electronic records relevant to their heritage collections of documents and art, in order to provide the public with better access to their collections. The entity will have rights over the individual records and the system (database, or searchable website that acts as a database) by which those records are presented to the public.
83. Where an entity holds reproduction rights over heritage items, but is not actively managing such rights, this could remove important heritage from easy access by the public. If the relevant public sector entity does not appreciate that it holds reproduction rights, then it could effectively prevent reproduction.
84. Public sector entities may acquire intellectual property rights of special significance, whereby the entity may aim to protect those rights against commercialization or commodification. For example, if an entity gains agreement from a community to record their traditional skills, songs and dances on the basis that the resulting recording will be used respectfully, there may be ways to restrict access indefinitely, if legislation allows for this. Rights to reproduce cultural heritage are the focus of a major research project, the Intellectual Property Issues in Cultural Heritage (IPinCH) project³. This is a seven-year international research initiative based at Simon Fraser University, in British Columbia, Canada, which finishes in 2016.

Does Intellectual Property Always have a Limited Life?

85. The working description of heritage items includes the idea that such items are expected to be preserved for current and future generations. Can an entity preserve intellectual property for current and future generations? As noted above, intellectual property in the form of trademarks have indefinite useful lives, while a database will also be owned indefinitely, although it is likely to become obsolescent over time and then replaced, the collection of information could be viewed as having an indefinite useful life and something to be preserved for future generations.

³ See the following website for more information: <http://www.sfu.ca/ipinch/>

86. Rights over many types of intellectual property arguably have a limited life, because they cannot be owned forever by one entity. The length of time before a right moves into the public domain is usually established by national jurisdiction with input from international guidelines. For example, a copyright could enter the public domain 70 years (or 100 years) from the end of the author's life. Copyrights over many culturally significant and historic works, such as the plays of Shakespeare, books of Tolstoy or writings of Miguel de Cervantes, are already in the public domain.
87. From another perspective, such rights continue to exist after they enter the public domain, and public sector entities could still have a role in their preservation. Furthermore, intellectual property laws are complex and evolving.
88. This CP concludes that intangible cultural heritage includes intellectual property that fulfils the description of heritage items.

APPENDIX C: CULTURAL HERITAGE—EXCERPTS FROM UNESCO CONVENTIONS

- C1. Excerpts are provided in date order, starting with the first Convention, signed in 1952. The order indicates that UNESCO member states, and UNESCO itself, progressively extended the type of heritage for consideration. The first conventions focused on cultural heritage (first termed “cultural property”), which consists of physical, human-made, non-living heritage. That focus expands to cover first natural heritage in 1972, then underwater cultural heritage in 2001, and intangible cultural heritage in 2003.
- C2. The explicitly noted disciplines/topics for cultural heritage have expanded over time as well, which is evident from a comparison of the examples for “cultural property” in 1952 Convention with those for “cultural heritage” in 1970. (That expansion does not change the substance of cultural heritage, since listed examples are illustrative rather than exhaustive.)

EXCERPTS

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 manufactured 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.

Cultural and Natural Heritage

Excerpt from the 1972 Convention on *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.

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.

APPENDIX D: STATISTICAL ACCOUNTING REFERENCES TO HERITAGE ITEMS

Introduction

D1. This appendix provides a summary and extracts from the following sources relevant to statistical accounting, including sources that form part of GFS reporting guidelines, as of October 2015.

- System of National Accounts (SNA 2008)
- Government Finance Statistics Manual (GFSM 2014)
- European System Of Accounts (ESA 2010)

Overview of Sources

D2. Where the SNA and GFS reporting guidelines refer to items that, applying financial accounting descriptions, are examples of heritage assets, those items are expected to be recognized and measured at current value. The relevant categories are:

- “Public monuments” and “valuables” in SNA 2008;
- “Heritage assets” and “valuables” in GFSM 2014; and
- “Historic monuments” and “valuables” in ESA 2010.

D3. This review of the sources included the SNA’s coverage of natural resources, including land. That coverage does not make separate reference to natural resources such as national parks, conservation land and natural reserves.

SNA 2008

D4. The SNA 2008 does not use the term “heritage”. Instead it refers to “public monuments” and “valuables”, which are distinctly different categories of assets. Both categories include items that, applying present financial reporting definitions of heritage assets, would be examples of heritage items.

D5. In the case of public monuments arguably all items contained in this set would be heritage items. In the case of valuables, some items would be heritage items (e.g. precious jewels with historical significance or artwork with cultural or historical significance), while others would not (e.g. precious jewels that do not have historical significance).

GFSM 2014

D6. The Government Finance Statistics Manual 2014 (GFSM 2014) describes “heritage assets”, using a description similar to those used in financial reporting. It also refers to the “valuables” category of assets.

ESA 2010

D7. ESA 2010 refers to “heritage assets”, giving “historic monuments” as an example, and also uses the “valuables” asset category, implying that this is a separate category from that of heritage assets.

Access to Sources

D8. IMF (2014) Government Finance Statistics Manual—GFSM 2014 at:

<https://www.imf.org/external/Pubs/FT/GFS/Manual/2014/gfsfinal.pdf>

D9. Eurostat (2010) European System of Accounts—ESA 2010 at:

<http://ec.europa.eu/eurostat/documents/3859598/5925693/KS-02-13-269-EN.PDF>

D10. IPSASB Consultation Paper, *IPSASs and Government Finance Statistics Reporting Guidelines*, at:

<https://www.ifac.org/system/files/publications/files/IPSASs%20and%20GFS%20Guidelines%20FINAL%20October%2016%202012.pdf>

Government Finance Statistics Manual—GFSM 2014

D11. The GFSM 2014 includes a brief description of heritage assets:

Heritage assets, which are assets that a government intends to preserve indefinitely because they have unique historic, cultural, educational, artistic, or architectural significance. (paragraph 7.11, page 173)

D12. There were no further references to heritage assets, as shown by an electronic search through GFSM 2014, using the words “heritage” and “specialized”.

Eurostat (2010) European System of Accounts—ESA 2010

D13. The ESA 2010 mentions heritage assets as follows:

Some assets are more specific to government: heritage assets, like historic monuments; infrastructure assets, such as roads and communications facilities; and equity stakes in public corporations that are without private equivalent. (Paragraph 20.144, page 20)

D14. That is the only reference to heritage assets in the ESA 2010.

IPSASB Consultation Paper, IPSASs and GFS Reporting Guidelines

D15. The IPSASB Consultation Paper, *IPSASs and GFS Reporting Guidelines*, notes that:

2008 SNA has aligned guidance on the valuation of non cash-generating assets. The revaluation options in IPSAS 16, *Investment Property*, IPSAS 17, *Property, Plant & Equipment* and IPSAS 31, *Intangible Assets* are aligned with the SNA’s use of current market price. IPSAS 17 and IPSAS 31 options to recognize heritage assets allow entities to choose a treatment that is the same as the SNA’s recognition of heritage assets. (page 23)

SNA 2008—Does not use the term “heritage assets”

D16. SNA 2008 has been searched for the word “heritage” and it does not appear. However, the SNA is clear that “valuables” such as works of art (and others) should be recognized:

Intermediate consumption does not include expenditures by enterprises on valuables consisting of works of art, precious metals and stones and articles of jewellery fashioned out of them. Valuables are assets acquired as stores of value: they are not used up in production and do not deteriorate physically over time. Expenditures on valuables are recorded in the capital account. Intermediate consumption also does not include costs incurred by the gradual using up of fixed assets owned by the enterprise: the decline in their value during the accounting period is

recorded as consumption of fixed capital. However, intermediate consumption does include the rentals paid on the use of fixed assets, whether equipment or buildings, that are leased from other institutional units under an operating lease, and also fees, commissions, royalties, etc., payable under licensing arrangements, as explained above.

9.57 Final consumption expenditure excludes expenditure on fixed assets in the form of dwellings or on valuables. Dwellings are goods used by their owners to produce housing services. Expenditure on dwellings by households, therefore, constitutes gross fixed capital formation. When dwellings are rented by their owners, rentals are recorded as output of housing services by owners and final consumption expenditure by tenants. When dwellings are occupied by their owners, the imputed value of the housing services enters into both the output and final consumption expenditure of the owners. Valuables are expensive durable goods that do not deteriorate over time, are not used up in consumption or production, and are acquired primarily as stores of value. They consist mainly of works of art, precious stones and metals and jewellery fashioned out of such stones and metals. Valuables are held in the expectation that their prices, relative to those of other goods and services, will tend to increase over time, or at least not decline. Although the owners of valuables may derive satisfaction from possessing them, they are not used up in the way that consumption goods, including consumer durables, are used up over time.

