

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

**Meeting Location:** Stellenbosch, South Africa

**Meeting Date:** December 6–9, 2016

# Agenda Item 5

For:  
 Approval  
 Discussion  
 Information

## Heritage

<b>Project summary</b>	Develop a consultation paper (CP) on financial reporting for heritage	
	<b>Topic</b>	<b>Agenda Item</b>
<b>Project management</b>	1. Instructions—Up to September 2016 meeting	5.1.1
	2. Decisions— Up to September 2016 meeting	5.1.2
	3. Project roadmap	5.1.3
<b>Decisions required at this meeting</b>	1. Chapters 1–3: Approve	5.2.1
	2. Chapter 4—Approve	5.2.2
	3. Chapter 5—Approve	5.2.3
	4. Chapter 6— Approve	5.2.4
<b>Supporting items</b>	CP, Chapters 1–3	5.3.1
	CP, Chapter 4, <i>Recognition, Measurement of Heritage Assets</i>	5.3.2
	CP, Chapter 5, <i>Heritage–Related Obligations</i>	5.3.3
	CP, Chapter 6, <i>Presentation of Heritage Information</i>	5.3.4
	Consultation paper (clean version)	5.3.5

## IPSASB Instructions—September 2016 meeting and earlier

Meeting	Instructions	Actions
Sept. 2016	<p>1. Revise Chapter 1 as follows: (a) remove paragraphs on project background and CP approach; (b) change the order of sections to improve the flow; and (c) include a brief acknowledgement that countries may have different experiences with accounting for heritage items.</p> <p>2. Revise Chapter 2 as follows:</p> <p>(a) Generally shorten the chapter, including the removal of paragraphs on issues related to development of a definition of heritage items and reduction of detail on the heritage category descriptions; and</p> <p>(b) Revise the definition of heritage items to read: “Heritage items are items that are intended to be held indefinitely and preserved for the benefit of present and future generations because of their rarity and significance in relation, but not limited, to their archaeological, architectural, agricultural, artistic, cultural, environmental, historical, natural, scientific or technological features.”</p> <p>3. Revise Chapter 3 as follows: (a) generally shorten the chapter (e.g. delete detailed discussion of different heritage items and use a few examples, focusing on asset criteria of resource and control rather than past event; (b) revise or delete discussion of access to a heritage item; and (c) revise the preliminary view (PV) to convey that heritage items generally will be assets for financial reporting purposes, although there are circumstances where they are not.</p> <p>4. Revise Chapter 4 as follows:</p> <p>(a) Include discussion of materiality and the relevance of monetary information on heritage assets;</p> <p>(b) Delete the Tables 1 and 2;</p> <p>(c) Discuss advantages and disadvantages of measurement approaches (historical cost and current value) leading to a PV on a measurement approach at the end of the chapter;</p> <p>(d) Follow the Conceptual Framework’s order to discuss measurement, while making more use of its discussion of measurement; treat “net realizable value” as not applicable to heritage assets;</p> <p>(e) Remove references to heritage assets used for “non-heritage purposes” and replace with two categories; heritage assets that are “operational assets” and those that are “non-operational assets”;</p> <p>(f) Discuss initial and subsequent expenditure;</p> <p>(g) Revise discussion of symbolic value to include negative aspects and explain why this approach is not proposed as a measurement basis, referring to the Conceptual Framework’s conclusion; and</p>	<p>1. Done</p> <p>2. Done</p> <p>3. Done</p> <p>4. Done</p>

Meeting	Instructions	Actions
	<p>(h) Include a decision tree on recognition of heritage assets, applying the decision—critical factors identified in the revised coverage.</p> <p>5. Revised Chapter 5 as follows:</p> <p>(a) Restructure chapter so that it leads to a PV on special characteristics of heritage items that could create a present obligation for financial reporting purposes.</p> <p>(b) Replace discussion of three liability recognition options with one on whether heritage items' special characteristics present special issues in the assessment of present obligations, applying the Conceptual Framework's definition of a liability and moving from an assessment of broader obligations to situations where a present obligation for financial reporting purposes is likely to exist.</p> <p>(c) Discuss the relationship between an entity's need to address maintenance of heritage items and existence of funding or a budget (e.g. appropriation) to carry out the work. The discussion should consider whether the existence of an appropriation has implications for whether an entity has a binding obligation.</p> <p>6. Revise Chapter 6 as follows:</p> <p>(a) Discuss presentation objectives and take a high level approach rather than proposing specific items of information that could be presented;</p> <p>(b) Consider information that should be presented when heritage assets are recognized and when not recognized, rather than using a mixed recognition scenario;</p> <p>(c) Focus on whether there is anything specific to heritage assets that could lead to users of GPFRs needing additional information. The focus of the second part of the chapter should be on whether the special characteristics of heritage assets indicate a need for other mandated or recommended requirements, beyond what is already covered in Recommended Practice Guidelines 1–3; and</p> <p>(d) Shorten the discussion wherever possible, particularly in the section on "Presentation in Other GPFRs".</p>	<p>5. Done</p> <p>6. Done</p>
June 2016	<p>1. Ensure that chapters consider GPFR users' information needs.</p> <p>2. Revise the CP structure as follows:</p> <p>(a) Chapter 4: Revise name of chapter to "Recognition and Measurement of Heritage Assets"; move "Different Approaches to Recognition" to second heading before "Measurement"; and, include section(s) on subsequent expenditure and depreciation/renewals.</p> <p>(b) Chapter 5: Revise name of chapter to "Heritage items and Related Obligations"; and include a new subsection named "Recognition and Measurement of Obligations" after subsection 5.3.</p> <p>(c) Chapter 6: Move subsection 6.2.2 to chapter 7.</p> <p>3. Revise Chapter 1 as follows:</p>	<p>1. Done</p> <p>2. CP structure revised</p> <p>(a) Done</p> <p>(b) Done</p> <p>(c) See agenda item 6.2.6 for September meeting.</p> <p>3. Done</p>

Meeting	Instructions	Actions
	<p>(a) Shorten the content;</p> <p>(b) Highlight quotes from Conceptual Framework, applying approach used in recent CPs; and</p> <p>(c) Introduce concept of GPFR users' information needs when reporting on heritage.</p> <p>(d) Include specific references where necessary and remove appendices with detail on National Standard Setters' heritage accounting.</p> <p>4. Revise Chapter 2 as follows:</p> <p>(a) Reduce detailed description of heritage categories, take broader approach, and remove explanations of how categories differ from the UNESCO categories;</p> <p>(b) Provide further discussion of how heritage could be distinguished objectively, including whether this should be considered at the national level;</p> <p>(c) Keep focus on heritage items and remove financial reporting references (e.g. Conceptual Framework coverage and references to investments);</p> <p>(d) Have chapter lead up to description of heritage item which could then be a preliminary view (PV)</p> <p>5. Restructure Chapter 3 to focus on the Conceptual Framework's three components of the definition of an asset, i.e. resource, control and past event.</p> <p>6. Develop draft Preliminary View (PV) to reflect IPSASB's in-principle support for heritage items being assets.</p> <p>7. Revise Chapter 3 as follows:</p> <p>7. (a) Remove the example on page 8 (relates to a mountain that is controlled but not owned);</p> <p>(b) Broaden discussion to cover access rights generally, not limiting discussion to physical access to heritage items;</p> <p>(c) Discuss control from perspective of stewardship rather than ownership, analyse rights and link them to custodianship/stewardship; and</p> <p>(d) Discuss principal-agent arrangements, (entity responsible for heritage on behalf of another entity that owns the heritage item) and relevance of service performance reporting in this context (i.e. reporting on heritage stewardship).</p> <p>8. Revise Chapter 4 as follows:</p> <p>(a) Amend paragraph 8 to focus on what is necessary for measurement;</p> <p>(b) Include more discussion of the qualitative characteristics and constraints applied to the measurement of heritage assets;</p> <p>(c) Remove tables 1 and 2 and replace with discussion of relevance of different measurement bases to the</p>	<p>(a) Done</p> <p>(b) Done</p> <p>(c) Done</p> <p>(d) Done</p> <p>4. Chapter 2 revised.</p> <p>(a) Done</p> <p>(b) Done</p> <p>(c) Done</p> <p>(d) Done</p> <p>5. Done</p> <p>6. Done</p> <p>7. Done</p> <p>7 (a) Done</p> <p>7. (b) Done</p> <p>(c) Done</p> <p>(d) Done</p> <p>8. Done. Extensive revisions to Chapter 4 have addressed change while also introducing new structure.</p> <p>(a) Done</p> <p>(b) Sufficient?</p>

Meeting	Instructions	Actions
	<p>measurement objective applied to heritage assets, while also discussing the qualitative characteristics generally;</p> <p>(d) Discuss implication of heritage assets being used as either operational or non-operational assets and include different fact patterns to discuss different measurement perspectives, including reasons why an entity holds a heritage item, type of accountability that applies and potential impact on accounting options;</p> <p>(e) Discuss information needs and whether monetary values provide useful information and is in the public interest, given constraints applicable to monetary information for heritage assets;</p> <p>(f) Note that application of the Conceptual Framework’s measurement guidance depends on the reporting entity and its objectives, so that measurement is contextual and not an absolute;</p> <p>(g) Acknowledge the difficulties of measuring heritage assets, but adopt a view that measurement is possible if the information can achieve the qualitative characteristics, meets the needs of users, while taking into account the constraints; and</p> <p>(h) The usefulness of information relates to what an entity is accountable for, including whether it is a cost centre or operates on another basis.</p>	<p>(c) Done</p> <p>(d) For IPSASB consideration of revised Chapter 4 on whether further coverage is needed to fully address this instruction. (Same point may apply to (f) and (h))</p> <p>(e) Sufficient?</p> <p>(f) Still needed, given other revisions to chapter?</p> <p>(g) Done</p> <p>(h) Still needed, given other revisions to chapter?</p>
<p>March 2016</p>	<ol style="list-style-type: none"> <li>1. Rename “Heritage Assets” project as the “Heritage” project.</li> <li>2. With respect to the CP’s structure: <ol style="list-style-type: none"> <li>(a) Include chapter on obligations after those on heritage assets;</li> <li>(b) Rename subsection named “Heritage Assets Project”;</li> <li>(c) Discuss category issues within each chapter; and</li> <li>(d) Cover asset recognition and measurement in one chapter.</li> </ol> </li> <li>3. Use terminology that is accessible to non-accountants in the CP, e.g. use “resource” to provide a bridge to “asset”.</li> <li>4. Include different views in the CP with respect to heritage: <ol style="list-style-type: none"> <li>(a) Identification (e.g. principles versus list);</li> <li>(b) Classification as resources for financial reporting purposes and the meaning of “resource” in this context;</li> <li>(c) Measurement, including whether monetary values would achieve qualitative characteristics and constraints; and</li> <li>(d) Information needed for accountability and decision-making, including location of information on land and other</li> </ol> </li> </ol>	<ol style="list-style-type: none"> <li>1. Project name changed on website and in agenda papers.</li> <li>2. Draft structure for CP revised as per directions received and resubmitted to June IPSASB meeting.</li> <li>3. Done</li> <li>4. Draft chapters 2 to 4 developed as per directions and specifically: <ol style="list-style-type: none"> <li>(a) Done;</li> <li>(b) Done; and</li> <li>(c) Done.</li> <li>(d) Done (Actions on chapters on (a) obligations and</li> </ol> </li> </ol>

Meeting	Instructions	Actions
	<p>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>6. Have CP's discussion of heritage-related obligations apply the Conceptual Framework, not IPSAS 19.</p> <p>7. Revise draft Chapter 1 as follows:</p> <p>(a) Start with problem heritage presents for 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>8. The heritage-related information chapter should:</p> <p>(a) Cover entities with different types of heritage responsibilities;</p> <p>(b) Discuss forward-looking information on funding availability linked to planning/budgeting rather than fiscal sustainability;</p> <p>(c) Drive the discussion of where information on heritage items should be reported using special characteristics of heritage; and</p> <p>(d) Address other types of information that GPFR users would need about heritage items, if they are not recognized as assets.</p>	<p>liabilities, and (b) heritage responsibilities and information for September meeting.)</p> <p>5. Draft Chapters 2, 3 and 4 reflect directions on intangible heritage.</p> <p>6. Done</p> <p>7. Draft Chapter 1 revised as directed and resubmitted to June IPSASB meeting.</p> <p>8. Done (See issue re. Chapter 6 in IPSASB's September meeting papers.)</p>
December 2015	<p>1. Apply Conceptual Framework asset definition to heritage items in the four UNESCO convention categories and discuss possible criteria applicable to asset existence.</p> <p>2. Develop the draft description of public sector activities related to heritage and possible information needs, focusing on information reported in the financial statements and link discussion to the Conceptual Framework.</p> <p>3. Apply the Conceptual Framework to obligations raised by heritage items. Specifically, discuss:</p> <p>(a) Different responsibilities and situations that could result in a present obligation for an entity, including whether there is a liability or just a generic, undefined commitment to preserve heritage in different situations.</p>	<p>1. Done in March 2016 agenda paper.</p> <p>2. Done. (A revised description included in draft Chapter 1 for March 2016 meeting.)</p> <p>3. Done. (See March agenda paper for analysis of obligations to preserve heritage items, while draft Chapter 1 discussed other information that could be reported with respect to heritage</p>

Meeting	Instructions	Actions
	<p>(b) Whether there is any difference between obligations related to heritage items (e.g. maintenance) and similar obligations related to non-heritage items.</p> <p>(c) Whether the special nature of a heritage item necessarily results in obligations of a special nature.</p>	<p>preservation responsibilities.)</p>
<p>September 2015</p>	<ol style="list-style-type: none"> <li>1. Amend the proposed description of heritage items (in agenda item 13.1).</li> <li>2. Apply the working description of heritage items, as amended, in subsequent agenda papers.</li> <li>3. Begin by taking a wide, inclusive approach to types of heritage items.</li> <li>4. Apply the Conceptual Framework's asset definition to selection of heritage items.</li> <li>5. Consider whether heritage items could either (a) meet the definition of a liability, or (b) involve a related liability to preserve the item.</li> <li>6. Discuss arguments for and against reporting information on heritage items in a general purpose financial report (GPFR) or in another type of report.</li> </ol>	<ol style="list-style-type: none"> <li>1 and 2. Done.</li> <li>3. Done. Wide, inclusive approach taken.</li> <li>4. Done. See December 2015 paper.</li> <li>5. Done. See December 2015 and March 2016 papers.</li> <li>6. Done. See December 2015 papers and draft Chapter 1 for March 2016 meeting.</li> </ol>
<p>June 2015</p>	<ol style="list-style-type: none"> <li>1. Initiate a project on accounting for heritage, as per the approved project brief.</li> <li>2. Establish a Task Force that includes an expert in heritage valuation.</li> </ol>	<ol style="list-style-type: none"> <li>1. Done. Project initiated.</li> <li>2. Done. Task Force active from April 2016. Includes heritage valuation expert recommended by IVSC.</li> </ol>

**IPSASB Decisions—September 2016 meeting and earlier**

<b>Meeting</b>	<b>Decisions</b>
September 2016	1. Supported a preliminary view on definition of heritage items.
June 2016	<ol style="list-style-type: none"> <li>1. The CP should be named “Financial Reporting for Heritage in the Public Sector”.</li> <li>2. The description of “heritage items” should include “archaeological” and convey that heritage items are “held indefinitely” and “preserved”, rather than “preserved indefinitely”.</li> <li>3. The CP should discuss intangible cultural heritage.</li> </ol>
March 2016	<ol style="list-style-type: none"> <li>1. Rename “Heritage Assets” project as the “Heritage” project.</li> <li>2. Have separate chapter on heritage responsibilities and information needs.</li> </ol>
December 2015	<ol style="list-style-type: none"> <li>1. Support for draft description of heritage-related activities as useful background for reporting on heritage.</li> <li>2. The description of activities should include conservation, which is wider than preservation and include activities such as restoration, reconstruction, rehabilitation and adaptation in addition to preservation.</li> <li>3. The working description of “heritage items” should remain focused on “preservation”, without reference to conservation.</li> <li>4. Heritage status reports are outside of this project’s scope.</li> <li>5. The CP should focus on reporting information about heritage items that are controlled and have the potential to be assets.</li> </ol>
September 2015	<ol style="list-style-type: none"> <li>1. Support for: <ol style="list-style-type: none"> <li>(a) Working description of heritage items, as per description used in subsequent agenda paper and draft CP.</li> <li>(b) Broad approach, with consideration of four categories of heritage items: cultural property heritage, underwater cultural heritage, natural heritage and intangible heritage, based on the UNESCO definitions of different heritage categories.</li> </ol> </li> </ol>
June 2015	Approved the “Heritage Assets” project brief.