10.13 *Valuables are produced goods of considerable value that are not used primarily for purposes of production or consumption but are held as stores of value over time.*

Valuables are expected to appreciate or at least not to decline in real value, nor to deteriorate over time under normal conditions. They consist of precious metals and stones, jewellery, works of art, etc. Valuables may be held by all sectors of the economy.

3. Acquisitions less disposals of valuables

The asset boundary

10.149 Valuables include precious metals and stones, antiques and other art objects and other valuables. However, not all items that may be described by one of these titles should necessarily be included as a valuable in the balance sheet of the owner. The intent of the heading is to capture those items that are often regarded as alternative forms of investment. At various times, investors may choose to buy gold rather than a financial asset and pension funds have been known to buy “old master” paintings when the prices of financial assets were behaving in a volatile manner. Individuals (households in SNA terminology) may also choose to acquire some of these items knowing that they may be sold if there is a need to raise funds.

Valuation

10.150 Costs of ownership transfer, such as valuers’ and auctioneers’ margins, are often incurred when valuables are exchanged. As with other non-financial assets, these costs are treated as gross capital formation and included in the value of the items when recorded in the balance sheet.

Transactions in valuables

10.151 A possible categorization of valuables is: precious metals and stones; antiques and other art objects; and other valuables. This list should be regarded as indicative and supplementary rather than a standard breakdown. The context of each category is described to assist in identifying and valuing valuables.

Precious metals and stones

10.152 Precious metals and stones are treated as valuables when they are not held by enterprises for sale or use as inputs into processes of production nor are held as monetary gold and are not held as a financial asset in the form of unallocated metal accounts.

Antiques and other art objects

10.153 Paintings, sculptures, etc., recognized as works of art and antiques are treated as valuables when they are not held by enterprises for sale. In principle, museum exhibits are included under valuables.

Other valuables

10.154 Other valuables not elsewhere classified include such items as collections of stamps, coins, china, books etc. that have a recognized market value and fine jewellery, fashioned out of precious stones, and metals of significant and realizable value.

Valuables

13.42 Given their primary role as stores of value, it is especially important to value works of art, antiques, jewellery, precious stones and metals at current prices. To the extent that well-organized markets exist for these items, they should be valued at the actual or estimated prices that would be paid for them to the owner were they sold on the market, excluding any agents' fees or commissions payable by the seller, on the date to which the balance sheet relates. On acquisition they are valued at the price paid by the purchaser including any agents' fees or commissions.

13.43 An approach in the absence of organized markets is to value these items using data on the values at which they are insured against fire, theft, etc., to the extent information is available.

2. Non-produced assets

Natural resources

Land

13.44 In principle, the value of land to be shown under natural resources in the balance sheet is the value of land excluding the value of improvements, which is shown separately under fixed assets, and excluding the value of buildings on the land which is also to be shown separately under fixed assets. Land is valued at its current price paid by a new owner, excluding the costs of ownership transfer which are treated, by convention, as gross fixed capital formation and part of land improvements and are subject to consumption of fixed capital.

13.45 Because the current market value of land can vary considerably according to its location and the uses for which it is suitable or sanctioned, it is essential to identify the location and use of a specific piece or tract of land and to price it accordingly.

13.46 For land underlying buildings, the market will, in some instances, furnish data directly on the value of the land. More typically, however, such data are not available and a more usual method is to calculate ratios of the value of the site to the value of the structure from valuation appraisals and to deduce the value of land from the replacement cost of the buildings or from the value on the market of the combined land and buildings. When the value of land cannot be separated from the building, structure, or plantation, vineyard, etc. above it, the composite asset should be classified in the category representing the greater part of its value. Similarly, if the value of the land improvements (which include site clearance, preparation for the erection of buildings or planting of crops and costs of ownership transfer) cannot be separated

from the value of land in its natural state, the value of the land may be allocated to one category or the other depending on which is assumed to represent the greater part of the value.

13.47 It is usually much easier to make a division between land and buildings for the total economy than for individual sectors or subsectors. Separate figures are needed for studies of national wealth and environmental problems. Fortunately, combined figures are often suitable for purposes of analysing the behaviour of institutional units and sectors.

13.48 Land appears on the balance sheet of the legal owner except when it is subject to a financial lease as may most often occur in connection with a financial lease over a building or plantation on the land. By convention, an exception is made for cases where the legal owner of a building is not the legal owner of the land on which the building stands but the purchase price of the building includes an upfront payment of rent on the land beneath without any prospect of further payments being due in future. In such a case, land is recorded on the balance sheet of the owner of the building on the land.

Mineral and energy resources

13.49 The value of subsoil mineral and energy resources is usually determined by the present value of the expected net returns resulting from the commercial exploitation of those resources, although such valuations are subject to uncertainty and revision. As the ownership of mineral and energy resources does not change frequently on markets, it may be difficult to obtain appropriate prices that can be used for valuation purposes. In practice, it may be necessary to use the valuations that the owners of the assets place on them in their own accounts.

13.50 It is frequently the case that the enterprise extracting a resource is different from the owner of the resource. In many countries, for example, oil resources are the property of the state. However, it is the extractor who determines how fast the resource will be depleted and since the resource is not renewable on a human time-scale, it appears as if there has been a change of economic ownership to the extractor even if this is not the legal position. Nor is it necessarily the case that the extractor will have the right to extract until the resource is exhausted. Because there is no wholly satisfactory way in which to show the value of the asset split between the legal owner and the extractor, the whole of the resource is shown on the balance sheet of the legal owner and the payments by the extractor to the owner shown as rent. (This is therefore an extension of the concept of a resource rent applied in this case to a depletable asset.)

Non-cultivated biological resources, water resources and other natural resources

13.51 Non-cultivated biological resources, water and other natural resources are included in the balance sheet to the extent that they have been recognized as having economic value that is not included in the value of the associated land. As observed prices are not likely to be available, they are usually valued by the present value of the future returns expected from them.

CONSULTATION PAPER: ACCOUNTING FOR HERITAGE**DRAFT CHAPTER 3, HERITAGE ITEMS AS ASSETS****1—Introduction**

1. This chapter considers whether heritage items could be assets for financial reporting purposes. This has been a difficult question for many years. On the one hand there is general agreement that heritage items are valuable. There is also a general view that valuable things should be considered assets. But financial reporting uses the word “asset” with a technical meaning, which may not apply to some or all heritage items.
2. To address this question, this chapter applies the Conceptual Framework’s definition of an asset to heritage items and discusses whether they could be assets for financial reporting purposes. Then issues raised by categories and subcategories of heritage items are considered in light of points arising from the more general discussion. First, however, a brief discussion of the relationship between asset existence and recognition of an asset in the financial statements.

Relationship between Asset Existence and Asset Recognition

3. Frequently accountants and other stakeholders consider that the existence of an asset means, almost inevitably, that the asset will be recognized in the financial statements. These two things (asset existence and asset recognition) are related, but the first does not inevitably lead to the second. In brief, even where an asset exists it must also meet the recognition criteria of measurability, before it can be recognized. For some categories of asset, measurability can be viewed as unproblematic, a hurdle to recognition that is very easily leapt. That is not necessarily the case for heritage items.
4. This chapter only discusses asset existence, i.e. the question of whether heritage items could be assets for financial reporting purposes. Chapter 4 discusses recognition of heritage assets. Questions about whether heritage items, if they are assets, should be recognized, which include the question of whether the benefits of measuring heritage items in monetary terms justify the costs, are considered in Chapter 4.

Conceptual Framework’s Definition of an Asset

5. Chapter 5 of the Conceptual Framework, and specifically paragraphs 5.6 to 5.13, address the definition of an asset. To be an asset for financial reporting purposes, a heritage item needs to:
 - (a) Be a *resource* that is...
 - (b) Presently *controlled* by the entity, as a result of...
 - (c) A *past event*.

Resource

6. The Conceptual Framework describes a resource as an item with service potential or the ability to generate economic benefits. 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.

7. Economic benefits are cash inflows or a reduction in cash outflows. Cash inflows (or reduced cash outflows) may be derived from, for example:
 - (a) An asset's use in the production and sale of services; or
 - (b) The direct exchange of an asset for cash or other resources.
8. Chapter 5 of the Conceptual Framework also notes that some resources embody an entity's rights to a variety of benefits including, for example, the right to:
 - (a) Use the resource to provide services;
 - (b) Use an external party's resources to provide services, for example, leases;
 - (c) Convert the resource into cash through its disposal;
 - (d) Benefit from the resource's appreciation in value; or
 - (e) Receive a stream of cash flows.
9. As noted earlier in this CP, paragraph 5.9 of the Conceptual Framework refers to heritage assets 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. [Underline added.]