**HERITAGE PROJECT ROADMAP**

<b>Meeting</b>	<b>Objective: IPSASB to consider:</b>
September 2015	<ol style="list-style-type: none"> <li>1. Description of heritage items</li> <li>2. Categories of heritage, approach to project's scope</li> <li>3. Heritage assets</li> </ol>
December 2015	<ol style="list-style-type: none"> <li>1. Heritage asset definition applied to categories of heritage</li> <li>2. Heritage activities, responsibilities and information needs</li> <li>3. Obligations and heritage items</li> </ol>
March 2016	<ol style="list-style-type: none"> <li>1. Draft Chapter 1: Introduction, including information needs</li> <li>2. Heritage assets</li> <li>3. Recognition of heritage assets</li> </ol>
June 2016	<ol style="list-style-type: none"> <li>1. Draft chapters 1 to 4</li> <li>2. Heritage items and categories of heritage</li> <li>3. Heritage resources as assets</li> <li>4. Recognition and measurement of heritage assets</li> </ol>
September 2016	<ol style="list-style-type: none"> <li>1. Review all chapters: Draft chapters 1 to 7</li> <li>2. Heritage assets—preliminary view (chapter 3)</li> <li>3. Heritage asset recognition and measurement (chapter 4)</li> <li>4. Obligations and liabilities related to heritage (chapter 5)</li> <li>5. Presentation of information on heritage (chapters 6 &amp; 7)</li> </ol>
December 2016	<ol style="list-style-type: none"> <li>1. Review draft CP</li> <li>2. Discuss PVs and specific matters for comment (SMCs)</li> <li>3. Approval of CP</li> </ol>
March 2017	Consultation Period
June 2017	
September 2017	<ol style="list-style-type: none"> <li>1. Review of Responses</li> <li>2. Initial discussion on issues raised</li> </ol>
December 2017	<ol style="list-style-type: none"> <li>1. Further discussion on issues raised by responses</li> </ol>
March 2018	<ol style="list-style-type: none"> <li>1. Review draft ED</li> <li>2. Discuss</li> </ol>
June 2018	Approve and issue ED
Sept 2018	Consultation Period
Dec 2018	
March 2019	Review of Responses
June 2019	Issue pronouncement (and/or revisions to existing IPSASs)

## **Draft Chapters 1–3: Introduction, Heritage Items, and Heritage Assets**

### **Question**

Does the IPSASB agree with revisions made to Chapters 1–3 (agenda item 5.3.1)?

### **Detail**

1. Marked-up versions of Chapters 1–3 have been provided to support the IPSASB's review. They show revisions since the IPSASB's September meeting.
2. The main revisions are:
  - (a) All three chapters are shorter;
  - (b) Chapter 3's discussion of whether heritage items could be assets has been simplified;
  - (c) Preliminary Views (PVs) 1 and 2 have been revised; and
  - (d) Specific Matters for Comment (SMCs) for Chapters 2 and 3 have been added.

### **Decision(s) required**

The IPSASB is asked to decide on revisions to Chapters 1–3, including their proposed SMC(s) and PV(s).

## Chapter 4, Recognition and Measurement of Heritage Assets

### Question

Does the IPSASB agree with the revised Chapter 4, *Recognition and Measurement of Heritage Assets*, (agenda item 5.3.2)?

### Detail

1. Chapter 4 was revised after the September 2016 IPSASB meeting and circulated to IPSASB Members for an inter-meeting review. Seven sets of comments were received, from five board members, a technical advisor and the IPSASB's technical director. Revisions arising from review comments are shown (as track changes) in agenda item 5.3.2 (Chapter 4).
2. Most recommended revisions were fairly straightforward to address. The following areas are noted for IPSASB members' consideration, either because staff (a) there may be different IPSASB member views on the proposed revision(s), or (b) there are issues with respect to the extent (or type) of revision that IPSASB will support, to address the comments received:
  - (a) Further coverage (and possible split into two subsection) on measurement bases given their importance for two separate but related issues:
    - (i) Measurement for recognition, focused on whether able to measure heritage assets, to achieve the qualitative characteristics, while taking into account the constraints; and
    - (ii) Choice of appropriate measurement bases, focused on the measurement objective.
  - (b) Discussion of each measurement base and to provide more coverage of their usefulness for assessments of costs of services, operational capacity and financial capacity.
  - (c) Revisions to include the use of an initial measurement at "1 currency unit" within the context of both historical cost and symbolic value.
  - (d) More coverage of subsequent measurement. (For example, discuss alternative views on whether the special characteristics of heritage assets raise issues for subsequent measurement.)

### Decision(s) required

The IPSASB is asked to decide on revisions to Chapter 4, including its SMC(s) and PV(s).

**Chapter 5, Heritage Items and Related Obligations****Question**

Does the IPSASB agree with the revised Chapter 5, *Heritage Items and Related Obligations* (agenda item 5.3.3)?

**Detail**

1. Chapter 5 was revised after the September 2016 IPSASB meeting and circulated to IPSASB Members for an inter-meeting review. (A similar number of comments as for Chapter 4 were received.) Revisions arising from review comments are shown (as track changes) in agenda item 5.3.3.
2. The following areas are noted for IPSASB members' consideration:
  - (a) Does Chapter 5 provide a sufficient basis for consultation, in terms of its coverage of alternative views on liability recognition and its SMCs?
  - (b) Should Chapter 5's discussion be expanded to:
    - (i) Include alternative views on existence of liabilities that are specific to heritage;
    - (ii) Discuss measurement of heritage-related liabilities;
    - (iii) Discuss whether recognition of heritage-related liabilities would provide information on entities' costs of services, operational capacity and financial capacity, taking a similar approach to Chapters 3 and 4's coverage of heritage assets;
    - (iv) Apply requirements in IPSAS 19 to discuss whether liabilities exist with respect to (for example) specific legal requirements and funding agreements; and
    - (v) Include worked examples with journal entries?

**Decision(s) required**

The IPSASB is asked to decide on revisions to Chapter 5, including its SMC(s) and PV(s).

**Chapter 6, Presentation of Information on Heritage****Question(s)**

Does the IPSASB agree with the revised Chapter 6, *Presentation of Information on Heritage*, (agenda item 5.3.4)?

**Detail**

1. Chapter 6 was revised after the September 2016 IPSASB meeting and circulated to IPSASB Members for an inter-meeting review. (A similar number of comments as for Chapters 4 and 5 were received.) Revisions arising from review comments are shown (as track changes) in agenda item 5.3.4.
3. The following areas are noted for IPSASB consideration:
  - (a) Should Chapter 6 only discuss presentation of information related to recognized elements (heritage assets and heritage-related liabilities) or should it also consider information that could be presented on unrecognized heritage assets, contingent liabilities and a wider set of heritage related obligations?
  - (b) Does Chapter 6 provide a sufficient basis for consultation or should it also include:
    - (i) Alternatives views on different approaches to presentation of information on heritage; and
    - (ii) Arguments for and against alternative approaches, applying the Conceptual Framework's discussion of users' information needs.
  - (c) Should Chapter 6's discussion be expanded to include more on:
    - (i) Specific heritage-related disclosures (for example, disclosures on heritage-related revenue and expenses) for constituents' consideration;
    - (ii) Information for management's stewardship of heritage resources;
    - (iii) Discussion of information that IPSASs presently require on assets, liability, revenue, expenses and cash flows, with consideration of its relevance to heritage items (generally and with respect to particular categories of heritage items, such as property, plant and equipment, and intangibles)?

**Decision(s) required**

The IPSASB is asked to decide on revisions to Chapter 6, including its SMC(s) and PV(s).

## **CONSULTATION PAPER: FINANCIAL REPORTING FOR HERITAGE IN THE PUBLIC SECTOR**

### **DRAFT CHAPTER 1, INTRODUCTION TO FINANCIAL REPORTING FOR HERITAGE IN THE PUBLIC SECTOR**

#### **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. [\*The Conceptual Framework for General Purpose Financial Reporting by Public Sector Entities\* \(the Conceptual Framework\) identifies the holding of heritage items as a distinguishing feature of the public sector<sup>1</sup>.](#)
2. ~~Paragraph 15 of the preface to *The Conceptual Framework for General Purpose Financial Reporting by Public Sector Entities* (the Conceptual Framework) describes the holding of heritage items as a distinguishing feature of the public sector, and explains that:~~

~~“15. 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 generations.”~~
- 3.2. ~~Governments’ responsibilities may extend beyond preservation to include restoration of heritage items and enhancement of communities’ access to and enjoyment of their heritage. This consultation paper (CP) discusses financial reporting for heritage in the public sector and considers different approaches to address the information needs of users of general purpose financial reports (GPFRs), as a basis for consultation with those interested in how GPFRs can support accountability and decision making for heritage. Where the IPSASB has reached a preliminary view on a heritage-related financial reporting issue, that view is provided, along with discussion to explain how the IPSASB reached its view.~~

#### **1.2—The IPSASB’s Heritage Project**

3. ~~The IPSASB first considered heritage accounting during development of IPSAS 17, *Property, Plant and Equipment* (IPSAS 17), which includes paragraphs on accounting for heritage assets. IPSAS 17 describes heritage assets and allows entities to recognize them. If an entity recognizes some or all of its heritage assets, then it needs to make disclosures identified in the Standard. However, entities are not required to apply IPSAS 17’s measurement requirements. The IPSASB took a similar approach in IPSAS 31, *Intangible Assets* (IPSAS 31), which has paragraphs on accounting for intangible heritage assets, based on those in IPSAS 17. In effect, the IPSASB’s approach in these two Standards acknowledged the difficult financial reporting issues raised by heritage items.~~

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

and allowed preparers or national jurisdictions to determine their how to accounting for heritage until this topic could be considered in depth.

4. In 2004 the IPSASB commenced a heritage assets project in collaboration with the United Kingdom's Accounting Standards Board (the ASB—UK). A CP, *Accounting for Heritage Assets under the Accrual Basis of Accounting*, was published in February 2006. The CP consisted of a discussion paper developed and approved by the ASB—UK, with an introduction and preface developed by the IPSASB's Heritage Assets Subcommittee. After reviewing submissions in late 2006, the IPSASB decided to defer further work until completion of its Conceptual Framework.
5. After completion of the Conceptual Framework in 2014, the IPSASB decided to reconsider financial reporting for heritage in the public sector. IPSASB constituents had indicated, in response to the 2013–2014 strategy and work plan consultation, that developing coverage of financial reporting for heritage in its pronouncements should be an IPSASB priority.
6. A project brief for the Heritage Project was approved in June 2015. The project's objectives include to develop a CP highlighting the main options to account for heritage. 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 a pronouncement (or revision of existing pronouncements) to address financial reporting for heritage in the public sector.

### **1.32—Challenges of Financial Reporting for Heritage**

4.7. Financial reporting for heritage has been a challenging topic for the IPSASB and for national public sector accounting standard setters for many years. Worldwide there are different views on the definition of heritage items; whether heritage items are assets or liabilities for financial reporting purposes; whether they should be recognized in the financial statements; and, if recognized, how they should be measured. Standard setters have also had different views on the presentation of information about heritage items, where presentation covers both:

- (a) Enhanced disclosures in the financial statements; and,
- (b) Presentation of information in other general purpose financial reports (GPFs) that provide information which enhances, complements, and supplements the financial statements.

5.8. The financial reporting challenge may vary between individual countries. Developed countries could have different experiences with financial reporting for heritage compared to undeveloped countries. Factors that may impact on a country's experience include the extent of funding available for heritage valuation, availability of valuation expertise and the place of heritage within competing government priorities. The main type of heritage for some countries could be natural heritage, while for others the primary focus could be historic buildings, infrastructure and artifacts dating back thousands of years.

#### *Common Characteristics of Heritage Items' Special Characteristics*

6.9. Common characteristics of H heritage items' special characteristics include that:

- (a) Their heritage significance may not be fully reflected, when a financial reporting perspective is applied and “value”, is viewed as relatinges to economic benefits and service potential for which a monetary value may, or may not, be able to be attributed;
- (b) They are often irreplaceable;

- (c) There are often ethical, legal and/or statutory restrictions or prohibitions that restrict or prevent sale, transfer or destruction by the holder or owner; and
- (d) They may have a long, possibly indefinite, useful life due to ~~constant or~~ increasing rarity, ~~importance and/~~or significance.

~~7.10.~~ Financial reporting issues raised by heritage items include:

- (a) *Value*: If assignment of monetary values does not convey the heritage significance of heritage items or their future claims on public resources, would users of GPFRs benefit more from non-financial information about heritage items, reported outside ~~of~~ the financial statements?
- (b) *Preservation*: If an entity's responsibility is to preserve heritage items rather than to ~~earn revenue or~~ generate cash flows from them, ~~is a are~~ heritage items ~~a~~ resources or ~~an~~ obligations from the entity's perspective?
- (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* ~~Benefits to others~~: Can a reporting entity be said to control a heritage item for financial reporting purposes, when it ~~holds the items held~~ for the benefit of current and future generations?

### **1.34 The Public Interest and Financial Reporting for Heritage Users of GPFRs and their Information Needs**

~~8.11.~~ Given these financial reporting challenges and the special characteristics of heritage, the question arises of what heritage-related information ~~do~~ users of GPFRs need for the purposes of accountability and decision making. Users ~~could be viewed as may~~ need ~~ing~~ information to:

- (a) Hold entities accountable for their preservation of heritage items; and
- (b) Make decisions on resources needed ~~for to support~~ heritage preservation stewardship.

~~9.12.~~ ~~The information that users need may depend on factors other than heritage items' special characteristics. For example, t~~The purpose for which an entity holds heritage items could impact on the information that users of GPFRs need. ~~For example, W~~where an entity uses heritage items in its operations to provide non-heritage services or products, users may need information ~~on those heritage items~~ for decision making on the entity's operational capacity and cost of services. ~~If an entity holds heritage items for the purpose of sale, then users may need information to assess the entity's financial capacity. Options for reporting information on heritage items and their related responsibilities could have implications for information available to users for the purposes of accountability and decision making related to the entity as a whole.~~

~~10.~~ ~~The inter-relationship between heritage-related information and information on an entity's overall situation is also a consideration, when discussing what information users need. Options for reporting information on heritage items and their related responsibilities could have implications for information available to users for the purposes of accountability and decision making related to the entity as a whole.~~

## 1.4—The IPSASB's Heritage Project

### *Background to the Project*

11. ~~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.~~
12. ~~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.~~
13. ~~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.~~
14. ~~With completion of the Conceptual Framework in late 2014, the IPSASB had the conceptual toolkit to reconsider financial reporting for heritage in the public sector. Furthermore, the IPSASB constituents indicated, in response to the 2013–2014 strategy and work plan consultation, that developing financial reporting guidelines for heritage should be an IPSASB priority.~~

### *Heritage Project from 2015, Task Force and Consultation Paper*

15. ~~A project brief for the Heritage Project was approved in June 2015. The project's objectives include to develop a CP highlighting the main options to account for heritage.~~
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.~~
17. ~~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 financial reporting guidelines, which is the next phase of this project.~~

## ~~1.5—The Public Interest and Financial Reporting for Heritage~~

~~18. Improved financial reporting guidelines on heritage are expected to enhance the quality of information that GPFs provide for users, thereby improving accountability and decision making, which is in the public interest.~~

~~19.13. Improved financial reporting requirements and/or guidance on accounting for heritage are expected to enhance the quality of information that GPFs provide for users, thereby improving accountability and decision making. This work contributes further to the public interest by addressing problems experienced with respect to financial reporting for heritage. As noted in paragraphs 10.3 and 11 above, IPSAS presently allows public sector entities to report on heritage items using different financial reporting practices, and, worldwide, there are inconsistent practices with respect to categorization of assets as either heritage or non-heritage. Heritage items may or may not be recognized in an entity's financial statements and a variety of different measurement approaches are used. Inconsistent financial reporting has negative consequences for the public interest because it impacts or reduces the quality of information reported, reducing comparability. When financial reporting guidelines allow this level of discretion there may be higher costs for preparers and reduced benefits for users of GPFs.~~

## ~~1.65—Approach in this Consultation Paper~~

### ~~A Broader, More Inclusive Approach~~

~~20. This CP takes a broad, inclusive approach to both its description of heritage items and its consideration of heritage accounting issues. It discusses:~~

- ~~(a) A wide set of different types of heritage items, including intangible heritage and natural heritage;~~
- ~~(b) Issues raised in relation to heritage items as resources, which could be assets for financial reporting purposes;~~
- ~~(c) The significance of heritage-related responsibilities for reporting liabilities; and~~
- ~~(d) Other types of information, outside of the financial statements, which reporting entities with significant heritage responsibilities may present.~~

~~21. The broad, inclusive approach used in this CP can be contrasted with a narrower approach that focuses on heritage items such as historic buildings, artwork and museum collections and describes them as "heritage assets". 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 sufficiently considered other types of heritage, particularly natural heritage.~~

### ~~Application of the Conceptual Framework~~

~~22.14. This CP applies the Conceptual Framework to discuss financial reporting for heritage in the public sector. It considers what heritage-related information users of GPFs need for the purposes of accountability and decision making, where such information should achieve the qualitative characteristics of information reported in GPFs<sup>2</sup>. This CP applies the Conceptual Framework's~~

<sup>2</sup> The qualitative characteristics of information included in GPFs are the attributes that make that information useful to users and support the achievement of the objectives of financial reporting. The qualitative characteristics are relevance, faithful

coverage of element definition, recognition and measurement, to consider whether heritage items could result in elements that should be recognized in the financial statements. Financial statement presentation issues are [also](#) discussed, applying the Conceptual Framework's approach to presentation, whereby presentation in the financial statements encompasses both the display and disclosure of information. Although this CP's primary focus is on information presented in the financial statements, it also notes scope to present information in other GPFRs, for example service performance information reported when an entity has heritage-related service performance objectives.