Control of a Resource

10. Chapter 5 of the Conceptual Framework explains that 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. When considering whether the entity has control over a heritage item the following four indicators of control, identified in Chapter 5, should be considered:
 - (a) Legal ownership;
 - (b) Access to the resource or ability to deny or restrict access to the resource;
 - (c) The means to ensure that the resource is used to achieve its objectives; and
 - (d) The existence of an enforceable right to service potential or the ability to generate economic benefits arising from a resource.
11. 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, ...

Presently Controlled as a Result of a Past Event

12. The reporting entity must presently control the resources, as a result of a past event. The Conceptual Framework describes the type of past event, including a transaction, that could indicate control:

...Entities can obtain assets by purchasing them in an exchange transaction or developing them. Assets may also arise through non-exchange transactions, including through the exercising of sovereign powers. The power to tax or to issue licenses and to access or restrict or deny access to the benefits embodied in intangible resources, like the electromagnetic spectrum, are examples of public sector-specific powers and rights that may give rise to assets. In assessing when an entity's control of rights to resources arise the following events may be considered: (a) a general ability to establish a power, (b) establishment of a power through a statute, (c) exercising the power to create a right, and (d) the event which gives rise to the right to receive resources from an external party. An asset arises when the power is exercised and the rights exist to receive resources. [paragraph 5.13, Conceptual Framework]

13. The next section considers whether heritage items generally could meet this definition of an asset, i.e. could be resources that a public sector entity presently controls as a result of a past event.

Definition of an Asset applied to Heritage Items

Are Heritage Items Resources?

Do Heritage Items Generate Economic Benefits?

14. Heritage items can be viewed as able to generate economic benefits. Economic benefits could arise through one or more of the following:
- (a) Sale of tickets to view the heritage items;
 - (b) Sale of related merchandising;
 - (c) Loan or rent of the item to other entities; and
 - (d) Sale of the item itself.
15. With respect to point (b) it should be noted that economic benefits from merchandising may accrue to entities other than the public sector entity that holds the heritage item. For example, statuettes of the Statue of Liberty, the Eiffel Tower or the Taj Mahal, may be produced and sold by other entities, which receive economic benefits from the heritage item, without incurring any of the costs that the reporting entity incurs with respect to preserving and maintaining the item.
16. With respect to point (d), despite restrictions that prevent the sale of many heritage items, some heritage items can be sold, so long as they remain inside the national jurisdiction. There are also heritage items that can be sold to entities outside of the national jurisdiction. History shows that, in times of significant economic distress, a government may 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.
17. There are several problems with this view of heritage items as capable of generating economic benefits. First, for many or even most heritage items there are very high costs involved in preserving them. As a result the situation is one of negative cash flows for the entity i.e. no net economic benefits are generated. Some heritage items, for example ruined castles or archeological

sites, do not have charges to access them and the only cash flows associated with them relate to the outflows required to preserve them. Similarly, many heritage sites and artwork (for example, parks, piazzas or squares, fountains, sculptures and stairways) are either public space or decorate a public space, so that the public has almost entirely free, untrammled access to them.

18. A second problem is that heritage items are not usually held by a public sector entity in order to use them to generate economic benefits. Even where, for example, a heritage building also provides office space, the Ministry or other public sector entity occupying the heritage building may be able to secure better accommodation, at a lower cost (given the high costs of maintaining a heritage building). On balance the heritage building may appear to convey no economic benefits for the entity that occupies it. Although some heritage items can be sold, many cannot or, if legally able to sell them, their special nature as heritage items is such that sale or other monetary gains from holding the heritage items is extremely unlikely. For example, a government owned national park, which consists of land and the complex ecosystem sustained by the land and its water systems, is held in perpetuity and made accessible to the public as part of the nation's heritage.
19. So, many (and arguably most) heritage items cannot or will not be sold, may be inalienable, access to them by members of the public is usually either free or, if there is a charge, the cost of access is below the entity's cost to preserve the heritage item.

Do Heritage Items Have Service Potential?

20. Heritage items are generally considered to have service potential. A heritage item may contribute directly to an entity's objectives as a provider of heritage services. For example, heritage paintings directly contribute to a public art gallery's service performance objectives, where the art gallery's objective is to allow the public to enjoy, appreciate and gain access to heritage paintings. A heritage item may also contribute either directly or indirectly to an entity's non-heritage objectives. For example, heritage paintings held by a Ministry of Finance to decorate the Ministry's head office, provide a sense of history and purpose related to the function of that part of government, while also impressing visitors. Therefore they indirectly contribute to the Ministry's objective. The Ministry's headquarters' building may be a heritage building, in which case the building is a resource for the Ministry, providing both similar benefits to the heritage paintings and accommodation space that otherwise would need to be rented or purchased.
21. Governments and other public sector entities usually hold heritage items to provide services to third parties. For example, an art gallery holds paintings to provide a service to the public, by providing access to, and celebrate, art and a community's heritage. The Conceptual Framework explains that when an entity holds an item to provide services to third parties, the item still has service potential for the reporting entity. This is part of what makes public sector entities special and distinguishes them from commercial, profit-oriented entities; they operate on behalf of and provide services to others, especially the public as a whole, as well as particular groups within the public.
22. Arguably the special characteristics of heritage items—what makes them what they are—indicates their service potential. Heritage items are rare, important and/or significant. They are held for the benefit of present and future generations. They are preserved because of their importance to particular communities, to the nation as a whole, and to the public. Their preservation is a public service, while their existence provides a public service. It could be said that, by definition, heritage items have service potential.

Dual Use Heritage Items as Resources

23. There are many situations in which heritage items are held for non-heritage, operational reasons. This may have been their original purpose and only subsequently, with the passage of time, has the item acquired heritage status. That is the situation for many historic buildings, for infrastructure such as historic harbor fronts or even quite specialized and relatively recent constructions such as an historic water treatment plant or power generation station¹. There are also situations where a construction aims to fulfill two purposes from the beginning. For example, flood control investments can be designed to also operate as wildlife reserves or as parks. Rivers may be covered over and an extensive park created in the newly created land above where the river used to be. In these dual use situations the heritage items provides both a heritage service and another non-heritage service. The public sector entity may also use the heritage item to generate cash flow, by charging for the non-heritage aspect of the item's services.
24. Arguably, in dual usage heritage items, should be considered assets due to their ability to generate not only heritage services but also other non-heritage services and, potentially, economic benefits.
25. There may be scope to separate out a heritage component of the overall item and then account for that component differently, due to its special heritage characteristics. For example, in the case of a flood control system that includes a park above the extensive drainage system below ground level, perhaps 95% of the structure has the purpose of flood control while only the top 5% operates to provide heritage services and has a heritage character. Then the flood control component (95% of the structure) would still be integral to the heritage item, but would be considered an asset for financial reporting purposes.

Present Control over Heritage Items as a Result of a Past Event

26. Where a public sector entity holds a heritage item for the benefit of the community and has to allow free, public access, some argue that the entity doesn't really own or control the heritage item. From this perspective, the heritage item really belongs to the nation as a whole, or to the people, or perhaps to the national government rather than that particular entity. Arguments against the ability of an entity to really control a heritage item are:
 - (a) An entity's use of a heritage item is restricted by law, statute or practice.
 - (b) There is no scope to sell or otherwise dispose of the item.
 - (c) The entity does not have ownership (or proprietorship), because it's role *vis a vis* the heritage item is that of guardian or steward, and the item is held on behalf of the community.
 - (d) There should be public access to heritage assets, so that the entity has little ability to restrict access to the items.
27. 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.

¹ The R.C. Harris Water Treatment Plant in Toronto, for example, was constructed in the first half of the 20th century. It was architecturally significant when first constructed and has become more significant as a heritage item subsequently. It continues to operate as a water treatment plant and is responsible for more than 30% of Toronto's water.

28. The Conceptual Framework explains that (a) the use and disposal of public sector assets may be restricted, and (b) such assets may be held by public sector entities to provide services to third parties, where services may be for collective consumption. These two characteristics of heritage items are not barriers to them being assets.