~~23.15.~~ While application of the Conceptual Framework underpins this CP's development of financial reporting options, the IPSASB has also considered national standard setters' and the IPSASB's own pronouncements. In addition to IPSAS 17 and IPSAS 31, IPSAS 19, *Provisions, Contingent Assets and Contingent Liabilities* and the IPSASB's recommended practice guidelines (RPGs), which address information in other GPFRs, have been considered for their relevance to this project.

### **1.76—Structure of this Consultation Paper**

~~24.16.~~ This CP covers financial reporting for heritage in the following order:

- (a) Chapter 2 describes heritage items and discusses issues related to their identification;
- (b) Chapter 3 discusses whether or not heritage items could be assets for financial reporting purposes;
- (c) Chapter 4 discusses the recognition and measurement of heritage assets;
- (d) Chapter 5 considers obligations related to heritage items and discusses their recognition and measurement; and
- (e) Chapter 6 discusses presentation of information on heritage items in the financial statements and in other GPFRs.

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representation, understandability, timeliness, comparability, and verifiability. (See paragraphs 3.1 and 3.2 of the Conceptual Framework.)

## DRAFT CHAPTER 2, DESCRIPTIONS AND DEFINITIONS OF HERITAGE

### 2.1—Introduction

- ~~1. People have~~There are different views on what is meant by ~~the word~~ “heritage” and, consequentially, what things should be identified as heritage items. ~~This chapter’s aim is to establish the CP’s scope, while also beginning to address the faithful representation of heritage phenomena, which begins with clear, consistent identification of heritage items. As paragraph 3.10 of the Conceptual Framework states:~~
- ~~2. “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.”~~
- ~~3.1.~~ This chapter describes ~~the~~ different categories of heritage ~~considered in this CP, discusses heritage identification issues,~~ and proposes a definition of “heritage items”.

### 2.2—Categories of Heritage Items

#### ~~Basis for Categories of Heritage Considered in the CP~~

- ~~4.2.~~ This CP considers cultural heritage, which includes both tangible and intangible cultural heritage, and natural heritage. Intangible cultural heritage includes two broad subsets, called “knowledge-in-action” and “intellectual property” intangible cultural heritage. These categories are based on those defined in United Nations Educational, Scientific and Cultural Organization (UNESCO) international conventions for heritage protection, which were then adapted for the purposes of this CP<sup>1</sup>. This CP has used groups of heritage defined by United Nations Educational, Scientific and Cultural Organization (UNESCO) as its starting point for heritage identification, because:
  - ~~(a) UNESCO definitions of heritage are 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 heritage identification is likely to be familiar to public sector entities responsible for heritage preservation; and~~
  - ~~(c) Starting with these groups of heritage (and their related definitions and illustrative examples) supports a broader approach to heritage issues than would be the case if the CP focused~~

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

~~exclusively on financial reporting categories such as “property, plant and equipment” or “intangibles”.~~

- ~~5. International conventions for the protection of heritage, developed by UNESCO, have definitions for four types of heritage:
  - ~~(a) Cultural heritage (also called “cultural property”);~~
  - ~~(b) Underwater cultural heritage;~~
  - ~~(c) Intangible cultural heritage; and~~
  - ~~(d) Natural heritage<sup>2</sup>.~~~~
- ~~6. The UNESCO definitions convey that heritage is of great importance, of outstanding universal value or specifically designated as heritage. They may also add that heritage is old, for example, “more than one hundred years old”.~~
- ~~7. The heritage category descriptions below have adapted the UNESCO definitions so that they:
  - ~~(a) Use a principles based approach to identify heritage items across different categories;~~
  - ~~(b) Allow heritage identification to occur at a national or local level as well as 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.~~~~

#### *Categories of Heritage Considered*

- ~~8. This CP considers “cultural heritage”, which includes both tangible and intangible cultural heritage. Then, intangible cultural heritage is described as including two subsets, called “knowledge in action” and “intellectual property” intangible cultural heritage. This CP also considers “natural heritage”. Descriptions of these categories of heritage are provided below.~~

#### Cultural Heritage—Tangible and Intangible

- ~~3. Cultural heritage consists of humanman–made heritage items that could be either tangible or intangible. Examples of tangible cultural heritage include:
  - ~~(a) mMonuments; archaeological sites, historic buildings, of historical or artistic interest; heritage works of art; and; heritage-significant scientific collections;~~
  - ~~(b) ; important collections of books (as well as individual heritage books and manuscripts) and archives; and, culturally significant or historical vessels, aircraft and infrastructure. Cultural heritage also includes uUnder-water cultural heritage, items that have been partially or totally under water, for example, heritage buildings that are beneath the water or; sunken ships; and~~~~

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

~~(a)(c) and underwater sculpture. Cultural heritage includes natural history collections such as collections of insects, or mineral collections.~~

~~9.4. Intangible cultural heritage consists of two broad types of intangible cultural heritage items; “knowledge-in-action” and “intellectual property”:~~

- ~~(a) Knowledge-in-action intangible cultural heritage means consists of the practices, representations, expressions, knowledge, and, skills that are heritage items. Examples include oral traditions and expressions, including languages, 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.~~
- ~~(b) Intellectual property intangible cultural heritage means consists of intangible heritage items such as intellectual property, and such as trademarks (including brand names and publishing titles), computer software, patents, copyrights, and rights over motion picture films. For example, Examples include Rights over recordings of significant historical events, or and rights to use historic or culturally significant films, are examples of this subgroup of intangible cultural heritage, 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.~~

~~10. Cultural heritage includes natural history collections such as shells, insects, stuffed animals and mineral collections are related to natural heritage. Although such items were originally part of natural heritage (described below), they are treated as cultural heritage, because their collection, classification and presentation involves a human-made element and they no longer form part of a natural feature, area or site.~~

## Natural Heritage

~~11. Natural heritage covers natural features, areas or sites that are heritage items. Examples of natural heritage include: natural features such as heritage mountains, naturally occurring rock formations, and heritage bodies of water such as lakes or, rivers and waterfalls; physical and biological formations or groups of such formations such as reefs; geological and physiographical formations such as hot spring areas; and, areas that constitute habitats, such as forests, swamps or desert areas.~~

~~12.5. Where natural heritage has been moved and shaped to create a human-made form it becomes cultural heritage. For example, buildings carved into a cliff or Stonehenge would be examples of cultural heritage rather than natural heritage.~~

## 2.3—Heritage Item Identification Issues

~~13. Heritage item identification raises a number of issues. This section considers whether:~~

~~14. Heritage items can be identified objectively; and~~

~~15. Expenditures on heritage items are also heritage items.~~

~~16. Appendix A discusses issues raised by particular groups of heritage items, and specifically:~~

~~(a) Whether land should be considered a heritage item; and~~

~~(b) There exist examples of intellectual property with heritage characteristics.~~

### ~~Can Heritage Items be Identified Objectively?~~

~~17.6. As noted above, d Heritage item identification raises a number of issues. Definitions of heritage items emphasize the importance, significance or value of heritage items. They may also emphasize heritage items' 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 cherish 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 present and future generations?~~

~~18.7. Beneath these questions lies the more fundamental There is an 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, whereas 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 reporting on heritage items.~~

### ~~Principles Based Approach or Official Lists of Heritage Items?~~

~~19.8. 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.~~

~~20.9. Where legislation identifies specific items as heritage, this has the result ensures that heritage items are identified in a very objective way, such that there would be of requiring little if any need for professional judgment by preparers, when they classify items as heritage items. However, the use of heritage legislation as the sole means by which heritage items are identified presents two potential problems related first to the purpose of heritage legislation and second to its relatively static, slow-changing nature.~~

~~21. However, the use of heritage legislation as the sole means by which heritage items are identified presents two potential problems related first to the purpose of heritage legislation and second to its relatively static, slow-changing nature.~~

~~22. First, The purpose of a list of heritage items in heritage legislation could result in either exclusion of items that are, in substance, heritage items, or the reverse, i.e. inclusion of items that are not, in substance, heritage items. For example, H heritage legislation may officially list only a small subset of those heritage items, for example, only those that warrant special funding or a special level of protection, so that other heritage items are not listed. 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, while 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, giving rise to the question: 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?~~

~~23. That problem of legislative purpose is evident in the UNESCO definition of cultural property. 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 could have the effect of classifying a whole city as heritage. Protection of the city is necessary to protect the heritage items that exist within the city.~~

~~24-10. Second, ~~T~~he relatively static, slow-changing nature of legislation means that ~~an official~~ its list of heritage items, ~~embedded in legislation,~~ may not remain up-to-date from year to year. “New” heritage items, not included on any official list, may ~~appear~~ arise, for example, because they are:~~

- ~~(a) Purchased or received through donation from other governments or private collectors; or~~
- ~~(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.~~

~~25. Either of these two problems could mean that heritage items are excluded from coverage (or non-heritage items included), so that information reported in a GPFR does not faithfully represent an entity’s heritage portfolio.~~

~~26-11. Either of these two problems could mean that heritage items are excluded from coverage (or non-heritage items included), so that information reported in a GPFR does not faithfully represent an entity’s heritage portfolio. That is why ~~Given the problems described above with (for example) the use of legislated lists of heritage items,~~ this CP proposes that a principles-based approach rather than a rules-based approach ~~should~~ be used to identify heritage items ~~with.~~ However, a principles-based approach can be supported, where relevant, through reference to national heritage legislation, guidelines involving the use of criteria and/or formally established processes.~~

#### ~~Development of Objective Criteria—Use of National and Local Sources~~

~~27-12. If special characteristics of heritage items are their rarity and, importance and/or significance, an objective evaluation of whether an item is a heritage item will depend on access to verifiable information on the rarity and, significance and/or importance of the item. At the national or local level the following sources could provide verifiable information on these ~~three~~ characteristics:~~

- ~~(a) Expert knowledge;~~
- ~~(b) Historical studies, research writings and media reports;~~

- (c) Legislation; regulation and/or heritage items formally identified through application of a process outlined in legislation or regulation; ~~and/or~~
- (d) Policies, systems and/or structures that an entity has established, which indicate that it expects to preserve the item for present and future generations as a heritage item.

~~28-13.~~ Point ~~2512~~(c) ~~above~~ highlights that, despite the problems identified earlier in this chapter with respect to use of legislation to identify heritage items, there could still be scope to use national or local guidelines, including legislation, ~~as a basis for to support~~ identification of heritage items for financial reporting purposes. Where legislation establishes a set of principles, ~~general criteria to consider or a process by which heritage items can be identified,~~ it is more likely to provide a helpful basis for identification of heritage items. ~~Therefore, lists of heritage items enshrined in legislation could be a starting point for identification of heritage items, with consideration then of whether “new” heritage items exist that have not yet been included in the legislated list any further items that should be included or any excluded from the legislated list.~~

#### *Are Expenditures on Heritage also Heritage items?*

~~29-14.~~ Public sector entities may expend large amounts on heritage. Examples of the types of expenditure made in order to preserve or conserve heritage items, or to expand public access to heritage items, include:

- (a) Repairs and restoration such as replacement of the roof, foundation or other parts of a heritage building;
- ~~(b) Cleaning of a heritage painting;~~
- ~~(c) 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);~~
- ~~(d)~~(b) Construction of a new security system or a new air conditioning system for a historic building or a new pedestal for an important sculpture; ~~and~~
- ~~(e) 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~~
- ~~(f)~~(c) Construction of fire breaks, flood protection or other security arrangements for national parks and other natural heritage items.

~~30-15.~~ Some expenditures create items that ~~are separate from existing heritage items and~~ do not exhibit the special characteristics associated ~~with~~ heritage items; ~~e.g. For example,~~ expenditures may be used to build a ~~separate~~ gift shop or a parking lot. This CP proposes that where this is the case such items fall outside of the scope of this CP. ~~Subsequent chapters include discussion of expenditures that apply to the existing heritage item (for example, replacing the roof of an historic building or restoring a heritage painting).~~

## 2.4—Definition of Heritage Items

### *Development of a Definition of Heritage Items*

~~31.16. Based on the considerations above, and also taking into account other relevant sources with descriptions or definitions of heritage, the IPSASB developed the following preliminary view: The following sources were considered to develop a description of “heritage items” for use in this CP and as a basis for guidelines on financial reporting on heritage in the public sector:~~

- ~~(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.~~

~~32. 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 concept that such items are expected to be protected, preserved, maintained or conserved.~~

~~33. To develop a definition of heritage items the IPSASB also considered the issues discussed below:  
Protected, Preserved or Conserved?~~

~~34. Heritage related legislation and international conventions may use the word “protected”, “preserved” or “conserved” to describe what should occur with respect to heritage. “Protected” and “preserved” are similar in meaning. “Preserved” is the word commonly used in existing financial reporting literature when referring to heritage items, including the Conceptual Framework’s reference noted in Chapter 1 of this CP<sup>3</sup>. 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. A definition of heritage items that captures all items that are expected to be preserved will also capture items that are conserved, since conservation involves both preservation and improvement. While conservation may be an ideal for what should happen with respect to heritage, use of the word “preserved” to identify heritage items establishes a lower threshold for identification of heritage items. This is why the definition of heritage items proposed below uses the word “preserved” rather than “conserved”.~~

### ~~Reasons to Preserve—Open Ended List~~

~~35. 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, and aims to future proof the description. This is why the definition of heritage items proposed below has a list of reasons for preservation which is open ended; reasons are “not limited to” those listed.~~

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<sup>3</sup> Paragraph 15 of the preface to the Conceptual Framework, referred to in paragraph 2 of this CP’s Chapter 1.

### Financial Reporting Specific Issues Part of Heritage Items Definition?

36. ~~When defining heritage items, 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, a financial reporting definition of heritage may state that heritage assets are difficult to value. The CP’s definition of heritage items should not make assumptions about financial reporting issues that will be discussed in subsequent chapters. This is why the definition of heritage items proposed below does not refer to financial reporting characteristics.~~

### Preliminary View 1 — ~~Heritage Items~~Chapter 2

The ~~IPSASB’s preliminary view is that the~~ following definition ~~captures~~ reflects the special characteristics ~~that define~~of heritage items and distinguishes them from other phenomena for the purposes of financial reporting:

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

Do you agree with the IPSASB’s Preliminary View – Chapter 2?

### Specific Matter for Comment – Chapter 2

In your view, is the scope of this CP, which covers cultural heritage (tangible and intangible) and natural heritage, appropriate. If not, how should the scope be modified?

## DRAFT CHAPTER 3, HERITAGE ITEMS AS ASSETS

### 3.1—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 t~~There is general agreement that heritage items are valuable. ~~There is also and~~ 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. ~~Paragraphs 5.6 to 5.13 of t~~The Conceptual Framework ~~address the definition of an asset. Paragraph 5.6 states that an asset is “a resource presently controlled by the entity as a result of a past event<sup>1</sup>.”~~
3. ~~An asset is: A resource presently controlled by the entity as a result of a past event.~~
4. ~~This chapter discusses each of these three asset definition criteria (resources, control and past event) that form this definition, as they applied to heritage items, focusing particularly on the resource and control aspects, andand their special characteristics. First, a brief discussion of (a) the relationship between asset existence and recognition of an asset in the financial statements; and (b) the information that users of GFRs need, when considering whether heritage items could be assets for financial reporting purposes.~~
5. ~~Relationship between Asset Existence and Asset Recognition~~
6. ~~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 w It focuses onconsiders whether heritage items could be assets for financial reporting purposes. Where an asset exists it must also meet the recognition criteria of measurability, before it can be recognized in the financial statements. For some categories of assets, measurability can be viewed as unproblematic, a hurdle to recognition that is very easily leapt. That is not necessarily the case for heritage items.~~
- 7.2. ~~This chapter only discusses the question of whether heritage items could be assets for financial reporting purposes. Questions about whether heritage items, if they are assets, should be recognized, are considered in Chapter 4, which will discusses whether heritage assets can be measured and/or should be recognized. That discussion will include, for example, consideration of the cost benefit constraint. The benefits of reporting information arising from heritage asset recognition should justify the costs imposed<sup>2</sup>.~~

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<sup>1</sup> Paragraph 5.6 of the Conceptual Framework.