Indicators of Control and Heritage Items

29. Given the importance and value of heritage items it is usually possible to establish which entity controls them. The indicators of control listed above, in paragraph 10 would be considered to make such a determination; legal ownership, access to the resource or ability to deny/restrict access to the resource, entity's ability to ensure that the resource is used to achieve its objectives, and existence of an enforceable right to service potential or the ability to generate economic benefits from the resource.
30. Control over a heritage item is often indicated via legal ownership, although an entity's ability to control and restrict access to the heritage item, and the use of the heritage item to achieve its objectives, will also be important. The past event that gives present control may arise in various ways, including purchase, transfer involving non-exchange or other types of transactions, or discovery.
31. Some cultural heritage items are, as noted above, either in public spaces or are themselves public space. Although the entity responsible for the heritage item generally will not restrict access, it is able to do this in exceptional circumstances. It is also able to ensure that the heritage item is used to achieve the entity's objectives. For example, the entity that owns a public square such as the Red Square in Moscow or the Piazza Venezia in Rome is able to manage access to the area. If maintenance or security require that the public be excluded from the area, then the responsible entity can do this. The entity can also ensure that the space is freely available to the public for their enjoyment. Creating and preserving such public spaces furthers the objectives of the responsible public sector entity, whether city council or national government.
32. An entity may hold a heritage item on behalf of another entity. For example, a museum may temporarily hold heritage items that belong to another museum as part of a current exhibit. Although one or more of the control indicators could be fulfilled (for example, the entity uses the item to achieve its objectives and can deny access to it), the heritage item is only on loan and is not controlled by the museum, with the relevant agreement or document establishing the facts of the case. Where a heritage item belongs to the national government, but is used by a subsidiary of that government, the question arises of whether the item is controlled by one or both of those two entities.
33. Control over particular heritage items may be unclear, due to the long history involved where records have been lost or other evidence about past agreements or understandings is open to challenge. The history of a particular heritage item may include theft, other types of misappropriation, or acts that are morally repugnant such that they provide a basis to challenge the proprietary rights of the ostensible owner. While these situations arise, they are not a basis for arguing against the possibility of control so much as acknowledgement that in exceptional cases control is unclear.

Some Specific Asset Existence Issues

34. The discussion above indicates that heritage items can be resources that are presently controlled by an entity as a result of a past event. In other words, heritage items can be assets for financial reporting purposes. The discussion focuses on examples such as historic buildings, paintings and heritage public spaces, for which asset existence is a relatively straightforward issue. The next section describes asset existence issues raised by particular categories and subcategories of heritage items. It identifies heritage items that cannot be assets for financial reporting purposes. It also describes situations where the existence of an asset is more debatable.

Categories and the Definition of an Asset

Doubts about Existence of a Resource

35. There are situations where the existence of a resource may be in doubt, which also suggest that the existence of a heritage item is in doubt. For example, the importance of an archeological site may be unclear, until excavations have been carried out or further information collected. Similarly, whether a donated collection (of books or stamps or historic documents) is worth preserving for present and future generations may be unclear and, until further investigation is done both the existence of a heritage item and existence of an asset is unclear. Doubt about the existence of both a heritage item and a resource may also arise due to the, previously mentioned, subjective nature of “heritage”. For example, some may view modern artworks, including graffiti by renowned graffiti artists, as examples of heritage, while others disagree. Statues (or flags) that glorify past rulers may be viewed by some as heritage and by others as symbols of tyranny.
36. There are also situations where a heritage item exists, but its resource nature is, nonetheless, in doubt. For example, the cost of gaining access to underground cultural heritage may not justify either (a) raising the heritage item to above the ground, or (b) constructing another way to give access to it. In that situation it would appear that there is no resource, because the heritage item (in its present state) does not have service potential. There have been situations where subway or tunnel excavations discover heritage items and either economics or the higher priority of completing the infrastructure project means that excavation of the items and their preservation is not possible. In other cases the foundation of a building may include one or more older, more historic buildings, and the costs of making those heritage items accessible to people is, again, viewed as too high to justify the expenditure. In that case the heritage item does not appear to be a resource.
37. A similar situation can arise with underwater cultural heritage. For example, even where a sunken ship is historic in nature and could be considered a heritage item, the costs of raising the ship so that people (experts or the public) have access to it may be too high to justify doing so. Even after a decision has been made to raise the ship, doubts about the existence of a resource may continue to exist until after the ship has been successfully raised.
38. Arguably, underwater cultural heritage raises issues similar to those raised by oil and gas exploration. 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. The cost of raising a shipwreck could either be viewed as similar to that of constructing a building (i.e. capitalize the expenditure as an investment)

or as similar to research (i.e. expense the expenditure on the basis that the resource nature of the ship cannot be fully established until the ship has been successfully raised).

Doubts about Control

39. Some situations where control over a heritage item may be in doubt have already been mentioned earlier in this chapter. Two further situations are where:
- (a) Multiple–entity trustee arrangements exist over, for example an area that either crosses national boundaries or involves a complex set of intersecting responsibilities with respect to usage, guardianship and/or management; and
 - (b) Sacred sites are viewed as people, who cannot be owned².

Lack of Control over Knowledge–in–Action Intangible Cultural Heritage

40. As explained in Chapter 2 one subcategory of intangible cultural heritage called “knowledge–in–action intangible cultural heritage”, consists of heritage items such as traditional skills, languages, story–telling, dance, religious or societal behaviors. These heritage items require continued use or enactment by living people to exist and be preserved for future generations. They fall into the description of a heritage item, but they cannot be controlled by a single entity. Knowledge–in–action intangible cultural heritage is “owned” by a whole community. Therefore this type of intangible cultural heritage does not meet the definition of an asset, because it cannot be controlled by an entity.

Control over Natural Heritage Items

41. The description of natural heritage in Chapter 2 focuses on areas, sites, habitats, natural features or geological and physiographical formations and precisely delineated areas which constitute the habitat of threatened species of animals and plants. A focus on the physical area rather than groups of living plants and animals makes it possible to say that a particular entity could control a natural heritage item.

6—Other Points Relevant to the Discussion of Heritage Items as Assets

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

42. 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. As discussed in Chapter 4, the measurement objective, in the context of elements recognized in the financial statements, emphasizes the importance of providing information that is useful for the assessment:

² The concern is included here because it could be a factor in some jurisdictions. A real–world example discussed by the IPSASB in December 2015 identified a mountain where the concept of ownership was culturally offensive. In that case the mountain (or land involved) had nonetheless been recognized as an asset in the government’s financial statements on the basis that the government controls, but *does not own*, the mountain for the purpose of financial reporting. Control was viewed as an acceptable concept while also reflecting the government’s management responsibilities and its ability to control access to the area.

- (a) Costs of services;
 - (b) Operational capacity; and
 - (c) Financial capacity.
43. 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.
44. There is disagreement on whether reporting financial information on the value of heritage items should be provided in a GPFR. 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 GPFRs. 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". As discussed in Chapter 4, there are also significant issues with respect to the measurement of heritage items, such that some would argue that it is not possible to measure heritage items (or particular categories or subcategories of heritage items) in a way that meets the Conceptual Framework's asset measurement criteria.

CONSULTATION PAPER: ACCOUNTING FOR HERITAGE**DRAFT CHAPTER 4, RECOGNITION OF HERITAGE ASSETS****1—Introduction**

1. This chapter discusses whether heritage assets meet the recognition criteria for assets, which would mean that they should be recognized in the statement of financial position.
2. In this and subsequent chapter the term “heritage asset” is used as a short-hand way to refer to “those heritage items that are assets for financial reporting purposes, if it is the case that any heritage items do meet the asset definition in the Conceptual Framework”. The IPSASB has not formed a view on whether heritage items could be assets for financial reporting purposes, and use of the term “heritage asset” does not imply that the IPSASB has reached a view.

Recognition and this Chapter's Focus on Asset Measurement

3. Chapter 6 of the Conceptual Framework, which addresses recognition of elements in the financial statements, states that the recognition criteria are that:
 - (a) An item satisfies the definition of an element; and
 - (b) Can be measured in a way that achieves the qualitative characteristics and takes account of constraints on information in GPFRs. [Paragraph 6.2]
4. Chapter 3 has already discussed the first recognition criteria, which is whether heritage items satisfy the Conceptual Framework's definition of an asset. That discussion is not repeated in this chapter, which focuses on the second recognition criteria, i.e. whether heritage assets can be measured in a way that achieves the qualitative characteristics and takes account of the constraints on information in GPFRs.
5. The Conceptual Framework conveys, in paragraph 6.3, that recognition in the financial statements follows achievement of the recognition criteria, without further consideration of other factors. Paragraph 6.3 begins with the statement that, “All items that satisfy the recognition criteria are recognized in the financial statements.” Therefore, if a heritage item is an asset for financial reporting purposes and can be measured in a way that achieves the qualitative characteristics and takes account of constraints on information in GPFRs, then it is recognized in the financial statements
6. This chapter applies the Conceptual Framework's coverage of measurement to heritage assets. It then identifies factors that could be used to indicate whether particular heritage assets can be measured in a way that achieves the qualitative characteristics and takes account of constraints on information in GPFRs. Last it discusses issues raised by heritage assets within particular categories and subcategories of heritage in light of the more general discussion of measurement.