<sup>2</sup> Paragraph 3.39 of the Conceptual Framework introduces the cost-benefit constraint by stating that: “Financial reporting imposes costs. The benefits of financial reporting should justify those costs. Assessing whether the benefits of providing information justify the related costs is often a matter of judgment, because it is often not possible to identify and/or quantify all the costs and all the benefits of information included in GFRs.”

*Objectives of GPFRs, Information Needs of GPFR Users (Accountability and Decision-Making)*

- ~~8. Consideration of whether heritage items are assets takes place in the over-arching context of the objectives of GPFRs, which are to provide useful information to users of GPFRs. Information is used for the purpose of holding a reporting entity accountable and making decisions, including decisions on resource usage and service performance. As noted in Chapter 4 of this CP, the Conceptual Framework's measurement objective, when considering the recognition of elements in the financial statements, emphasizes the importance of providing information that is useful for the assessment of:~~
- ~~(a) Costs of services;~~
  - ~~(b) Operational capacity; and~~
  - ~~(c) Financial capacity.~~
- ~~9. There appears to be general agreement that public sector entities holding heritage items should be held accountable for these 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. But does information for accountability involve monetary information about heritage items? Should information be included in the financial statements or is there scope to meet users' accountability and decision-making needs through presentation of information in other GPFRs?~~
- ~~10. There are different views on whether treating heritage items as assets for financial reporting purposes will result in information that would support the appropriate type of accountability and decision-making needed for heritage items. One view is that recognition of heritage items as assets for financial reporting purposes is a necessary starting point for effective management, stewardship and accountability, and generates sufficient benefits to justify the costs. An alternative view is that representing heritage items as assets in the financial statements diverts GPFR users' attention away from what should be the primary concern, which is to preserve heritage items for present and future generations. Furthermore, some argue that publishing information on the monetary value of heritage items could either misrepresent their heritage significance (i.e. the reasons to cherish them) or convey an erroneous impression that they are available for sale, when heritage items are expected to be held indefinitely for the benefit of present and future generations and preserved. From this second perspective, information reported on heritage items should:~~
- ~~(a) Treat any monetary value presented as "symbolic" of the heritage item's heritage significance, rather than indicative of its value as a resource; and~~
  - ~~(b) Focus primarily on (i) qualitative information about heritage (rather than quantitative, monetary measurement) and (ii) information that is useful to evaluate the extent to which heritage items are being preserved, including (for example) information on the extent of any deferred maintenance and whether expenditure budgeted for heritage preservation is sufficient and has been applied according to the budget.~~

### 3.2—Heritage Items as Resources

#### *Meaning of “Resource” in the Conceptual Framework*

~~3. Paragraph 5.7 of the Conceptual Framework states that: a resource is an item with service potential or the ability to generate economic benefits<sup>3</sup>. Service potential is the capacity to provide services that contribute to achieving the entity’s objectives. It enables an entity to achieve its objectives without necessarily generating net cash inflows<sup>4</sup>. Economic benefits are cash inflows or a reduction in cash outflows<sup>5</sup>. Cash inflows (or reduced cash outflows) may be derived from, for example, an asset’s use in the production and sale of services; or the direct exchange of an asset for cash or other resources<sup>6</sup>.~~

~~11.—~~

~~12. A resource is an item with service potential or the ability to generate economic benefits. Physical form is not a necessary condition of a resource. The service potential or ability to generate economic benefits can arise directly from the resource itself or from the rights to use the resource. Some resources embody an entity’s rights to a variety of benefits including, for example, the right to:~~

~~13. Use the resource to provide services<sup>7</sup>;~~

~~(a) Use an external party’s resources to provide services, for example, leases;~~

~~(b) Convert the resource into cash through its disposal;~~

~~(c) Benefit from the resource’s appreciation in value; or~~

~~(d) Receive a stream of cash flows.”~~

~~14. Then paragraph 5.8 of the Conceptual Framework states:~~

~~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.~~

~~15. Paragraph 5.10 of the Conceptual Framework states:~~

~~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.~~

~~(c) —~~

~~16. Paragraph 5.9 of the Conceptual Framework refers to heritage assets:~~

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<sup>3</sup> See paragraph 5.7 of the Conceptual Framework.

<sup>4</sup> See paragraph 5.8 of the Conceptual Framework.

<sup>5</sup> See paragraph 5.10 of the Conceptual Framework.

<sup>6</sup> Ibid.

<sup>7</sup> The Conceptual Framework includes a footnote here (footnote number 6) which states that “References to “services” in the Conceptual Framework encompass “goods”.”

~~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.~~

*Resources in the Form of Economic Benefits*

- ~~17. Some heritage items may be able to generate economic benefits for the reporting entity. 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.~~~~
- ~~18. With respect to point (b) it should be noted that the economic benefits from merchandising should accrue to the reporting entity that holds the heritage item. There are cases where the existence of a heritage item allows other entities to generate economic benefits. For example, statuettes of the Eiffel Tower may be sold by merchants who have no connection with the entity that holds or controls the Eiffel Tower. The economic benefits received by those merchants do not represent economic benefits for the reporting entity responsible for the Eiffel Tower.~~
- ~~19. 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 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.~~
- ~~20. 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 likely to be very high costs involved in preserving them. The cash outflows that the entity incurs to preserve a heritage item are not necessarily equaled by cash inflows raised by, or on behalf of, the heritage item—for example, funding from government agencies, private donors, or cash flows generated through charging for access, where appropriate—with the result that 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, untrammelled access to them.~~
- ~~21. Heritage items are not usually held by a public sector entity for the purpose of generating economic benefits. Although some heritage items can be sold, many cannot or, if legally able to be sold, 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 may own a national park, which consists of land and a complex ecosystem sustained by the land and its water systems, for the purpose of making it accessible to the public as part of the nation's heritage and to conserve rare living~~

~~organisms that use that ecosystem. Given that purpose, the heritage item (the national park) is expected to be held in perpetuity and sale or other monetary gains from holding the heritage items are extremely unlikely. Where an entity uses a heritage item for non-heritage purposes (for example, a heritage building used to provide office space) the higher costs of maintaining the heritage item may have the effect that no net economic benefit results for the entity that occupies the heritage building.~~

4. ~~Heritage items appear more likely to be held for their service potential rather than their ability to generate economic benefits. For example, when a government holds a national park, its objective is to provide services to others. The whole nation is expected to benefit from the national park, which the government preserves on its behalf. Therefore, the discussion below focuses primarily on service potential, although there is also a brief discussion of economic benefits.~~

*Resources/Heritage Items in the Form of with Service Potential*

5. ~~The Conceptual Framework refers to heritage assets in its discussion of service potential. 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<sup>8</sup>.~~

~~22.6. For example, when a museum or art gallery holds a heritage collection such as-of, for example, artwork-paintings or prehistoric artifacts- to contribute to achievement of its objective of preserving (and making accessible) such heritage items for the benefit of present and future generations those heritage collections have service potential. Similarly, when a public sector entity such as a city council or regional government, has an objective to beautify an area for the enjoyment of the community, and holds parks and natural reserves for this purpose, those examples of natural heritage have service potential. Although these entities hold heritage items to provide services to third parties, the items still-have service potential for the entity, as stated in the Conceptual Framework<sup>9</sup>. 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. Heritage items are generally considered to have service potential. 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 and their existence provides a public service.~~

- ~~23. 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~~

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<sup>8</sup> See paragraph 5.9 of the Conceptual Framework.

<sup>9</sup> Paragraph 5.9 of the Conceptual Framework 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."

~~access to heritage paintings. A h~~Heritage items may also contribute ~~either directly or indirectly~~ to an entity's ~~non-heritage objectives, where an entity's objectives are other than to hold heritage items for public enjoyment and appreciation.~~ For example, heritage ~~paintings artwork~~ held by a Ministry of Finance to decorate ~~the Ministry's~~ head office, ~~can contribute to its Finance Ministry objectives, by providing staff and visitors with~~ a sense of history and purpose related to the function of that part of government, ~~while also educating and impressing visitors. Therefore, they indirectly contribute to the Ministry's non-heritage objectives.~~ Similarly, ~~if the Ministry's headquarters' building is a heritage item fulfils a non-heritage (or "operational") purpose, it has the capacity to provide services that contribute to the entity's Finance Ministry's objectives, because despite being a heritage building, providing benefits similar to those provided by heritage paintings, while also it providesing accommodation office space that otherwise would need to be rented or purchased.~~

~~7. Governments and other public sector entities may hold heritage items to provide services to third parties. For example, a national, provincial or city art gallery holds paintings to provide a service to the public, by providing access to and celebrating art and a community's heritage. The Conceptual Framework explains, in paragraph 5.9, that when an entity holds an item to provide services to third parties, the item still has service potential for the entity<sup>10</sup>. 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<sup>11</sup>.~~

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

~~8. Some heritage items may be able to generate economic benefits for the reporting entity. Economic benefits could arise through one or more of the following:~~

- ~~(a) Use of the heritage item in the production and sale of services;~~
- ~~(b) Sale of tickets to view the heritage items and/or sale of related merchandising;~~
- ~~(c) Loan or rent of the item to other entities; and~~
- ~~(d) Sale of the item itself.~~

~~9. Heritage items may be used in an entity's production and sale of services, because they continue to fulfil their original purpose and have only subsequently acquired heritage significance. For example, an entity may use an historic railway station to operate as a railway station in its production and sale of rail transport services or an historic government building to provide space for the purposes of government. Alternatively, a heritage item may have been designed to achieve two objectives, with~~

<sup>10</sup> Paragraph 5.9 of the Conceptual Framework 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."

<sup>11</sup> While paragraphs 20 and 21 provide examples of works of art in order to illustrate that heritage items can have service potential, this does not preclude other heritage items being similarly considered, for example museum collections of archeological artifacts, parks and reserves, etc.

~~only one of them being heritage-related. For example, an entity may design a flood control system that will also operate as a recreational park.~~

~~10. 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 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.~~

~~24.—~~

#### ~~Operational Heritage Items as Resources~~

~~25. There are situations in which heritage items are primarily held for purposes other than to provide heritage services, i.e. for “operational” reasons, and their heritage characteristics are (arguably) of lesser importance. This may have been their original purpose and only subsequently, with the passage of time, has the item come to meet the description of a heritage item. That is the situation for many historic buildings, infrastructure such as historic harbor fronts, and even quite specialized and relatively recent constructions such as a historic water treatment plant or power generation station<sup>12</sup>.~~

~~26. There are also situations where a planned construction aims to fulfill two purposes from the beginning. For example, a flood control system may be designed to operate as a wildlife reserve or recreational park, which sits at the top of the system and provides, when necessary, space for collection and absorption of flood waters. Rivers may be covered over and an extensive park created in the newly created land above where the river used to be. In these situations the heritage items provide both a heritage service and another non-heritage “operational” service. The entity may use a heritage item to generate cash flow, by charging for the non-heritage aspect of the heritage item’s services.~~

~~27. Arguably, where heritage items provide non-heritage “operational” services, there is an additional basis upon which to consider that they are resources. Such “operational heritage items” have the ability to generate not only heritage services but also other non-heritage services and, potentially, economic benefits.~~

~~28. 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 heritage item characteristics. Then the flood control component (95% of the structure) would still be integral to the heritage item, but would be considered a resource (and possibly therefore an asset) for financial reporting purposes.~~

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<sup>12</sup>—The R.C. Harris Water Treatment Plant in Toronto, for example, was constructed in the first half of the 20<sup>th</sup> 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.

Heritage Items without Service Potential or Ability to Generate Economic Benefits

Doubts about Existence of a Resource

11. ~~An entity may hold heritage items that do not, from the entity's perspective, have either service potential or the ability to generate economic benefits, with the result that they are not resources. For example, a public entity that generates electricity may plan to build a hydroelectric dam on land that it owns. The land includes an area that has been designated an historic building such as an ancient castle or monastery. The entity is not allowed to build the dam, unless it can find some way to safely transfer the historic building to another place prior to construction. In this case, the historic building does not have either service potential or the ability to generate economic benefits. a world heritage listed national park does not have either service potential or the ability to generate economic benefits, so it is not a resource for financial reporting purposes.~~
29. ~~There are situations where the existence of a resource may be in doubt, because 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 a resource is unclear. Doubts 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 heritage items, while others disagree. Statues (or flags) that glorify past rulers may be viewed by some as heritage items and by others as symbols of tyranny.~~
30. ~~There are situations where a heritage item exists, but its resource nature could, nonetheless, be 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 or future economic benefits. 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.~~
31. ~~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. On the other hand, it may be the case that a sunken ship has service potential, while remaining underwater, through scope either to dive down to the ship or to view it from a nearby, submerged viewing structure.~~
32. ~~An item's ability to generate future economic benefits must also be considered. Where there are doubts about the heritage nature of an item, with consequential doubts about whether it has service potential involving provision of heritage services, the item may nonetheless be able to generate future economic benefits. For example, land that is marginal with respect to its importance as~~

~~natural heritage may have the ability to generate future economic benefits through, for example, its mineral resources or through other abilities with respect to commercial development.~~

~~*Inaccessible Heritage Items—No Service Potential and no Future Economic Benefits?*~~

~~33. Heritage items may be inaccessible to the general public due either to physical barriers that prevent access or a lack of knowledge or appreciation. Where heritage items are inaccessible the question arises of whether they have service potential or the ability to generate economic benefits. There may be a sort of notional service potential, on the basis that the item is part of the nation's heritage, even though no one ever visits the heritage item and/or no one other than a very small group of experts in a particular field know of (or care about) the heritage item's existence. For example, cave paintings from prehistoric times may be located in inaccessible caves. A rare mud worm may be viewed as important by experts, but unknown by the general public. Arguably, in this type of situation, the heritage items do not have service potential, even though they are heritage items, and would not generate future economic benefits. A parallel view is that although such heritage items have service potential, nonetheless the amount is very low and costs to realize their service potential outweigh the benefits<sup>13</sup>.~~

**3.3—An Entity's Ability to Control a Heritage Resource**

~~34.12. The Conceptual Framework states that: "Control of the resource entails the ability of the entity to use the resource (or direct other parties on its use) so as to derive the benefit of the service potential or economic benefits embodied in the resource in the achievement of its service delivery or other objectives<sup>14</sup>." It identifies the following indicators of control:~~

~~35. Paragraph 5.12 of the Conceptual Framework explains that:~~

~~In assessing whether it presently controls a resource, an entity assesses whether the following indicators of control exist:~~

- ~~(a) Legal ownership;~~
- ~~(b) Access to the resource, or the ability to deny or restrict access to the resource;~~
- ~~(c) The means to ensure that the resource is used to achieve its objectives; and~~
- ~~(d) The existence of an enforceable right to service potential or the ability to generate economic benefits arising from a resource<sup>15</sup>.~~

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~~<sup>13</sup> (Delete footnote?) These examples of heritage items that do not appear to be resources, because they do not have service potential, raise a further issue of whether GPF users could need information about heritage items, even where such items are not assets for the purposes of financial reporting. That question is noted in Chapter 7 when it discusses heritage status reports, although Chapter 7 suggests that Heritage Status reports would not be GPFs. Later in Chapter 3 there is discussion of knowledge in action intangible cultural heritage, which concludes that heritage items of that type cannot be assets for financial reporting purposes, because they cannot be controlled. Yet governments and international organizations do report on the status of such heritage items, with the status of endangered languages being one example of such reporting.~~

~~<sup>14</sup> Paragraph 5.11 of the Conceptual Framework.~~

~~<sup>15</sup> Paragraph 5.12 of the Conceptual Framework.~~

~~While these indicators are not conclusive determinants of whether control exists, identification and analysis of them can inform that decision.~~

- ~~36. Paragraph BC5.12 of the Basis for Conclusions for Chapter 5 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,....”~~

#### *Heritage Items’ Special Characteristics and Control*

- ~~37. 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 its 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.~~

- ~~38. In brief, in these situations, 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.~~

~~Paragraph 5.9 of 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.~~

- ~~39. Therefore, applying the Conceptual Framework, the special characteristics of heritage items, whereby they are “intended to be held indefinitely and preserved for the benefit of present and future generations” listed above do not appear to present barriers to their being controlled by an entity.~~

#### *Where an Entity Delegates Stewardship to another Entity*

- ~~40. Point 33(c) above suggests the possibility of situations where one entity (for example, a national government) delegates responsibility for guardianship or stewardship over heritage items to another entity (for example, a national museum) while appearing otherwise to control them. This type of arrangement appears to be common for national parks, which are managed by a particular government department, but “belong” to the national government, which holds them on behalf of the nation. The entity with delegated authority may manage a stream of funds to maintain the heritage items, but those funds may be held in trust and dedicated solely to preservation of the heritage items. That type of principal agent arrangement raises the question of what type of~~

~~information should be presented in the GPFs of each entity, in order to meet the needs of users of GPFs. Chapter 6 discusses presentation of information, which includes presentation within the context of Chapter 4's discussion of alternative approaches for recognition.~~

~~41. The issue of entities' ability to control those heritage items that they hold is explored further below.~~

#### *Indicators of Control ~~and Related to~~ Heritage Items*

~~42. Given the importance and value of heritage items it is usually possible to establish which entity controls them. Where an entity is able to use a heritage resource (or direct other parties on its use) so as to derive the benefits of the service potential or economic benefits embodied in it in the achievement of its service delivery or other objectives, the entity has control. The indicators of control identified in the Conceptual Framework's indicators of control (and noted above in paragraph 31) would be considered in making such a determination, i.e. legal ownership, access to the resource or ability to deny/restrict access to the resource, an 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.~~

~~43.13. Control over a heritage item is often may initially be indicated via by legal ownership, followed by consideration of whether although an entity's ability is able to to control and deny or restrict access to the heritage item, and/or can ensure that the use of the heritage item is used to achieve its the entity's 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.~~

~~14. For example, a provincial museum has may legally ownership of its permanent three collections of ancient artifacts. One collection may have been purchased from another museum, one collection acquired when a wealthy individual donated his/her collection of ancient artifacts, while the third collection has been acquired through discoveries by the museum's own team of archeologists, funded by the museum to do archeological digs in locally significant areas. The museum is able to It can restrict access to the three collections through its decisions on opening hours for the museum and through decisions about either showing whether to show particular collection items in each collection or placing them in storage. The permanent collections are is used by the museum to provide services consistent with the museum's objectives. There is scope for sale of individual collection items and/or loans to other museums. In any event, while under the entity's control, it is responsible, and must be accountable, for the stewardship of these items. Therefore, applying the Conceptual Framework's indicators of control and its overarching principle that an entity (the museum) be able to use the service potential embodied in its resource (in this case, its permanent collection) to achieve its objectives, the museum has control over its permanent collection.~~

~~15. Other examples where control over heritage items appears to exist are include:~~

~~(a) Public spaces such as parks and squares (piazzas) where the public sector entity is able to either (i) issue permits to use the space or (ii) restrict access to it when necessary. (For example, a A city council owns a public square and usually ensures that the space is freely available to the public for their enjoyment by, for example, prohibiting its use by other entities for commercial purposes such as operation of stalls to sell food, etc. On occasion the city council may issue permits to allow others to operate in the public space (for example, a farmer's market may be given permission to sell produce there, one day a week). If~~

maintenance or security require that the public be excluded from the area, then the city council can do this. The city council uses the service potential embodied in the public square to achieve its objectives.)

(a)(b) An entity owns publication rights over, for example, a heritage film or audio-recording and is able to license users to broadcast the heritage item. The entity allows use consistent with its objectives, which could include providing public access to heritage films or audio-recordings via accredited public channels.

#### Heritage Public Spaces and Control—Ability to Restrict Access

~~44. Some cultural heritage items, as noted above, are either in public spaces or are themselves public space. Although the entity responsible for the heritage item generally will not restrict access, it can do this if necessary. (For example, when the space is being renovated or prepared for a special event, a public square can be fenced off so that only workmen are allowed to gain access.) Heritage public spaces and heritage items are used to achieve an entity's objectives, which means that the entity has the power to keep the space open, to keep it unencumbered by private, commercial interests and is able to prevent others from misusing the space in ways that undermine its character. 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 is able to ensure that the space is freely available to the public for their enjoyment by, for example, prohibiting its use by other entities for commercial purposes such as operation of stalls to sell food, etc. Creating and preserving such public spaces furthers the objectives of the responsible public sector entity, whether a city council or national government.~~

#### Other types of Access

~~45. The ability to or ability to deny or restrict access to a resource is not only about physical access. For example, an entity may have the ability to deny others access to an intangible heritage item, such as the right to use a heritage brand name.~~

#### Control over a Heritage Item Resides with another Entity

~~46-16. 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 loan agreement or document would establishing the facts of the case that control remains with the entity that has loaned the heritage items.~~

~~47. In some cases an entity may hold heritage items under a long-term loan arrangement. For example, a national museum may have the loan of a heritage collection from a wealthy patron. Legal ownership resides with the patron and this is normally clear in the loan agreement. The patron normally retains the right to remove the collection from the museum's guardianship. The patron may choose to take back the collection and sell it. In this case the indicators of control appear to show that the heritage collection is still controlled by the patron.~~

17. An entity may have delegated responsibility for heritage items, while another entity appears otherwise to control them, given control indicators such as legal ownership and ability to decide

~~what entity has responsibility for the heritage items. For example, a national government delegates responsibility for national parks to a government department, which is responsible for their preservation. The entity with delegated authority may manage a stream of funds to maintain the heritage items, but those funds may be held in trust and dedicated solely to preservation of the heritage items.~~

- ~~48. Where a heritage item belongs to the national government, but is used (or held) by a subsidiary of that government, the question arises of whether the item is controlled by one or both of these two entities. This answer to such questions may depend on the arrangement between the two entities and their assessment of the indicators of control listed in paragraph 31.~~

#### ~~Situations where an Entity's Control over a Heritage Item is Unclear~~

- ~~49. For some heritage items a particular criterion of control may be unclear. For example, legal ownership 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 can arise, they are not the norm so much as the exception.~~

- ~~50. Two further situations where control over a heritage item may be in doubt are:~~

- ~~(a) Multiple entity trustee arrangements that exist over, for example an area that either crosses national boundaries or involves a complex set of intersecting responsibilities with respect to access, usage, guardianship and/or management; and~~
- ~~(b) Sacred sites that are viewed as unable to be owned or controlled because the concept of legal ownership and control over them is viewed as inappropriate or culturally offensive.~~

~~Therefore, applying the Conceptual Framework, the special characteristics of heritage items, whereby they are "intended to be held indefinitely and preserved for the benefit of present and future generations" do not appear to present barriers to their being controlled by an entity.~~

#### ~~Lack Inability to of Control over Knowledge-in-Action Intangible Cultural Heritage~~

- ~~18. 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. This is because an entity cannot gain legal ownership over people's on-going enactment of this type of cultural heritage, cannot restrict or deny access, cannot use the resource to achieve its objectives (except in the sense that something such as a shared language is a resource for everyone's use) and it is impossible to hold an enforceable right to service potential or the ability to generate economic benefits arising from this type of heritage item. Knowledge-in-action intangible cultural heritage is "owned" by a whole community. Therefore, because it cannot be controlled by an entity, this type of intangible cultural heritage does not appear to meet the definition of an asset, ~~because it cannot be controlled by an entity.~~~~

~~51.—~~

### Control over Natural Heritage Items

~~52. 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.~~

### 3.4—Heritage Items and Present Control as Result of a Past Event

~~53.19. Paragraph 5.13 of the Conceptual Framework describes the type of past transaction or other past event that could indicate that the entity presently controls a resource<sup>16</sup>.~~

~~The definition of an asset requires that a resource that an entity presently controls must have arisen from a past transaction or other past event. The past transactions or other events that result in an entity gaining control of a resource and therefore an asset may differ. 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.~~

~~54.20. Past Events that may give could indicate that an entity controls over a heritage item include:~~

- ~~(a) Purchase from an external party;~~
- ~~(b) Receipt through a non-exchange transaction such as donation, confiscation or nationalization; and~~
- ~~(c) Passing of legislation and/or signing of treaties (supported by international law) that establish a government's rights to heritage items, including rights over otherwise unclaimed lands of natural significance or otherwise contested lands, waterways and/or bodies of water.~~

~~21. These events are not so unusual as to suggest that Heritage items do not appear to present special, heritage-related issues with respect to the past events and the related timing-existence of control. There may be doubt about the existence of control (as discussed in the previous subsection), but it appears that an assessment of whether or not a past event has occurred will follow a similar approach to that used to assess the presence of control for other, similar assets that are not heritage items. On that basis no further discussion of this criterion is provided here.~~

### 3.5 Heritage Items as Assets

~~22. The discussion in this chapter it appears to be the case that, applying the Conceptual Framework, the special characteristics of heritage items, whereby they are “intended to be held indefinitely and preserved for the benefit of present and future generations” do not appear to present barriers to~~

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<sup>16</sup> Paragraph 5.13 of the Conceptual Framework.

their resources presently controlled by an entity as a result of a past event. Therefore, heritage items can be assets for financial reporting purposes, where these three asset definition criteria are met.

~~55.—~~

### ~~3.5— Three Approaches to the Issues of Heritage Items as Assets~~

~~56.— The IPSASB has considered the following three approaches to the issue of whether heritage items could be assets for the purposes of financial reporting:~~

~~Approach 1: Heritage items cannot be assets for the purposes of financial reporting;~~

~~Approach 2: Only certain heritage items can be assets for the purposes of financial reporting, for example, operational heritage items; or~~

~~Approach 3: Heritage items are assets for the purposes of financial reporting, where they meet the Conceptual Framework's three criteria (resource, control and past event).~~

~~57.— The main arguments usually presented by commentators to support Approach 1 have been described above in paragraph 33. However, these arguments are not compelling when reviewed against the Conceptual Framework's discussion of public sector assets, as discussed earlier in this chapter.~~

~~58.— With respect to Approach 2, while particular heritage items raise issues about the existence of a resource or the existence of control by the entity, there does not appear to be a strong argument to create new criteria (in addition to those in the Conceptual Framework's definition of an asset) in order to assess whether or not heritage items are assets for financial reporting purposes. For example, the need for control to exist indicates that intangible cultural heritage in the "knowledge-in-action" subset will not be assets for the purposes of financial reporting. That conclusion can be reached without creation of a new criterion, although clear identification of that subset provides an efficient way to discuss asset issues for intangible cultural heritage.~~

~~59.— If both operational heritage items and those heritage items that only provide heritage services are resources for the entity, then both have the potential to be assets, and this will depend on establishing that control presently exists as the result of a past event.~~

~~60.— In conclusion then, application of the Conceptual Framework's definition of an asset to examples of heritage items and the special characteristics of such items appears to support Approach 3. The IPSASB's view is that the Conceptual Framework's definition of an asset can be applied to heritage items and, despite their special characteristics, heritage items that meet that definition should be considered assets for the purposes of financial reporting.~~

*Preliminary View –Chapter 3*

### **Preliminary View—2 Heritage Items as Assets**

~~The IPSASB's preliminary view is that~~ The special characteristics of heritage items :

~~Do not prevent them from being assets for the purposes of financial reporting; and~~

~~Mean that, where an entity controls them, Heritage items~~ they are likely to ~~may be assets for the purposes of financial reporting; and~~

~~Those heritage items that meet the Conceptual Framework's definition of an asset (i.e. they are resources, presently controlled by the entity, as a result of a past event) should be considered assets for the purposes of financial reporting.~~

61. ~~As noted in the introduction to this chapter, even where heritage items meet the definition of an asset and can be considered "heritage assets", there remains an issue of whether or not they can (or should) be recognized in the financial statements. Chapter 4 discusses arguments for and against recognition of heritage assets, and identifies alternative accounting treatments. Then, Chapter 6 considers presentation of information on heritage assets, taking into account the alternative views on whether heritage assets should be recognized, identified in Chapter 4. Chapter 6 identifies presentation options that encompass presentation of information on heritage assets in (a) the financial statements, (b) in schedules presented with the financial statements, and/or (c) information presented in another GPFR.~~

### **Specific Matter for Comment – Chapter 3**

In your view,

(a) Are there types of heritage items that cannot be assets for financial reporting purposes?

(b) If you responded "yes" to (a),

(i) What types of heritage items do you consider cannot be assets for financial reporting purposes, and

(ii) Why do you think that those heritage items cannot be assets?

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

### **4.1 Introduction**

1. This chapter applies the guidance in the Conceptual Framework to ~~discuss~~ evaluate whether heritage items can meet the recognition criteria for assets. Chapter 3 concluded that the special characteristics of heritage items ~~—the intention to hold them indefinitely and preserve them for the benefit of present and future generations, because of their rarity and significance—~~ do not affect their satisfaction of the asset definition ~~prevent their being assets~~ for financial reporting purposes, which is the first criterion for recognition. Therefore, this chapter focuses on the second recognition criterion, measurability. It considers whether the special characteristics of heritage items ~~—the intention to hold them indefinitely and preserve them for the benefit of present and future generations, because of their rarity and significance—~~ have any implications for their measurement at initial recognition and subsequent to recognition.

### **4.2 Recognition in the Conceptual Framework**

2. Recognition is the process of incorporating and including an item in amounts displayed on the face of the appropriate financial statement ~~an item that meets the definition of an element and can be measured in a way that achieves the qualitative characteristics and takes account of the constraints on information included in GPFR~~<sup>1</sup>. The recognition criteria are that:
  - (a) An item satisfies the definition of an element; and
  - (b) Can be measured in a way that achieves the qualitative characteristics and takes account of constraints on information in GPFRs<sup>2</sup>.
3. Recognition considerations occur within the context of financial reporting objectives. GPFRs provide information to users for accountability and decision making. Public sector entities are accountable to those that provide them with resources, and ~~to those that~~ depend on them to use those resources to deliver services<sup>3</sup>. ~~When discussing measurement of elements for recognition, the Conceptual Framework highlights users' need for information that supports assessments of entities' financial capacity, operational capacity and cost of services.~~

#### *Measurement of Assets at Initial Recognition*

4. ~~In order to recognize heritage items as assets, they should be measurable in a way that achieves the qualitative characteristics and takes account of the constraints on information in GPFRs.~~ The Conceptual Framework states that measurement involves<sup>4</sup>:
  - (a) Attachment of a monetary value to the item;
  - (b) Choice of an appropriate measurement basis; and

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<sup>1</sup> Paragraph 6.1 of the Conceptual Framework.

<sup>2</sup> Paragraph 6.2 of the Conceptual Framework.

<sup>3</sup> Paragraph 2.8 of the Conceptual Framework.

<sup>4</sup> Paragraph 6.7 of the Conceptual Framework.

- (c) Determination of whether the measurement of the item achieves the qualitative characteristics, taking into account the constraints on information in GPFRs, including that the measurement is sufficiently relevant and faithfully representative for the item to be recognized in the financial statements.
5. The objective of measurement is to select those measurement bases that most fairly reflect the cost of services, operational capacity and financial capacity of the entity in a manner that is useful in holding the entity to account, and for decision-making purposes<sup>5</sup>. The Conceptual Framework provides guidance on the selection of a measurement basis, rather than proposing a single measurement basis (or combination of bases) for all transactions, events and conditions<sup>6</sup>.
6. The Conceptual Framework identifies the following measurement bases for assets:
- (a) Historical cost;
  - (b) Market value;
  - (c) Replacement cost;
  - (d) Net selling price; and
  - (e) Value in use.

#### 4.3 Measurement of Heritage Assets for Recognition

- ~~7. This section discusses the five measurement bases above, considering whether the resulting information is relevant to assessments of the cost of services, operational capacity and financial capacity. It also discusses the use of symbolic values to measure heritage assets, and explains why symbolic values are not appropriate for the measurement of heritage assets.~~
- ~~8. Entities usually hold heritage assets for use in the delivery of services. As discussed in Chapter 3, those heritage items that are assets for financial reporting purposes have service potential and contribute to achievement of an entity's objectives. Their service potential forms part of an entity's operational capacity. In some circumstances heritage assets may also contribute to an entity's financial capacity. Therefore, the measurement objective of fairly reflecting 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 applies to heritage assets.~~

#### *Measurement Bases—Availability and Measurement Objective*

##### Historical Cost

- ~~9. The Conceptual Framework describes historical cost information as relevant to assessments of ~~operational capacity,~~ cost of services, operational capacity and financial capacity, and as often being straightforward to apply, because transaction cost at acquisition information is usually readily available. ~~However, these reasons for using historical cost to measure assets do not necessarily apply when measuring heritage assets.~~ Entities may find that historical cost information is available for some of the heritage assets that they hold, for example, where heritage assets were purchased recently. Historical cost could be an appropriate measurement base for heritage assets in those~~

<sup>5</sup> Paragraph 7.2 of the Conceptual Framework.

<sup>6</sup> Paragraph 7.5 of the Conceptual Framework.