Conceptual Framework and Measurement of Assets

7. To be recognized a heritage asset should be able to be measured in a way that achieves the qualitative characteristics and takes account of constraints on information in GPFRs. Paragraph 6.7 of the Conceptual Framework further explains that:

In order to recognize an item in the financial statements, it is necessary to attach a monetary value to the item. This entails choosing an appropriate measurement basis and determining whether the measurement of the item achieves the qualitative characteristics, taking into account the constraints on information in GPFs, including that the measurement is sufficiently relevant and faithfully representative for the item to be recognized in the financial statements. The selection of an appropriate measurement basis is considered in Chapter 7, *Measurement of Assets and Liabilities in Financial Statements*.

8. Considering this from the opposite end, a heritage asset cannot be recognized if a monetary value cannot be attached to the item¹. This situation would arise if there is no “appropriate measurement basis” available or if measurement does not achieve the qualitative characteristics, taking into account the constraints on information in GPFs.

Measurement Bases

9. Chapter 7 of the Conceptual Framework identifies the following measurement bases as applicable to assets:
 - (a) *Historical cost*: The consideration given to acquire or develop an asset, which is the cash or cash equivalents or the value of the other consideration given, at the time of its acquisition or development.
 - (b) *Market value*: The amount for which an asset could be exchanged between knowledgeable, willing parties in an arm’s length transaction.
 - (c) *Replacement cost*²: The most economic cost required for the entity to replace the service potential of an asset (including the amount that the entity will receive from its disposal at the end of its useful life) at the reporting date.
 - (d) *Net selling price*: The amount that the entity can obtain from sale of the asset, after deducting the costs of sale.
 - (e) *Value in use*: The present value to the entity of the asset’s remaining service potential or ability to generate economic benefits if it continues to be used, and of the net amount that the entity will receive from its disposal at the end of its useful life.

Qualitative Characteristics and Constraints

10. The qualitative characteristics of information included in GPFs of public sector entities are relevance, faithful representation, understandability, timeliness, comparability, and verifiability.

¹ Heritage *resources* may, nonetheless, be recognized in the financial statements, because the Conceptual Framework allows for the possibility that, to achieve the objectives of financial reporting, a resource that does not satisfy the definition of an element defined in the Conceptual Framework could need to be recognized in the financial statements. If that is the case, then heritage resources could be required or allowed to be recognized as “other resources”. Heritage resources that are not recognized could also be disclosed either in other GPFs or within the GPF that contains the financial statements, but outside of the financial statements.

² The full term is “optimized depreciated replacement cost” (ODRC) to denote that it refers to the replacement of the service potential embodied in an asset and not the asset itself. (see paragraph 7.41) The term “replacement cost” is used for economy of expression in the Framework.

Pervasive constraints on information included in GPFRs are materiality, cost-benefit, and achieving an appropriate balance between the qualitative characteristics.

Choice of an Appropriate Measurement Basis for Heritage Assets

Objective of Measurement

11. The Conceptual Framework identifies the objective of measurement to be:

To select those measurement bases that most fairly reflect the cost of services, operational capacity and financial capacity of the entity in a manner that is useful in holding the entity to account, and for decision-making purposes.
12. This is then explained further as follows:

The selection of a measurement basis contributes to meeting the objectives of financial reporting by providing information that enables users to assess:

 - The cost of services provided in the period in historical or current terms;
 - Operational capacity—the capacity of the entity to support the provision of services in future periods through physical and other resources; and
 - Financial capacity—the capacity of the entity to fund its activities.

The selection of a measurement basis also includes an evaluation of the extent to which the information provided achieves the qualitative characteristics while taking into account the constraints on information in financial reports.
13. The Conceptual Framework provides guidance on the selection of a measurement basis. It does not propose a single measurement basis (or combination of bases) for all transactions, events and conditions, and explains that that is not possible at a Conceptual Framework level.

Possible to Apply a Combination of Bases?

14. The Conceptual Framework refers to “combination of bases”, but does not indicate whether a combination of measurement bases could be applied to the same category of assets. In the context of measuring heritage assets the historical cost basis may be appropriate so long as it can be augmented, where necessary, with a market value. Alternatively, where measurement of some heritage items is not possible due to lack of historical cost information, is it acceptable to have some heritage items unrecognized, or would that make historical cost an inappropriate measurement basis for heritage items?

Guidance on Selection of Measurement Basis

15. Chapter 7 of the Conceptual Framework identifies the five bases listed in paragraph 8 above, and discusses them in terms of:
 - (a) Their ability to provide information useful for assessment of an entity’s cost of services, operating capacity and financial capacity; and
 - (b) The extent to which they provide information that meets the qualitative characteristics.
16. The discussion indicates that some bases do better than others on particular aspects of these two considerations. This is discussed below with the additional consideration of heritage characteristics and their implications for measurement bases.

Heritage Characteristics with Implications for Measurement

17. The following points related to heritage asset characteristics have been identified as important when evaluating whether measurement bases would be appropriate for measuring heritage assets. Heritage assets are:
- (a) Usually used to provide heritage services, rather than to provide operational capability for the provision of other services or to provide financial capability;
 - (b) Items whose heritage value is unlikely to be fully reflected in a market-derived value;
 - (c) Expected to be held indefinitely and neither sold nor replaced, with contractual, legal or statutory prohibitions or severe restrictions on transfer or sale;
 - (d) Rare, specialized in nature with few if any similar or equivalent items in existence;
 - (e) Usually very old so that acquisition documentation is difficult or impossible to obtain;
 - (f) Often acquired through non-exchange transactions;
 - (g) Irreplaceable given their heritage significance, including history attached to particular items and their nature of one-off, special or important items that exemplify the best in particular fields of human endeavor or, in the case of natural heritage, rare, protected areas of special significance; and
 - (h) Not frequently sold, such that markets for heritage items are either (i) not open, active or orderly, or (ii) do not exist in any meaningful sense (for example, there is no meaningful market for heritage items such as the Eiffel Tower or Stonehenge, while natural reserves and the wildlife they contain are not available for sale in a market).
18. Not all of these points (or even any of them) will necessarily apply to a particular heritage asset or particular subcategories of heritage assets. In addition, while presenting difficulties for certain measurement bases, these points do not necessarily make all measurement bases inappropriate or prevent the use of a combination of measurement bases (e.g. historical cost and market value where information on historical cost is unavailable) to measure heritage assets. As discussed further below, evidence and argument may indicate either that:
- (a) Heritage assets cannot be measured, other than in some exceptional cases; or
 - (b) Heritage assets can be measured, other than in some exceptional cases.
19. National jurisdictions presently have different perspectives on this, with some jurisdictions already measuring and recognizing heritage assets in the financial statements, with only a relatively few exceptions. For example, the United Kingdom and New Zealand aim to recognize the majority of their heritage assets, applying, *inter alia*, the view that most can be measured. Canadian public sector entities do not generally recognize their heritage assets. The relevant South African accounting standard requires recognition of heritage assets “if and only if the cost or fair value can be reliably measured³”.

³ ASB-South Africa (2008) GRAP 103, paragraph 13. (Paragraph 13 also requires that it be “probable that future economic benefits or service potential associated with the asset will flow to the reporting entity.”)

20. The perspective of a particular national jurisdiction may depend on the extent and type of heritage assets that predominate there, which will also depend on the definition of heritage assets used. Italy or Egypt, for example, will have a different heritage portfolio from that of South Africa or New Zealand. Perspectives on this question may also depend on a national jurisdiction's capacity to value heritage assets, taking into account both the costs involved and the availability of valuation professionals in a particular national jurisdiction.

Information on Heritage Items and the Three Types of Information

21. As stated above, heritage assets are expected to be preserved for present and future generations and many have restrictions on their sale⁴. Where heritage assets are held by an entity dedicated to heritage services (for example, a museum) they are primarily used to provide services and are part of the entity's operational capability. Where heritage assets are dual usage assets, they also provide services (but not only or even primarily heritage services) and they are held for their ability to provide services and contribute to the entity's operational capacity. If these cases, it would appear that measurement of heritage assets is likely to be most useful for assessing an entity's cost of services and assessment of operational capacity, while it is of less importance to assessments of an entity's financial capacity. (Some argue that including financial information on the value of heritage items in the statement of financial position overstates an entity's financial capability, because it implies that heritage assets are available to meet debt obligations when that is not the case, given legal and moral restrictions on their sale⁵.)
22. If a measurement basis' only strength is its ability to assess an entity's financial capacity, and it is relatively weak when used for the other two assessments, then it appears that that indicates that it is not appropriate for measurement of heritage assets.
23. Table 1, on the following page, provides an overview of the relative strengths of each measurement base, based on the Conceptual Framework's discussion, but without consideration of the special characteristics of heritage assets. This overview is provided to support the discussion of heritage asset recognition, and does not form part of the Conceptual Framework.