~~circumstances. However, M~~any heritage assets may be so old that ~~transaction~~ information on the cost at acquisition is not available, ~~because it has been lost or destroyed years before. They may also have been acquired through a government's sovereign powers, rather than through purchase, so that there is no historical cost. As for other assets, W~~where heritage assets have been acquired over very long periods of time, historical cost information will not be comparable. ~~Entities may find that historical cost information is available for some of the heritage assets that they hold, for example, where heritage assets were purchased recently. Historical cost could be an appropriate measurement base for heritage assets in those circumstances.~~

~~7-10.~~ Where heritage assets are very old and their historical cost is likely to be minimal, the possibility of using 1 currency unit, as a surrogate for historical cost, was raised during development of this CP. This approach would facilitate initial measurement and recognition of heritage assets on an historical cost basis. There are similarities to use of a "symbolic value" (see paragraphs 4.17–4.18~~X-X)~~. However, the 1 currency unit surrogate for historical cost would only apply to heritage assets that are very old. By contrast, symbolic value has previously been promoted for application to all heritage assets and, as noted below, its conceptual basis is different.

#### Market Value

~~8-11.~~ Market values will be available for some heritage assets, through reference to the market values of similar items. Heritage items such as artwork and items of archeological significance ~~(for example)~~ may be bought and sold through specialist markets, including ~~(for example)~~ auction houses. However, the markets for some heritage assets may not be active enough and sufficiently open and orderly to provide readily available market values. Many heritage assets have restrictions on their sale and/or disposal, which also reduces the availability of market values. Other heritage assets are unique, and there are not meaningful market values available for them. Therefore, although market values could be appropriate for some heritage assets, they will not necessarily be able to be used.

#### Replacement Cost

12. Replacement cost relies on the existence of other assets that would provide the same service potential as the heritage asset being valued. For heritage assets replacement cost may not be available. For some heritage assets no replacement cost is available, because they are so rare as to be irreplaceable. For other heritage assets a replacement cost could be available for broadly similar heritage assets, although it may not fully reflect the service potential of the heritage assets to the entity holding them<sup>7</sup>. However, for operational heritage assets replacement costs that reflect their value in terms of their operational use appears likely to be available and relevant. For example, a replacement cost for a heritage building used as office space could be found through reference to market values of other office buildings of a that provide similar sizespace and functionality. However, a replacement cost related to this type of operational use would not reflect the heritage significance of the building.

~~9-13.~~ Restoration costs may ~~also~~ be viewed as relevant as a replacement cost, ~~where a~~ An entity may have plans to would rebuild or otherwise restore a heritage item, if that proved to be necessary, ~~and o~~ Restoration would aim to reproduce, as closely as possible, the heritage aspects of the

<sup>7</sup> For example, the replacement cost to purchase a similar collection of paintings could be available, and yet not convey the service potential of the paintings held by an art gallery, because its collections is significant for the local community.

original item. Restoration costs could be more relevant when optimized replacement cost would be inappropriate, because the heritage asset's service potential is embodied in heritage aspects such as an historic appearance, rather than in an optimized modern equivalent. The Conceptual Framework notes that there may be cases where replacement cost equates to reproduction cost, because the most economical way of replacing service potential is to reproduce the asset<sup>8</sup>.

### Net Selling Price

~~10.14.~~ The Conceptual Framework describes net selling price as being useful where the most resource-efficient course available to the entity is to sell the asset. It is not ~~viewed as~~ an appropriate measurement base if the entity is expected to be able to use the resource more efficiently by employing it in another way, for example by using it in the delivery of services. Heritage assets are expected to be held and preserved rather than sold, and their value usually relates to their service potential<sup>9</sup>. Therefore, net selling price generally ~~would~~ does not ~~be provide~~ relevant measurement information for heritage assets. However, net selling price could be relevant in rare circumstances, when an entity is, for example, forced to sell heritage items due to financial distress.

### Value in Use

~~11.15.~~ 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". Heritage assets are usually (but not always) are held by entities for their service potential rather than their economic benefits<sup>10</sup>. 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. The Conceptual Framework also explains that operationalization of value-in-use for non-cash-generating assets involves the use of replacement cost as a surrogate. Many heritage assets are non-cash-generating assets, which means that so if value-in-use is relevant it for them would be equivalent to replacement cost and this could be an argument in favor of using replacement cost instead of value in use.~~

~~12.16.~~ On this basis ~~For these reasons~~ value in use does not appear to be relevant to the measurement of heritage assets.

### Symbolic Value

~~13.17.~~ In some jurisdictions heritage assets are recognized at what is described as a "symbolic value", typically one unit of the presentation currency. Entities use this treatment on the basis that it is difficult, costly and inappropriate to obtain a valuation for heritage assets. Supporters of symbolic values consider that they provide useful information to users of financial statements and facilitate a linkage between financial reporting and asset management. They also argue that entering a symbolic value facilitates recognition of subsequent capital expenditure on the heritage asset.

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<sup>8</sup> Footnote 14 of the Conceptual Framework.

<sup>9</sup> Arguably, where an entity does not intend to hold heritage items indefinitely they cease to meet the special characteristics of heritage items, and accounting for them would be covered by existing IPSAS.

<sup>10</sup> ~~This point is discussed in Chapter 3, which also notes situations where heritage assets do embody economic benefits.~~

~~14-18.~~ During development of the Conceptual Framework the IPSASB considered the use of symbolic values. While acknowledging that such an approach is intended to provide useful information, the majority of IPSASB members took the view that symbolic values do not meet the measurement objective, because they do not provide relevant information on ~~financial capacity, operational capacity or the cost of services, operational capacity or financial capacity~~. Symbolic value was discussed during development of this CP, and the IPSASB is still of this view that reconfirmed that conclusion when considering heritage assets.

#### 4.4 Qualitative Characteristics and Constraints

~~15-19.~~ This section considers whether heritage items' special characteristics have implications for the ability to measure heritage assets in a way that achieves the qualitative characteristics and takes account of the constraints on information in GPFs. The qualitative characteristics of information included in GPFs of public sector entities are relevance, faithful representation, understandability, timeliness, comparability, and verifiability. Pervasive constraints on information included in GPFs are materiality, cost-benefit, and achieving an appropriate balance between the qualitative characteristics.

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

~~16-20.~~ The Conceptual Framework explains that information is relevant if it is capable of making a difference in achieving the objectives of financial reporting. Information is capable of making a difference when it has confirmatory value, predictive value, or both<sup>11</sup>. Information on the monetary value of heritage assets that entities hold appears likely to support users' ability to make decisions about entities' resources and hold entities accountable for their stewardship of heritage assets. Therefore, such information appears likely to achieve the qualitative characteristics of relevance. Monetary values for heritage assets also appear likely to provide information that supports users' assessments of entities' operational capacity and cost of services.

~~17-21.~~ 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<sup>12</sup>. For financial reporting purposes heritage assets are resources, and their measurement should faithfully represent their service potential and/or ability to generate economic benefits. From this perspective, monetary values are capable of faithfully representing heritage assets as resources for financial reporting purposes. Others ~~Some~~ argue that the heritage significance of heritage assets cannot be shown ~~through~~ with monetary values, because monetary values do not convey which means that their "true value" ~~is not shown in the financial statements. From that perspective monetary values do not provide relevant information. A counter argument is that monetary values are capable of faithfully representing heritage assets as resources for financial reporting purposes.~~

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<sup>11</sup> Paragraph 3.6 of the Conceptual Framework.

<sup>12</sup> Paragraph 3.10 of the Conceptual Framework.

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

~~18-22.~~ Understandability is the quality of information that enables users to comprehend its meaning<sup>13</sup>. Some may argue that monetary values for heritage assets could confuse users because there are often ethical, legal and/or statutory restrictions or prohibitions that restrict or prevent sale, transfer or destruction by the holder or owner of heritage assets. However, monetary values for heritage assets appears more likely to provide understandable information to users, than would an absence of monetary values. Disclosures on heritage asset restrictions and/or their special nature can be used to further support users' understanding of the information reported. [Similar restrictions on other types of assets do not prevent their recognition.](#)

### *Timeliness, Comparability and Verifiability*

~~19-23.~~ Timeliness means having information available for users before it loses its capacity to be useful for accountability and decision-making purposes<sup>14</sup>. Comparability is the quality of information that enables users to identify similarities in, and differences between, two sets of phenomena<sup>15</sup>. Verifiability is the quality of information that helps assure users that information in GPFRs faithfully represents economic and other phenomena that it purports to represent<sup>16</sup>.

~~20-24.~~ The special characteristics of heritage items do not appear to have any particular implications for these three qualitative characteristics of timeliness, comparability and verifiability, although some may argue that monetary values attached to heritage assets could be difficult to verify.

### *Materiality*

~~24-25.~~ The Conceptual Framework explains that information is material if its omission or misstatement could influence the discharge of accountability by the entity, or the decisions that users make on the basis of the entity's GPFRs prepared for that reporting period. Materiality depends on both the nature and amount of the item judged in the particular circumstances of each entity. The Conceptual Framework does not specify a uniform quantitative threshold at which a particular type of information becomes material<sup>17</sup>.

~~22.~~ [Materiality has both quantitative and qualitative aspects. The special characteristics of heritage items suggest that enhanced disclosures might be appropriate. Chapter 6 proposes objectives for presentation of heritage-related information and notes additional information that users of financial statements could be need on heritage.](#)

### *Cost-Benefit*

~~23-26.~~ The Conceptual Framework explains that financial reporting imposes costs and the benefits of financial reporting should justify those costs<sup>18</sup>. Assessing whether the benefits of providing information justify the related costs is often a matter of judgment, because it is often not possible to

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<sup>13</sup> Paragraph 3.17 & 3.18 of the Conceptual Framework.

<sup>14</sup> Paragraph 3.19 of the Conceptual Framework.

<sup>15</sup> Paragraph 3.21 of the Conceptual Framework.

<sup>16</sup> Paragraph 3.26 of the Conceptual Framework.

<sup>17</sup> Paragraph 3.35 to 3.36 of the Conceptual Framework.

<sup>18</sup> Paragraph 3.32 of the Conceptual Framework.

identify and/or quantify all the costs and all the benefits of information included in GPFRs. The costs of providing information include the costs of collecting and processing the information, the costs of verifying it and/or presenting the assumptions and methodologies that support it, and the costs of disseminating it. Users incur the costs of analysis and interpretation. Omission of useful information also imposes costs, including the costs that users incur to obtain needed information from other sources and the costs that result from making decisions using incomplete data provided by GPFRs.

~~27. The earlier discussion of measurement bases indicates that, while valuations could be costly in some circumstances, in other circumstances it may be relatively straightforward to obtain monetary values, for example, when:~~

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

~~24-28.~~ Jurisdictions and entities have argued that the cost-benefit constraint could be a factor against attaching a monetary value to heritage assets. In this view the costs of carrying out heritage asset valuations is a costly exercise, and is not justified by the benefits of the information for users. Others argue that the cost concerns commonly cited are either:

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

~~25. The earlier discussion of measurement bases indicates that, while valuations could be costly in some circumstances, in other circumstances it may be relatively straightforward to obtain monetary values, for example, when:~~

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

#### **4.5 Preliminary Views on Recognition and Measurement of Heritage Assets**

~~26-29.~~ This chapter has considered whether appropriate measurement bases are available to measure heritage assets and whether measurement will achieve the qualitative characteristics and take account of the constraints on information in GPFRs. Based on the discussion, it appears that, while there may be cases where valuation costs are high enough to trigger the cost-benefit constraint, it will also be possible to measure heritage assets, applying an appropriate measurement base.

*IPSASB's Preliminary View—Chapter 4.1 Recognition of Heritage Assets*

**Preliminary View—Recognition of Heritage Assets**

~~The IPSASB's preliminary view is that the special characteristics of heritage assets should be items do not prevent them from being recognized as assets for the purposes of financial reporting in the statement of financial position if they meet the recognition criteria.~~

[Do you agree with the IPSASB's Preliminary View – Chapter 4-1?](#)

**Specific Matter for Comment – Chapter 4.1**

In your view,

- (a) Are there any types of heritage assets that should not be recognized in the statement of financial position, if they meet the recognition criteria?
- (b) If you responded “yes” to (a), what types of heritage assets should not be recognized in the statement of financial position, even though they meet the recognition criteria?
- (c) Are there heritage-related situations (or factors) in which the cost–benefit constraint applies and heritage assets should not be recognized because the costs of doing so would not justify the benefits? (If yes, please describe those heritage-related situations (or factors).)

*IPSASB's Preliminary View– Chapter 4.2*

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

[Do you agree with the IPSASB's Preliminary View – Chapter 4-2?](#)

**Specific Matter for Comment – Chapter 4.2**

In your view,

- (d) For initial recognition, should measurement of a heritage asset apply one of the following measurement bases: historical cost, market value or replacement cost?
- (e) Are there other measurement bases that you consider should be applied to heritage assets when they are initially recognized? (If so, please identify those bases and describe the circumstances in which they should be applied.)

**4.6 Subsequent Measurement, ~~Depreciation and Deferred Maintenance~~**

~~27-30.~~ After initial recognition subsequent events could impact on the monetary value of heritage assets. Changes in the value of heritage assets appears likely to be relevant for accountability and decision making. Subsequent value changes can be viewed as potentially arising through the following events:

- (a) Market value changes ~~(increase)~~;
- (b) Expenditure on the heritage asset ~~that is of a capital nature~~;

- (c) Impairment; and/or
- (d) Consumption of the asset; and/or
- ~~(e) Accumulated deferred maintenance.~~

~~31. Some commentators view the existence of Accumulated deferred maintenance may be viewed as a factor that could indicates impairment, although. Others also argue that accumulated deferred maintenance it could also be viewed as should be measured as another—an additional indicator of heritage asset value changes. Others view the existence of deferred maintenance as a factor that could indicate impairment.~~

32. During development of the Conceptual Framework, the IPSASB concluded that, in principle, the same considerations apply to initial and subsequent measurement<sup>19</sup>. Therefore, subsequent measurement should achieve the qualitative characteristics, taking into account the constraints. Subsequent measurement has the objective to select those measurement bases that most fairly reflect the cost of services, operational capacity and financial capacity of the entity in a manner that is useful in holding the entity to account, and for decision-making purposes.

33. When considering whether heritage assets' special characteristics present special issues for their subsequent measurement, the IPSASB noted that:

- (a) Heritage assets cover many different types of assets, including land, buildings, infrastructure, intangible assets and collections of artwork and other heritage items; and
- (b) IPSAS address subsequent measurement for similar non-heritage items (i.e. land, etc.), and cover, for example, revaluation, impairment, and treatment of subsequent expenditures (capitalization or expensing).

~~28.34. Once the special characteristics of heritage items have been considered for initial measurement, the IPSASB's view is that those special characteristics do not raise additional issues for subsequent measurement. The IPSASB has not reached a preliminary view on the subsequent measurement of heritage assets, after their recognition in the statement of financial position.~~

IPSASB's Preliminary View— Chapter 4.3

There are no special issues related to the subsequent measurement of heritage assets.  
Do you agree with the IPSASB's Preliminary View – Chapter 4-3?

**Specific Matter for Comment – Chapter 4.3**

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

<sup>19</sup> Paragraph BC7.12 of the Conceptual Framework.

## DRAFT CHAPTER 5, HERITAGE ITEMS AND RELATED OBLIGATIONS

### 5.1—Introduction

1. This chapter applies the Conceptual Framework's definition of a liability and its recognition criteria ~~for liabilities~~ to discuss obligations ~~that may related~~ to heritage items. It considers the implications of heritage items' special characteristics for the existence of obligations.
2. The definition of heritage items proposed in this CP conveys that they are items intended to be held indefinitely and preserved for the benefit of present and future generations<sup>1</sup>. This chapter discusses whether heritage preservation intentions could result in present obligations for financial reporting purposes and lead to liabilities that should be recognized in the financial statements. ~~It also in particular, it~~ considers whether, ~~when an entities that have~~ postponed maintenance or other preservation-related activities for the heritage items they hold, ~~the entity~~ could have a liability~~es~~. (Chapter 6 discusses possible disclosures related to heritage items' preservation.)

#### Possible Obligations Related to Heritage

3. The discussion below considers whether obligations resulting in liabilities arise when entities:
  - (a) Receive funding for heritage preservation activities;
  - (b) Receive services to preserve heritage items;
  - (c) Are subject to legislation that requires entities to preserve heritage items (including penalties for failure to preserve heritage items);
  - (d) Hold heritage items for which maintenance or preservation generally is needed, such that:
    - (i) Heritage items have deteriorated so that there is a demonstrable need to restore them;
    - (ii) Planned maintenance has been deferred; and/or
    - (iii) A need for maintenance is likely (foreseeable) in the future.
- 2.4. The main question that arises, in each case, is whether there is a present obligation. Neither a "moral obligation" that does not bind an entity, nor a foreseeable future obligation will suffice for existence of a liability for financial reporting purposes.

### 5.2—Conceptual Framework, Liabilities and Present Obligations

- 3.5. The Conceptual Framework defines a liability ~~to be as~~ "a present obligation of the entity for an outflow of resources that results from a past event"<sup>2</sup>.

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<sup>1</sup> Chapter 2 includes the following definition for heritage items: "Heritage items are items that are intended to be held indefinitely and preserved for the benefit of present and future generations because of their rarity and significance in relation, but not limited, to their archeological, architectural, agricultural, artistic, cultural, environmental, historical, natural, scientific or technological features."

<sup>2</sup> Paragraph 5.14 of the Conceptual Framework.

~~4.6. A liability is recognized when an item satisfies the definition of a liability and can be measured in a way that achieves the qualitative characteristics and takes account of constraints on information in GFRs<sup>3</sup>. This chapter assumes that where a heritage-related liability exists, measurement will generally be possible, applying the Conceptual Framework approach to the measurement of liabilities. Therefore, the discussion below focuses on whether or not a liability exists. It discusses entities' responsibilities to preserve heritage items and any implications for liability existence.~~

#### *Outflows of Resources—Heritage Items*

~~5.7. A liability must involve an outflow of resources from the entity for it to be settled. An obligation that can be settled without an outflow of resources from the entity is not a liability<sup>4</sup>.~~

~~6.8. Holding heritage items is likely to involve outflows of resources for their preservation. These can be considered in terms of their timing, applying, for example, three different perspectives the focus could be on: outflows of resources that are likely to arise to preserve heritage items:~~

- (a) Within the budget period, i.e. one or two years;
- (b) Over the entity's usual planning period, for example, the next 5 to 10 years; or
- (c) For future generations, i.e. a very long time horizon.

~~9. Given the importance (and expense) of preservation for heritage items, some commentators have argued that a liability should be recognized to reflect the resource outflows required to preserve heritage items for present and future generations. Others have argued that a liability exists, if preservation activities have been deferred, where "deferral" could be by comparison to an agreed cycle of maintenance or with respect to some other criteria. Include summary of different views on liabilities here, i.e. idea that an obligation for resource outflows for future generations (for example) could result in large liabilities.)~~

~~7.10. However, the likelihood of outflows of resources does not, by itself, result in the existence of a heritage-related liability. For a liability to exist an entity needs to have a present obligation for those outflows of resources as a result of a past transaction or other event.~~

#### *Heritage-Related Obligations and Past Events*

~~8.11. To satisfy the definition of a liability, it is necessary that a present obligation arise as a result of a past transaction or other event<sup>5</sup>. The complexity of public sector programs and activities means that a number of events in the development, implementation and operation of a particular program may give rise to obligations. For financial reporting purposes it is necessary to determine whether such commitments and obligations, including binding obligations that the entity has little or no realistic alternative to avoid but are not legally enforceable (non-legally binding obligations) are present obligations and satisfy the definition of a liability.~~

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<sup>3</sup> Paragraph 6.2 of the Conceptual Framework.

<sup>4</sup> Paragraph 5.16 of the Conceptual Framework.

<sup>5</sup> Paragraph 5.17 the Conceptual Framework.

~~9.12.~~ Identifiable past events for possible heritage preservation obligations include when an entity:

- (a) Acquires heritage items;
- (b) Makes a public commitment to heritage item preservation for future generations;
- (c) Includes a heritage preservation objective (or other statement) in its publicly available planning documents;
- (d) Creates a plan for resource outflows necessary to the heritage item preservation;
- (e) Receives an approved budget or an appropriation for heritage item preservation;
- (f) Receives funding designated for heritage item preservation;
- (g) Receives ~~heritage preservation services for which payment is due for which a legal contract (or another arrangement, equivalent in its ability to bind the entity) exists.~~

13. An assessment of each of these past events to consider whether an entity would have little or no realistic alternative to avoid an outflow of resources suggests that: ~~with the entity appears likely to have alternatives enabling it to avoid an outflow of resources, with the exceptions of:~~

~~(f) Receipt of funding, if a funding results in a performance obligation (discussed in paragraph 14 below); and~~

~~the exception of (g) Receipt of services, if the entity has obligations (to pay for services received) arising from either a legal contract or other binding arrangement the entity appears likely to have alternatives enabling it to avoid an outflow of resources.~~

14. ~~In the case of (g), w~~here an entity has received heritage preservation services, there is a legal obligation arising from the contract (or other equivalent arrangement). Then, until the entity has discharged its legal obligation to pay for the heritage preservation services received, it will have a present obligation for an outflow of resources that results from a past event, i.e. a liability that meets the Conceptual Framework's definition of a liability for financial reporting purposes.

~~10.15.~~ The following subsection discusses "present obligations" and when a present obligation appear likely to exist in the context of heritage preservation.

#### *Heritage Items and Present Obligations*

~~11.16.~~ For a liability to exist there must be a present obligation of the entity. A present obligation is a legally binding obligation (legal obligation) or non-legally binding obligation, which an entity has little or no realistic alternative to avoid<sup>6</sup>. The Conceptual Framework states that an obligation must be to an external party in order to give rise to a liability<sup>7</sup>. An entity cannot be obligated to itself, even where it has publicly communicated an intention to behave in a particular way. An entity that holds heritage items is often viewed as having a ~~responsibility or~~ moral obligation to preserve them. However this is not a sufficient basis to conclude that the entity has a present obligation for financial reporting purposes.

<sup>6</sup> Paragraph 5.15 of the Conceptual Framework.

<sup>7</sup> Paragraph 5.18 of the Conceptual Framework.

## Legal Obligations

12. ~~Where an entity receives funds designated for heritage preservation, through an exchange or non-exchange transaction, this may have conditions or create service performance obligations to the party providing the funds attached to them.~~ Exchange transactions are usually contractual in nature and therefore enforceable through the laws of contract or equivalent authority or arrangements. ~~(Although there are jurisdictions where government and public sector entities cannot enter into legal obligations, because, for example, they are not permitted to contract in their own name, but where there are alternative processes with equivalent effect.)~~ IPSAS 23, *Revenue from Non-Exchange Transactions (Transfers and Taxes)*, identifies factors relevant to whether an entity that receives funding ~~as a result of~~ in a non-exchange transaction has a ~~resulting~~ liability.
- 13.17. ~~As noted in the context of past events, W~~where an entity ~~holding heritage items~~ receives ~~heritage preservation~~ services from another entity, a ~~binding~~ legal obligation to pay for the services received is likely to arise.

## Heritage Preservation Instructions and Legislation

- 14.18. An entity holding heritage items may receive instructions from an external party, ~~or be required by legislation,~~ to preserve them. For example, the national government may direct the national museum to preserve the heritage items that it holds. The question arises ~~of~~ whether ~~such instructions on heritage preservation or a legislative requirement on will mean that~~ such instructions give rise to a present obligation exists for entities that hold heritage items.
19. ~~Heritage preservation instructions and legislation do not typically include legally enforceable requirements to carry out repairs to preserve a heritage item. For example, if an entity owns a heritage building and there is a problem with the foundation, which requires repair, it is likely that there is no external legal requirement for the entity to address that problem.~~ Heritage legislation may include legal penalties (for example, a fine) for damaging a heritage item. The IPSASB's pronouncement on liability recognition, IPSAS 19, *Liabilities, Contingent Liabilities and Contingent Assets*, addresses the existence of obligations when an entity contravenes ~~(or appears to have contravened)~~ legislation and incurs ~~red~~ a fine or other legal penalty<sup>8</sup>. The special characteristics of heritage items, including their preservation, do not appear to raise heritage-specific financial reporting issues where there are instructions or legislation for heritage preservation.
- 15.20. Heritage preservation instructions and legislation do not generally appear to include legally enforceable requirements to carry out repairs to preserve a heritage item. For example, if an entity owns a heritage building and there is a problem with the foundation, which requires repair, it is likely that there is no external legal requirement for the entity to address that problem. However, if legislation includes penalties for failure to preserve heritage, then a legal obligation could arise when such penalties are triggered by an entity failing to preserve heritage items that it holds. The legislated penalties may indicate that the entity cannot realistically avoid taking action to preserve the heritage item(s). However there remains a question of whether the obligation to preserve the heritage items is an obligation to the legislator (another party) or to the entity itself.

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<sup>8</sup> See paragraphs 27-30 of IPSAS 19 for discussion of this type of legal obligation.

## Non-legally Binding Obligations

~~16.21.~~ Liabilities can arise from non-legally binding obligations. Non-legally binding obligations that give rise to liabilities have the following attributes:

- (a) The entity has indicated to other parties by an established pattern of past practice, published policies, or a sufficiently specific current statement that it will accept certain responsibilities;
- (b) As a result of such an indication, the entity has created a valid expectation on the part of those other parties that it will discharge those responsibilities; and
- (c) The entity has little or no realistic alternative to avoid settling the obligation arising from those responsibilities<sup>9</sup>.

~~17.22.~~ An entity that holds heritage items may behave in ways that suggest a non-legally binding obligation exists. For example, it may announce a heritage preservation policy, including an approved budget to give effect to that policy. However, as noted in the context of past events and obligations, the early stages of implementation (for example, making an electoral pledge or announcing a policy) are unlikely to give rise to present obligations that meet the definition of a liability. ~~Later stages, such as claimants meeting the eligibility criteria for a service to be provided, may give rise to obligations that meet the definition of a liability.~~

~~18.23.~~ There may be a correlation between the availability of funding to settle a particular obligation and the creation of a present obligation<sup>10</sup>. For example, where both a budget line item for heritage preservation has been approved and linked funding is assured through an appropriation, the availability of contingency funding or a transfer from a different level of government, it could be argued that a non-legally binding obligation may exist. Economic coercion, political necessity or other circumstances may give rise to situations where, although the ~~public sector~~ entity is not legally obliged to incur an outflow of resources for heritage preservation, the economic or political consequences of refusing to do so are such that the entity may have little or no realistic alternative to avoid an outflow of resources, with the result that an entity has a liability arising from a non-legally binding obligation<sup>11</sup>. However, the obligation would need to be to another party, since an entity cannot be obligated to itself. Thus, for example, where an entity holds a heritage item, receives funding to repair that item, and the political consequences of failing to carry out the necessary repairs appear to show that the entity has little or no realistic alternative to carry them out, the entity itself benefits from maintaining its heritage resource, so that no other party is involved.

~~19.24.~~ Approval of a budget for heritage preservation may, however, result in rights to receive funding rather than an obligation to engage in heritage preservation activities. The special characteristics of heritage items, which raise the possibility of plans, policies and approved funding for heritage preservation, do not appear to raise heritage-specific financial reporting issues, when identifying the existence of present obligations.

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<sup>9</sup> Paragraph 5.23 of the Conceptual Framework.

<sup>10</sup> Paragraph 5.25 of the Conceptual Framework.

<sup>11</sup> Paragraph 5.26 of the Conceptual Framework.

Preliminary View— Chapter 5.1 Heritage-Related Liabilities

20. The IPSASB's preliminary view on existence of heritage-related liabilities is as follows:

Where an entity holds heritage items their special characteristics, including with the an intention of to preserv~~ing~~ them for present and future generations, this does not, by itself/hemselves, result in a present obligation such that the entity has little or no realistic alternative to avoid an outflow of resources and should recognize a liability.

For existence of a present obligation as a result of a past event other factors must exist (for example, a funding agreement that could result in a performance obligation or legislation that could result in fines and other penalties), and those factors are independent of heritage items' special characteristics and similar in nature to factors considered in the context of other types of obligation for which financial reporting requirements and guidelines already exist.

Do you agree with the IPSASB's Preliminary View – Chapter 5.1?

**Specific Matter for Comment—Chapter 5**

In your view,

(a) Are there heritage-related obligations (specific to heritage items) that should be recognized as liabilities in the statement of financial position?

(b) If you answered "yes" to (a), please explain and describe:

(i) What types of heritage-related obligations (specific to heritage items) should be recognized as liabilities in the statement of financial position?

(ii) What factors or circumstances would indicate that an entity has heritage-related obligations (specific to heritage items) that should be recognized as liabilities in the statement of financial position?

Please provide the reasons for your views on recognition of heritage-related obligations, including the conceptual merits and weaknesses; the extent that the liability recognition approach you propose addresses the objectives of financial reporting and how it provides useful information to users.

## DRAFT CHAPTER 6, PRESENTATION OF INFORMATION ON HERITAGE ITEMS

### 6.1—Introduction

1. This chapter applies the Conceptual Framework to discuss the presentation of information for heritage in GPFRs. It discusses whether the special characteristics of heritage items—the intention to hold them indefinitely and preserve them for the benefit of present and future generations, because of their rarity and significance—~~could~~ have implications for the presentation of information in GPFRs.

### 6.2—Conceptual Framework and Presentation in GPFRs

2. The Conceptual Framework defines presentation ~~to be as~~ “the selection, location and organization of information that is reported in the GPFRs<sup>1</sup>.”
3. Presentation aims to provide information that contributes towards the objectives of financial reporting and achieves the qualitative characteristics while taking into account the constraints on information included in GPFRs. Decisions on selection, location and organization of information are made in response to the needs of users for information<sup>2</sup>. The types of information that users need to meet the objectives of financial reporting guide decisions on whether particular types of reports are needed<sup>3</sup>. Decisions on information selection address what information is reported in the financial statements, and in GPFRs outside the financial statements (other GPFRs). The objectives of financial reporting are to provide information about the entity that is useful to users of GPFRs for accountability and decision-making purposes<sup>4</sup>.

#### *Scope of Financial Reporting*

4. The information needs of the primary users of GPFRs and the objectives of financial reporting determine the scope of financial reporting. GPFRs are likely to comprise multiple reports. GPFRs encompass financial statements including their notes and the presentation of information that enhances, complements and supplements the financial statements<sup>5</sup>. A GPFR presents information related to a reporting entity. Reports that present information on transactions and other events that cross reporting entity boundaries are outside of the scope of financial reporting.
5. Internal reports, prepared for the management of an entity, can be distinguished from those prepared for users of GPFRs. Internal reports are not within the scope of financial reporting. Internal reports that could contain heritage-related information, include, FforFor example, asset management plans, information, such as detailed lists of physical assets, their age and condition, plans for their maintenance, repair and (where applicable) planned replacement of components, is not within the scope of financial reporting. Asset management plans information is likely to keep

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<sup>1</sup> Paragraph 8.4 of the Conceptual Framework.

<sup>2</sup> Paragraph 8.5 of the Conceptual Framework.

<sup>3</sup> Paragraph 8.10 of the Conceptual Framework.

<sup>4</sup> Appendix A for this chapter provides an excerpt from Chapter 8 of the Conceptual Framework, which considers the scope of financial reporting linked to presentation.

<sup>5</sup> Paragraph 1.6 of the Conceptual Framework.

~~track of include the can monitoring of may hold information on deferred maintenance and may include cost projections related to entities' planned heritage asset preservation activities, which internal reports. Internal management reports can provide information for heritage preservation, and could be one an input for information reported in GPFRs, however they are not, GPFRs, because they are not prepared to meet the needs of users of GPFRs, rather than for internal management needs.~~

### **6.3—Special Characteristics of Heritage Items**

~~6. Given the special characteristics of heritage items, information that users of GPFRs could need for financial reporting for heritage assets, heritage related liabilities and heritage related activities could include:~~

~~(a) *Financial statements:* Similar information to that presented in the financial statements on other types of assets, with the possibility of additional information, for example information on restrictions on heritage assets; and~~

~~(b) *Other GPFRs:* Information that enhances, complements and supplements the financial statements, for example heritage related information within the context of entities' reporting of information on:~~

~~(i) Sustainability of public finances;~~

~~(ii) Financial statement discussion and analysis; and~~

~~(iii) Service performance.~~

### **6.34—Presentation Objectives for Information on Heritage Assets**

~~6. This section proposes presentation objectives for information on heritage assets, to guide what heritage-related information should be presented in GPFRs<sup>6</sup>. If constituents' feedback supports these presentation objectives, then they will be used to identify more specific proposals on information to display and disclose for further consultation, applying an approach that the International Accounting Standards Board (IASB) discussed as part of its Disclosure Initiative project<sup>7</sup>. (An illustrative example of this approach, applied to the IASB's standard on property, plant and equipment, is provided in Appendix B to this chapter.)~~

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<sup>6</sup> Note that the Conceptual Framework defines presentation to include both display and disclosure. Presentation also covers information in the financial statements or in other GPFRs. Therefore these "presentation objectives" could be met through information presented either in the notes to the financial statements, in other GPFRs or on the face of the financial statements.