⁴ This CP applies the view that many or most heritage assets are not likely to be sold by the entity holding them. However, that is not necessarily the case. There appears to be a "sale likelihood" continuum for heritage items, which moves from, for example, items in museum collections that are unrestricted and will be sold to raise funds for other, higher value or better fit items if the opportunity arises, through to national icons for which sale would be unthinkable and legislation exists making it impossible, with variations along the way.

⁵ See, for example, Ouda, Hassan A.G. (2014) A Practical Accounting Approach for Heritage Assets under Accrual Accounting: With Special Focus on Egypt, IJGFM Vol. XIV, No.2, 2014

Table 1: Measurement Bases and Assessment Strength

Basis	Cost of services	Operational capacity	Financial capacity
Historical cost	Medium	Medium	Medium
Market value	Medium	Strong	Very strong
Replacement cost	Strong	Strong	Weak
Net selling price	Not useful	Not useful	Strong
Value in use	Not useful	Weak	Weak

Net Selling Price— Not Appropriate for Heritage Assets

24. Given that net selling price is useful only for assessments of financial capability, it appears to be irrelevant for the measurement of heritage assets in ordinary circumstances. The exception would be in the probably unusual circumstance that heritage assets have been identified as ready for sale.
25. In the Conceptual Framework, net selling price is described as being useful where the most resource-efficient course available to the entity is to sell the asset. It is not viewed as an appropriate measurement base if the entity is able to use the resource more efficiently by employing it in another way, for example by using it in the delivery of services. Heritage assets are expected to be held and preserved rather than sold, and their value relates to their service potential, which suggests that this measurement basis is not appropriate for heritage assets. Heritage assets are not usually viewed from the perspective of resource efficiency. However, to maximize their value as heritage, their most effective use is to hold them and allow the public access to appreciate them.

Impact of Heritage Characteristics on Assessment Strength

26. Table 2 provides an overview of the impact of heritage assets' characteristics on the assessment strength of the remaining four measurement basis. As discussed below, heritage assets' characteristics reduce the expected usefulness of all four measurement bases. The discussion below suggests that replacement cost and value in use will not be appropriate measurement bases for heritage assets. By contrast, although the benefits of either historical cost or market value or a combination of both bases to measure heritage assets are reduced by heritage assets' characteristics, those two measurement bases are still viewed as appropriate for the measurement of heritage assets.

Table 2: Measurement Bases and Assessment Strength Impacted by Heritage Characteristics

Basis	Heritage Characteristics:	Cost of services	Operational capacity	Financial capacity
Historical cost	Reduce benefits	Medium	Medium	Medium
Market value	Reduce benefits	Medium	Strong	Very strong
Replacement cost	Make this basis irrelevant	Not relevant	Not relevant	Weak
Value in use	Make this basis irrelevant	Not relevant	Not relevant	Weak

Heritage Asset Characteristics and Replacement Cost

27. To use replacement cost as a measurement basis applicable to heritage assets there need to be other heritage assets that would provide the same service potential as the heritage asset being valued. For heritage assets this is likely to be difficult or impossible, because they are rare or even unique items, and their service potential is bound up with their quality as rare or even unique items. The replacement cost measurement basis does not appear to provide relevant information about the monetary value of heritage assets. Since these assets are usually not depreciated and the cost to find a replacement, if replacement is possible, is likely to be at least equal to and probably higher than the original asset, it is difficult to see that replacement cost differs from market value, for this type of asset.

Are All Heritage Assets Irreplaceable?

28. Within the United Kingdom context research on the valuation of heritage assets for financial reporting purposes has concluded that some heritage assets are irreplaceable and should be deemed “National Treasures”, while other heritage assets are capable of substitution⁶. National Treasures warrant a different accounting approach compared to other heritage assets.

29. There is likely a continuum for the extent to which heritage assets are capable of substitution. For example, a collection of significant but not outstanding impressionist paintings could be viewed as capable of substitution with other such paintings. Then the most outstanding and significant works of the most important impressionists would be more difficult to find equally important pieces as substitutes. Then there are “unique” heritage items such as, for example, the Colosseum, The Great Pyramid of Giza, Stonehenge or Buckingham Palace. These can be compared to other historic edifices, but are nonetheless unique given their place in history and their outstanding heritage qualities. No meaningful market exists, and any market value seems irrelevant by comparison to the edifice's heritage significance.

⁶ Kingston University on behalf of RICS and HM Treasury (2009) *Valuing Heritage Assets, Final Report of a Research Project Examining the case for the Valuation of Heritage Assets*, March 2009

Value in Use—Not Appropriate for Heritage Assets

30. The Conceptual Framework explains that value in use is appropriate where it is less than the replacement cost of the resource and greater than the net selling price. This occurs when the asset is “not worth replacement”, but “the value of its service potential or ability to generate economic benefits is greater than its net selling price”.
31. Given that explanation of when value in use is an appropriate measurement basis, it appears inappropriate for the measurement of heritage assets. By their nature heritage assets are valuable in terms of service potential and, if it is possible to replace a heritage asset, then it would be worthwhile to do so. Whether or not the net selling price of a heritage asset is less than the service potential or ability to generate economic benefits is difficult to assess, because it is difficult to value the heritage asset’s service potential, but many heritage items would generate high net selling prices, if sold.
32. Furthermore, the Conceptual Framework explains that operationalization of value-in-use for non-cash-generating assets involves the use of replacement cost as a surrogate. If the majority of heritage assets are non-cash-generating assets, then this would mean that value-in-use for this category of asset would be equivalent to replacement cost. Replacement cost has already been discussed and the conclusion reached that it would not be an appropriate measurement basis for heritage assets.

Historical Cost—Heritage Assets Present Difficulties

33. When discussing the ability of measurement information generated through use of the historical cost basis to achieve the qualitative characteristics, paragraphs 7.19–7.20 of the Conceptual Framework explains that:

...application of historical cost is often straightforward, because transaction information is usually readily available. As a result amounts derived from the historical cost model are generally representationally faithful in that they represent what they purport to represent—that is, the cost to acquire or develop an asset based on actual transactions. Estimates of depreciation and impairment used in the historical cost model, particularly for non-cash-generating assets, can affect representational faithfulness. Because application of historical cost generally reflects resources consumed by reference to actual transactions, historical cost measures are verifiable, understandable and can be prepared on a timely basis.

Historical cost information is comparable to the extent that assets have the same or similar acquisition dates. Because historical cost does not reflect the impact of price changes, it is not possible to compare the amounts of assets that were acquired at different times when prices differed in a meaningful way.
34. These points are less relevant to heritage assets. Many heritage assets are so old that transaction information is not available, because it has been lost or destroyed years before. Furthermore, heritage assets are more likely to have been acquired through non-exchange transactions. Where heritage assets have been acquired over very long periods of time, which is a common situation with this type of asset, the information generated will not be comparable.

Heritage Assets and Market Value

35. Although a market value (or a reasonable estimate of market value) can usually be determined, the cost of doing market valuations for heritage assets may exceed the benefits of reporting a monetary value in the statement of financial position. As noted in the context of replacement cost, it can be argued that some heritage assets are irreplaceable. There are no market values available for similar assets, because the original asset is unique. The proportion of heritage assets for which market value can be derived with relatively low cost is unclear and appears likely to depend on the particular heritage portfolio in a particular jurisdiction.
36. The market values of surrounding land provides an indication of the market value for land occupied by an historic building, under gardens and forming an historic open area. There is a market for historic manuscripts, artwork and precious items such as significant jewellery. Public sector entities that hold heritage assets will often be in the situation of insuring those assets, which involves determination of their insurance value, with probable reference made to market values for similar items or similar collections of items.
37. But even where a market exists, it may not be active enough to provide readily available market values. Given their heritage nature, which means that heritage items are (by definition, as it were) rare, special and even unique, there may be very few, if any, comparable items in existence and of those none may have been made available for market sale in recent years.

Historical Cost and Market Value—Qualitative Characteristics and Constraints

38. For measurement the Conceptual Framework highlights the importance of relevance and representational faithfulness, although all of the qualitative characteristics apply. For heritage assets, understandability and the cost–benefit constraint are also particularly important.

Relevance—Assessment of Operational Capacity and Cost of Services

39. Users of the financial statements are interested in information about the resources controlled by the entity. That information is relevant for the purposes of accountability and decision–making. As noted in Table 1 and 2 above, monetary information on heritage assets is relevant to users' assessments of an entity's operational capacity and cost of services.
40. Monetary values for heritage assets is relevant to users' assessments of an entity's operational capacity whenever heritage assets are used operationally to (a) deliver heritage services, (b) as a dual use asset, which also delivers non–heritage services; or (c) as an asset that enhances or supports the delivery of non–heritage services. This is because such information provides a more complete picture of the entity's total operational capacity.
41. Heritage assets are not necessarily viewed as resulting in service costs and, on that basis, one can argue that their recognition is not relevant to assessments of service costs. This CP does not discuss whether heritage assets, if recognized, should then be depreciated. Many argue against depreciation of heritage assets, on the basis that their value increases over time rather than decreases. So, it would seem that there are no costs related to heritage assets and their recognition is irrelevant to assessments of service costs. However, the alternative—non–recognition of heritage assets—would have a negative impact on assessments of the costs of services. Where expenditures are expensed even though they are, in essence, investments in a

heritage asset or investments in a collection of heritage assets, this distorts information in the statement of financial performance and reduces the ability of users to assess the costs of services.

Understandability of Monetary Information on Heritage Assets

42. Although heritage assets may not be available for sale, the entity is accountable for their care. Information about their asset values is relevant to holding an entity accountable. This type of information is also important for certain types of decision. Information on heritage assets places into context other information about an entity's revenue and expenses. For example,
 - (a) Are there sufficient funds available given the extent and significance of an entity's heritage holdings?
 - (b) Are the annual expenses incurred by the entity appropriate to the heritage preservation responsibilities that it has?
43. Although market value and historical cost do not necessarily convey the full heritage significance of a heritage item, it does place financial value on the item and faithfully represent the significance of such assets to the entity as resources. Representing heritage items held by an entity as assets reflects their economic substance, which is that they are resources that have service potential and may also be able to generate future cash flows.
44. However, monetary values for heritage assets arguably could mislead users of the financial statements, by implying that heritage assets are for sale, when instead many heritage assets have restrictions on their sale. Although there is scope to present further information in the financial statements to emphasize that restricted assets are not available for sale, detail on the face of the financial statements and/or note disclosures may not be sufficient to change the impression that heritage assets contribute to an entity's financial capability in the sense that they are available for sale.

Costs of Valuing Heritage Assets

45. In some situations and for some heritage assets the costs of valuation could be so large as to bring into play the cost-benefit constraint, whereby information should not be present in a GPFR if the costs are greater than the benefits. This issue is discussed further below, in the context of factors that could impact on measurability. In brief, while this will be the case for some and possibly most heritage assets, it will not be the case for all heritage assets. There are subsets, described below, where deriving either historical cost or market value is either a straightforward, low cost task or involves some costs, but nothing so extreme as to present a barrier to recognition by invoking the cost-benefit criteria. Is it the case then, that those measurable heritage assets should be recognized?
46. Two further considerations when grappling with the cost of valuing heritage assets are:
 - (a) *First time adoption*: Do those large costs arise because the public sector entity has not reported on an accruals basis before and must recognize all its assets for the first time, with the result that major one-off costs must be incurred to recognize the heritage asset portfolio?
 - (b) *Lower cost valuation approach*: Is there a lower cost valuation approach that provides a representationally faithful measurement of a heritage asset portfolio through the use of

estimates and/or sampling, so that the perceived cost of valuation is higher than what would actually be the case?

Factors that could Impact on Measurability

47. Factors that are relevant to heritage asset's measurability can be broadly described as increasing the benefits of measurement, reducing the costs or difficulty of measurement or both. In terms of benefits these relate to the measurement objective and provision of information relevant to the assessment of cost of services, operational capacity and financial capacity.

Dual Use (Delivers both heritage and non-heritage benefits)

48. A dual use heritage asset is one that is used operationally to deliver non-heritage services, so that it provides both heritage benefits and operational capacity for the entity. Examples of dual use heritage assets are:
- (a) Historic buildings used as office space, as schools, universities, hospitals, water treatment plants, railway stations and for other non-heritage functions.
 - (b) Historic infrastructure that still functions to deliver infrastructure services, e.g. rail routes, canals, harbor enclosures, bridges, water treatment plants, power stations, sewerage systems, etc.
 - (c) Heritage items in or around buildings that are used operationally to deliver non-heritage services, e.g. paintings, sculptures, historic windows, staircases, floors, porticos, gardens, pathways, gates, etc. that are integral to (for example) the head office of a government department or the administrative building of a university.
49. Given their operational use, information on the monetary value of dual use heritage assets appears more than normally relevant to users' assessments the entity's cost of services and its operational capacity. In some cases information on these assets could also be viewed as relevant to assessment of an entity's financial capability, because they could (or are) being leased out to other entities or generating steady positive cash flows from their use.

Information for Measurement Readily Available

50. In some cases heritage asset measurement information that achieves the qualitative characteristics could be readily available. When the following factors apply this would be the case:
- (a) Recent purchases of heritage assets, where the transaction cost information is available to measure the asset's historical cost;
 - (b) Recent replacements of components of heritage assets, where transaction cost information is available to measure the asset's historical cost of that component which could, arguably, be recognized as an asset applying a componentization approach;
 - (c) Active market for similar heritage assets provides market values for the heritage assets held, which could be indicated either by reference to prices available from market transactions or the entity's own buying and selling of heritage assets to expand or improve its collection.

Heritage Categories and Heritage Asset Measurement

51. This section focuses on particular measurement and recognition issues raised by the following three categories of heritage:
- (a) Underwater cultural heritage;
 - (b) Intangible cultural heritage; and
 - (c) Natural heritage.
52. It does not discuss issues raised by cultural heritage assets, because the preceding discussion focused on examples from within that heritage category, so that it has already been sufficiently considered.

Underwater Cultural Heritage

53. Chapter 3 discusses the problem of ascertaining when a resource exists for underwater cultural heritage that could be important enough to raise to the surface. It notes uncertainty about whether an asset exists, which arises first because the nature of the underwater item may be unknown and secondly because the costs to raise the asset and whether that effort will be successful could be uncertain. In this situation it appears that measurement of the asset (if the item can be viewed as an asset) relates to its eventual value as cultural heritage. Either historical cost, where the costs of recovering the heritage item(s) could be capitalized as acquisition cost, or the market value of similar items could be used to value the item.

Intangible Cultural Heritage—Focus on Heritage Intellectual Property

54. The discussion considers measurement and recognition issues raised by intellectual property intangible cultural heritage (heritage intellectual property). As Chapter 3 explains, knowledge-in-action intangible cultural heritage cannot be controlled by an entity and therefore cannot meet the definition of an asset, so that it is not considered for recognition.
55. Measurement and recognition of heritage intellectual property presents similar measurement issues to those for non-heritage intellectual property. The discussion below divides this category into the following subcategories, where items in each categories are also heritage items::
- (a) Trademarks and brand names;
 - (b) Copyright (over books, images, audio recordings, visual recordings (documentaries, news reels, films and television), etc.); and
 - (c) Databases, or other systems to collect information, and computer software.

Measurement and Recognition of Heritage Trademarks and Brand Names

56. Measurement of heritage trademarks or brand names such as Le Louvre or The Metropolitan Museum is difficult because these cannot be separated from the institutions to which they relate. What service potential or ability to generate future economic benefits relate to the name itself and what to the underlying collection, group of experts staffing these institutions and the whole set of processes, knowledge and databases held by them? As mentioned earlier in this CP, the Le Louvre name has earned cash flow for the French government through an arrangement to allow its use by Le Louvre Museum in Abu Dhabi, but that arrangement involved a complex set of other rights, including agreements on regular loans of artworks owned by Le Louvre.

57. In IPSAS 31 this problem is discussed in terms of whether an intangible asset is “identifiable”, which is then treated as a problem for asset definition rather than measurement. An intangible item must be “identifiable” before it meets the definition of an intangible asset:

IPSAS 31, *Intangible Assets* Paragraph 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.

58. IPSAS 31 defines an intangible asset to be an identifiable non-monetary asset without physical substance. Then paragraph explains that “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.
59. In this CP, the same issue (whether heritage intangible assets are separable) is treated as a measurement problem. A heritage trademark or brand name can be a resource under the control of the reporting entity as the result of a past event. But when such an asset lacks “identifiability” and cannot be separated out from the service potential and/or economic benefits related to other aspects of an enterprise, arguably this makes measurement that meets the qualitative characteristics impossible.

Measurement and Recognition of Heritage Copyright

60. For copyright to be a heritage item the original work over which the entity owns copyright is likely to be relatively old resulting in potential problems ascertaining historical cost. However, some items appear to acquire heritage status quite quickly, for example, copyright over audio recordings or the music of great musicians (e.g. jazz or rock and roll) such as John Coltrane, Miles Davies, Elvis, Johnny Hallyday or the Rolling Stones could already be viewed as heritage assets by some, including experts in those two genres of music. Similarly, films and television programs produced within the last sixty years have acquired heritage-like status, and news reel or print media of significant historical events during the 20th century, including items as recent as fifty years old ago, could already have acquired heritage status, given their historic or other cultural and heritage importance.
61. If a public sector entity owns heritage copyrights, then they may have been acquired or purchased quite recently, for example, within the last 10 years. If purchased, purchase information should be available to identify the asset’s historical cost. However, as for other heritage assets, historical cost information may be lacking because the copyrights have been acquired through non-exchange transactions. Market values may be available, although the rare or unique nature of such items may be such that relatively little comparable market value information is available to estimate market value.

Measurement and Recognition of Heritage Databases and Software

62. Newly constructed databases and software that help to manage or make accessible heritage items such as historic documents or heritage artwork are not, in themselves, heritage items. Apart from being intangible assets, they are similar in nature to a new air-conditioning unit for a museum or a new security system in that they are important in relation to heritage items, but not an integral part of a heritage item. As non-heritage items the accounting guidelines for non-heritage intangible items would apply, i.e. IPSAS 31, *Intangible Assets*.
63. If there are example of databases and software that are heritage items, then it is likely that their original development costs were accounted for when those items were not yet classified as heritage. Since then whatever asset was originally recognized will have been completely depreciated or written down due to its technological obsolescence. As its heritage status will have emerged over subsequently, over many years, the relevant measurement basis would be market value, and the same issues as for copyright apply, where the rare or unique nature of such items may be such that little comparable market value information is available to estimate market value.

Natural Heritage

64. As described in Chapter 2, natural heritage consists of biological formations, areas, sites and habitats. Natural heritage can be treated as having three separate components as follows:
- (a) Human-made physical structures that are integral to the natural heritage (e.g. pathways, tracks, viewing platforms, bridges, huts, etc.);
 - (b) The living organisms (plants and animals, in a usually complex interlinked system); and
 - (c) The land underneath, supporting or otherwise forming a habitat or ecosystem or significant natural physical formation (for example, a mountain).

Non-Integral Human-made Structures are not Heritage Assets

65. Human-made structures that are not integral to the natural heritage item are not components of the natural heritage item. Examples of such structure include parking lots at the entrance to a natural reserve, a gift shop, a highway that goes through the area, or power pylons and other infrastructure that exist in or cut across the natural heritage area. These, applying the same principle as that discussed in Chapter 2 using examples relevant to cultural heritage, should not be considered heritage items. Non-heritage accounting guidelines should be applied to account for them.

Integral Human-made Physical Structures

66. Consistent with Chapter 2's discussion of investments in heritage items where those investments are integral to the heritage item, human-made physical structures that are integral to the natural heritage item are classified as a component of the heritage item. The examples provided in Chapter 2 related to cultural heritage (for example, replacement of the roof of an historic building), however the same principle applies to this component of a natural heritage item.
67. However, there appears to be no basis for accounting for such structures differently from those that are non-integral. Measurement issues raised by relatively recently built huts, bridges, pathways or viewing platforms (for example) are similar to that for structures that exist outside of the natural heritage area. Historical cost information should be available and, if not available or a more current

measurement is needed, then either market value or replacement cost could be applied to measure the value of the component so as to achieve the qualitative characteristics, consistent with the measurement objective and perspective on appropriate measurement bases.

68. The exception would be any structures that, in themselves, are historic enough to be examples of cultural heritage, independent of the role that they have as an integral part of the natural heritage item.

Living Organisms Component—Not Controlled

69. Chapter 2 notes that living organisms that form part of a natural heritage item generally cannot be controlled. Chapter 3 notes that a focus on the physical area rather than groups of living plants and animals makes it possible to say that a particular entity could control a natural heritage item and therefore it meets the definition of an asset. Consistent with those points, the separate component identified above as “the living organisms” is excluded from measurement on the basis that it cannot be controlled and, therefore, that component of the natural heritage item cannot be recognized as an asset.
70. If not recognized in the statement of financial position, it is likely nonetheless that users of GPFs could want information about this aspect or component of a heritage item. Whether information can or should be provided as disclosures, either within the financial statements or in other GPFs, will be discussed later in this CP.

Land Component of Natural Heritage Asset

71. As noted in Chapter 3, the land component of a natural heritage asset can be controlled by the reporting entity, with control usually indicated through legal ownership. Measurement of such land presents similar issues to those raised by cultural heritage land.
72. Historical cost may not exist, due to lost records or acquisition by the public sector entity through (a) non-exchange transactions, (b) actions such as conquest, theft, nationalization or confiscation, or (c) ownership by default followed by legislation to clarify ownership. In some cases land may have been acquired recently through exchange transactions, in which case historical cost information will be available.
73. Market values for land bordering the natural heritage area could be used as a reasonable estimate of the market value of the heritage land, despite the land’s restricted use. Depreciated replacement cost seems likely to generate the same monetary value as a market value, since the natural heritage item is such a specialized area that no other area could be used as a substitute and still provide the same service potential, but at a lower cost.
74. Natural heritage land may be used for non-heritage purposes. For example, a heritage mountain such as The Matterhorn includes land that the Swiss Government uses for farming purposes. Other heritage mountains may involve commercial lease arrangements that generate cash flow or tourism ventures (ski resorts, for example) that operate commercially or are sublet to commercial operators.

Public Sector Standard Setters' Forum—March 2016

Key Points from Discussion of IPSASB's Heritage Project—Project Actions

Key Points from Forum Discussions	Project Actions
<p><i>Types of heritage:</i> Participants generally supported the IPSASB's approach of starting with a broad group of heritage items, referencing the four UNESCO heritage categories; cultural property heritage, intangible heritage, natural heritage and underwater heritage. However accounting for cultural property (artwork, museum collections, historic buildings, etc.) was also viewed as the priority issue. Natural heritage was identified as a difficult area to address, including problems with accounting for land, given the vast areas held by governments and valuation difficulties. Some argued that the project should focus on cash-generating heritage.</p>	<ol style="list-style-type: none"> 1. The draft consultation paper (CP) continues to take a broad approach to heritage items, referencing the UNESCO definitions. 2. Prioritization of cultural heritage property discussed with Task Force. June IPSASB agenda paper includes proposal that the CP should include a specific matter for comment (SMC) on which categories require accounting guidelines. 3. Comments on heritage land impacted on the discussion of such land in the CP's draft Chapter 2 June IPSASB agenda paper.
<p><i>Should heritage items be recognized as assets?</i> The view of many participants was that heritage items are not assets and/or should not be recognized in the financial statements, because they are not controlled, do not provide economic benefits, or the information would not achieve the qualitative characteristics or the cost-benefit constraint. The difficulty and cost of valuing heritage items was viewed as a barrier to recognition.</p>	<ol style="list-style-type: none"> 1. The IPSASB has renaming the project "Heritage", rather than "Heritage Assets" to avoid implying that the IPSASB has already formed a view on whether heritage items meet the asset definition. 2. The CP's draft Chapters 3 and 4, developed for the June IPSASB meeting, discuss arguments for and against heritage items being assets for financial reporting purposes and for and against their recognition. To support a balanced discussion, Task Force members were asked to provide input on whether arguments were balanced and, in particular, to help to strengthen, if necessary, arguments against recognition of heritage assets.
<p><i>Measurement of heritage resources:</i> Participants had different views on relevant measurement bases, with support for both symbolic/ nominal values and for market values. A monetary value was viewed by some as irrelevant, meaningless or misleading.</p>	<p>During April-May, these comments were considered as input for development of the CP's draft Chapter 4, which focuses on measurement of heritage resources for possible recognition.</p>
<p><i>Presentation:</i> Some participants supported disclosure of non-monetary information in a report outside the financial statements. Others supported a separate "heritage assets" line item in the statement of financial position, with note disclosures on restrictions (e.g. inability to sell, etc.).</p>	<p>These comments have been noted as input for development of the CP's chapter on presentation of information, which will consider disclosures and line items.</p>

Key Points from Forum Discussions	Project Actions
<p><i>IPSASB pronouncement:</i> There was support for an “evolutionary approach” that would allow countries to begin with disclosure and then move towards recognition of some heritage items. Another view was that existing IPSASs are sufficient and what constituents need is application guidance rather than a new or revised accounting standard.</p>	<p>During April–May, this issue was discussed with the project’s Task Force members and considered for inclusion in the CP’s structure, as is noted in the June agenda papers. Staff have noted the comments received, so that this information is available for a later project stage, when the IPSASB will consider the issue of appropriate pronouncement(s).</p>