<sup>7</sup> Discussion Paper, September 2015, IASB Disclosure Initiative Project. IASB Agenda ref. 11B, available from <http://www.ifrs.org/Meetings/MeetingDocs/IASB/2015/September/AP11B-Disclosure-Initiative.pdf>

*Presentation<sup>8</sup> Objectives*

7. ~~Presentation objectives identified for consideration in this chapter are: The IPSASB considers that the following objectives could apply to presentation of heritage-related information:~~

~~Primary presentation objective: The primary objectives of presenting information about heritage assets and heritage obligations isare to help users to:~~

~~Hold entities accountable for their preservation of heritage assets; and~~

~~Make decisions for heritage preservation, including decisions on resource allocation;~~

~~Primary Secondary presentation objective: The primary secondary objective of presenting information about heritage assets and heritage obligations is to help users to:~~

~~(a) Assess the effect of the entity's holding of heritage items on its operational capacity, cost of services and financial capacity; and~~

~~(b) Understand the extent of an entity's:~~

~~(i) Heritage holdings, covering including both recognized and unrecognized heritage assets; and~~

~~(ii) Heritage-related obligations, covering both recognized and unrecognized heritage liabilities, and any contingent liabilities and further obligations that do not give rise to liabilities.~~

~~Secondary presentation objective: The secondary objective of presenting information about heritage assets and heritage obligations is to help users to:~~

~~(a) Hold entities accountable for their preservation of heritage assets; and~~

~~(b) Make decisions for heritage preservation, including decisions on resource allocation.~~

~~Then The IPSASB considers that information to meet these presentation objectives cshould be presented in the financial statements and, where appropriate, other GPFs.~~

*IPSASB's Preliminary View— Chapter 6*

~~The following presentation objectives should apply, when presenting heritage-related information:~~

~~Primary presentation objective: The primary objectives of presenting information about heritage assets and heritage obligations isare to help users to:~~

~~(a) Hold entities accountable for their preservation of heritage assets; and~~

~~(b) Make decisions for heritage preservation, including decisions on resource allocation.~~

~~Secondary presentation objective: The secondary objective of presenting information about heritage assets and heritage obligations is to help users to:~~

<sup>8</sup> ~~Note that the Conceptual Framework defines presentation to include both display and disclosure. Presentation also covers information in the financial statements or in other GPFs. Therefore these "presentation objectives" could be met through information presented either in the notes to the financial statements, in other GPFs or on the face of the financial statements.~~

(c) Assess the effect of the entity's holding of heritage items on its operational capacity, cost of services and financial capacity; and

(d) Understand the extent of an entity's:

(i) Heritage holdings, covering both recognized and unrecognized heritage assets; and

(ii) Heritage-related obligations, covering both recognized liabilities, contingent liabilities and general obligations.

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

7. The IPSASB considers that information to meet these presentation objectives should be presented in the financial statements and, where appropriate, other GFRs.

#### Need for Judgment

8. To achieve these proposed presentation objectives, an entity would use its judgment to determine the extent and appropriate mix of quantitative and qualitative information to disclose, including the extent of aggregation or disaggregation of that information. Assessments about the amount of information to disclose depend on the relative importance of heritage (heritage items and heritage-related obligations and activities) to the entity and the amount of judgment involved in accounting for heritage assets and heritage-related obligations.

#### Financial Statements—Heritage Assets and Heritage-Related Liabilities

9.8. Heritage items that are assets for financial reporting purposes and that meet the recognition criteria will be included in the financial statements. The type of information that users need in this case could be similar to that for other categories of assets. For example, users may need information on:

- (a) What items fall into the heritage assets category;
- (b) How heritage assets are measured;
- (c) Resource outflows and inflows as a result of holding, acquiring and/or relinquishing control over of heritage assets (for example through transfer or sale); and
- (d) Where to find information about any unrecognized heritage assets, i.e. heritage assets that do not meet the recognition criteria of measurability.

10.9. Chapter 5 discusses heritage-related liabilities. Where such liabilities exist and meet the recognition criteria they will be included in the financial statements. Again, the type of information that users need for heritage-related liabilities could be similar to that for other liabilities. For example, information on the nature of the liability, expected timing of any resulting outflows of economic benefits or service potential and uncertainties about the amount or timing of those outflows.

11. Information on heritage assets and heritage-related liabilities recognized in the financial statements should contribute to achievement of previously established the presentation objectives, such as these identified above. Information presented could include, for example, information about:

12.10. The measurement bases and related measurement uncertainties of the entity's heritage assets and heritage-related liabilities;

- (a) Key risks arising from the entity's assets and liabilities; and

~~(b) Management's stewardship of the entity's resources.~~

## Reporting against Budget

~~13.11.~~ IPSAS 24, *Presentation of Budget Information in Financial Statements*, addresses information that enables users to compare financial results with the budget and facilitates their assessment of the extent to which an entity has met its financial objectives. As discussed in Chapter 5, entities may receive an appropriation that is designated for heritage preservation or heritage-related activities. Reporting against budget can demonstrate compliance with legal requirements relating to public finances, including the appropriate application of heritage-related appropriations and funding, which is information that users need to hold entities accountable for their preservation of heritage assets.

### Specific Matter for Comment – Chapter 6.1

For heritage assets and heritage-related liabilities that are recognized~~recognized heritage assets~~, what are your views on:

(a) The type of information that should be presented so that users of GPFRs have the information that they need for accountability and decision making?

(b) Where this information ~~on unrecognized heritage assets~~ should be presented—on the face of the financial statements; in the notes to the financial statements; and/or in other locations, including financial statement discussion and analysis and other GPFRs?

Please provide the reasons for your views, including how this information contributes to achievement of the presentation objectives in the IPSASB's Preliminary View—Chapter 6 and/or the information needs of users of GPFRs.

### Specific Matter for Comment – Chapter 6.2

If you consider that some or all heritage assets should not be recognized, even though they meet the asset definition criteria, what are your views on:

(a) The type of information on unrecognized heritage assets that should be presented so that users of GPFRs have the information that they need for accountability and decision making?

(b) Where this information on unrecognized heritage assets should be presented?

Please provide the reasons for your views, including how this information contributes to achievement of the presentation objectives in the IPSASB's Preliminary View—Chapter 6 and/or the information needs of users of GPFRs.

### Specific Matter for Comment – Chapter 6.3

Where an entity has obligations to maintain heritage items, which do not result in recognized liabilities, what are your views on:

(a) Information that should be presented on those moral obligations; and

(b) Where that information should be presented?

Please provide the reasons for your views, including how this information contributes to achievement of the presentation objectives in the IPSASB's Preliminary View—Chapter 6 and/or the information needs of users of GPFs.

#### 6.45—Presentation in Other GPFs

14.12. The IPSASB has issued three Recommended Practice Guidelines (RPGs) applicable to information presented in other GPFs:

- (a) RPG 1, *Reporting on the Long-Term Sustainability of an Entity's Finances* (RPG 1);
- (b) RPG 2, *Financial Statement Discussion and Analysis* (RPG 2); and
- (c) RPG 3, *Reporting Service Performance Information* (RPG 3).

14.13. This section discusses the relevance of these three RPGs for presentation of heritage-related information. If an entity that holds heritage items applies one or more of these RPGs, then the information presented may contribute to achievement of the presentation objectives.

##### *RPG 1—Information on Long-Term Sustainability of Entity's Finances*

16.14. RPG 1 provides guidelines on reporting information on the long-term sustainability of entity's finances. National-level reports Governments and other entities that apply RPG 1 may not mention heritage preservation as a separate item, since it may not be material within the overall picture of a national government's their financial position and financial performances. Information on a government's the long-term sustainability of an entity's finances is an indirect may indicate of whether, given competing priorities, the government-entity will be able to provide funds for heritage preservation at the same, higher or lower level in the long term. This information is relevant when users make decisions on heritage preservation, including resource allocation decisions.

17.15. If heritage preservation is important to an entity's objectives, then information presented on the long-term sustainability of its finances may include projections of heritage preservation costs and availability of funding to meet those costs. This information would At levels below national or state (or provincial) governments, entities are less likely to present information on the long-term sustainability of their finances, applying the guidelines in RPG 1. However, if an entity such as (for example) a national museum does present such information, then it will be relevant to users' assessments of the entity's ability to preserve the heritage items they hold for present and future generations and users' heritage-related resource allocation decisions.

##### *RPG 2—Financial Statement Discussion and Analysis*

18.16. Where an entity manages heritage assets to achieve its objectives and strategy, its financial statement discussion and analysis (FSD&A) should present information on them. RPG 2 states, for example, that FSD&A should:

- (a) Discuss the entity's objectives and strategies relating to its financial position, financial performance and cash flows in a way that enables users of the financial statements to

understand the entity's priorities and to identify the resources that must be managed to achieve these objectives and strategies<sup>9</sup>; and

- (b) Include an analysis of significant changes and trends in an entity's financial position, financial performance and cash flows<sup>10</sup>.

19.17. The objective of RPG 2 is to assist users to understand the financial position, financial performance and cash flows presented in the financial statements<sup>11</sup>. It provides guidelines on financial statement discussion and analysis (FSD&A), which should include:

- (a) An overview of the entity's operations and the environment in which it operates;
- (b) Information about the entity's objectives and strategies;
- (c) An analysis of the entity's financial statements including significant changes and trends in an entity's financial position, financial performance and cash flows; and
- (d) A description of the entity's principal risks and uncertainties that affect its financial position, financial performance and cash flows, an explanation of changes in those risks and uncertainties since the last reporting date and its strategies for bearing or mitigating those risks and uncertainties<sup>12</sup>.

20.18. Where heritage assets are important for an entity's objectives and strategy, heritage-related information is likely to be included in FSD&A. Such information is likely to support achievement of the presentation objectives proposed above. For example, it could include information on:

- (a) Trends in an entity's heritage asset holdings and its heritage-related obligations; and
- (b) Trends in cash flows relevant to assessments of the entity's ability to preserve its heritage items.

### *RPG 3—Reporting of Service Performance Information*

21.19. The IPSASB has issued RPG 3, *Reporting Service Performance Information* (RPG 3) which explains that:

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 GPFs (hereafter termed "users") to assess the entity's service efficiency and effectiveness<sup>13</sup>.

22.20. 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.

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<sup>9</sup> Paragraph 20 of RPG 2.

<sup>10</sup> Paragraph 22 of RPG 2.

<sup>11</sup> Paragraph 1 of RPG 2.

<sup>12</sup> Paragraph 16 of RPG 2.

<sup>13</sup> Paragraph 1 of RPG 3.

~~23-21.~~ An entity that provides services related to heritage items can apply RPG 3 and present information on those services. The type of heritage-related information that an entity presents will depend on the heritage-related service performance objectives on which it reports and its choice of performance indicators. For example, a museum may present performance indicators that describe the extent and condition of the heritage items it holds, if its service performance objectives include an objective to expand and preserve its heritage collections. This type of information would help users to hold the entity accountable for its preservation of heritage assets and understand the extent of the entity's heritage holdings.

*Link to Specialist (Non-GPFR) Reports in Service Performance Information*

~~24-22.~~ Some public sector entities may provide heritage-related services that are not restricted to those heritage items that the entity holds. For example, a Ministry for Culture and Heritage may be responsible for regulations, monitoring of heritage items, and management of funding to preserve heritage items within a national jurisdiction, regardless of whether the heritage items are held by public or private sector entities. It may prepare specialist (non-GPFR) heritage status reports on those heritage items, where the information reported crosses reporting entity boundaries.

~~25-23.~~ As noted earlier in this chapter, this type of ~~heritage status~~ report is not within the scope of financial reporting. However, if an entity reports service performance information, ~~then~~ it may reference information in a non-GPFR heritage status report, if such information is relevant to its service performance objectives. For example, if an entity responsible for preservation of a nation's natural heritage, including endangered species, reports outcome performance indicators, then those indicators could show whether outcomes arising from its heritage preservation efforts show improvements to heritage nation-wide ~~reference non-GPFR reports on endangered species, and present information on the number of endangered species.~~ Whether or not an entity presents this type of service performance information will depend on the entity's service performance objectives and its choice of performance indicators.

*~~Preliminary View—Presentation of Heritage-Related Information~~*

~~26.~~ The IPSASB's ~~preliminary view is that the following presentation objectives should apply, when presenting heritage-related information:~~

~~Primary presentation objective: The primary objective of presenting information about heritage assets and heritage obligations is to help users to:~~

- ~~(a) Assess the effect of the entity's holding of heritage items on its operational capacity, cost of services and financial capacity; and~~
- ~~(b) Understand the extent of an entity's:
  - ~~(i) Heritage holdings, covering both recognized and unrecognized heritage assets; and~~
  - ~~(ii) Heritage-related obligations, covering both recognized and unrecognized heritage liabilities and any contingent liabilities.~~~~

~~Secondary presentation objective: The secondary objective of presenting information about heritage assets and heritage obligations is to help users to:~~

- ~~(a) Hold entities accountable for their preservation of heritage assets; and~~

~~(b) Make decisions for heritage preservation, including decisions on resource allocation.~~

## **APPENDIX A: INFORMATION SELECTION—NATURE OF INFORMATION**

~~Chapter 8 of the Conceptual Framework, which addresses the presentation of information in GPFs, has the following sections, building on previous chapters' coverage relevant to the scope of financial reporting. They describe the type of information that could, potentially, be selected for inclusion in GPFs.~~

### **Presentation**

~~8.4— Presentation is the selection, location and organization of information that is reported in the GPFs.~~

~~8.5— Presentation aims to provide information that contributes towards the objectives of financial reporting and achieves the qualitative characteristics while taking into account the constraints on information included in GPFs. Decisions on selection, location and organization of information are made in response to the needs of users for information about economic or other phenomena.~~

~~8.6— Chapter 1 explains that GPFs are likely to comprise multiple reports, each responding more directly to certain aspects of the objectives of financial reporting and matters included within the scope of financial reporting. In addition to the financial statements, GPFs provide information relevant to, for example, assessments of an entity's service performance and the sustainability of its finances. The objectives of financial reporting, applied to the area covered by a particular report, guide presentation decisions for that report.~~

~~8.7— Presentation decisions may:~~

~~Result in the development of a new GPF, the movement of information between reports, or the amalgamation of existing reports; or~~

~~Be detailed decisions on information selection, location and organization within a GPF.~~

~~Presentation Decisions are Interlinked~~

~~8.8— Decisions on information selection, location and organization are interlinked and, in practice, are likely to be considered together. The amount or type of information selected could have implications on whether it is included in a separate report or organized into tables or separate schedules. The following three sections separately focus on each presentation decision.~~

### ~~Information Selection~~

~~8.9— Decisions on information selection address what information is reported:~~

~~In the financial statements; and~~

~~In GPFs outside the financial statements (other GPFs).~~

~~8.10— As Chapter 2, *Objectives and Users of General Purpose Financial Reporting*, explains, the objectives of financial reporting are to provide information about the entity that is useful to users of GPFs for accountability and decision-making purposes. Chapter 2 describes the types of information that users need to meet the objectives of financial reporting. That description guides decisions on whether particular types of reports are needed. This Chapter focuses on the selection of information to be presented in GPFs, including financial statements and other reports.~~

### ~~Nature of Information in Financial Statements~~

~~8.11 Users' information needs identified in Chapter 2 underpin information selection for the financial statements. Those needs include information about the financial position, financial performance and cash flows of an entity in order to:~~

~~Enable users to identify the resources of the entity and claims on those resources at the reporting date;~~

~~Inform assessments of matters such as whether the entity has acquired resources economically, and used them efficiently and effectively to achieve its service delivery objectives; and~~

~~Inform assessments of financial performance and the entity's liquidity and solvency.~~

~~8.12 The financial statements may also provide information that assists users in assessing the extent to which:~~

~~An entity has met its financial objectives;~~

~~Revenues, expenses, cash flows and financial results of the entity comply with approved budgets; and~~

~~An entity has adhered to relevant legislation or other authority governing the raising and use of public monies.~~

~~8.13 The financial statements do not report comprehensively on an entity's service performance. However information in the financial statements may provide information relevant to the financial aspects of service performance such as information about:~~

~~Revenue, expenses and cash flows related to services; and 104~~

~~The assets and liabilities that inform users' evaluations of, for example, an entity's operational capacity or financial risks that could impact on service provision.~~

~~8.14 Other reports in GPFs present information additional to the financial statements. Such information could, for example, include:~~

~~Information on the sustainability of an entity's public finances;~~

~~Financial statement discussion and analysis; or~~

~~Service performance information.~~

~~APPENDIX B: EXAMPLE OF DISCLOSURE OBJECTIVE APPROACH TO INFORMATION~~

~~Excerpt from IASB agenda item 11B, September 2015.~~

- A5 In using judgement to determine the information to be disclosed in accordance with this Standard, an entity considers:
- (a) how much emphasis to place on particular disclosures;
  - (b) the level of detail that is needed;
  - (c) how much aggregation or disaggregation to undertake; and
  - (d) whether users of the financial statements need additional information, to meet the disclosure objective.
- A6 An entity aggregates or disaggregates disclosures in accordance with this Standard so that useful information is not obscured by either the inclusion of a large amount of insignificant detail or the aggregation of items that have different characteristics.

## **Information for disclosure**

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### **Summary information**

- A7 An entity discloses summary information about its investment in property, plant and equipment. This information provides an overall picture of the relative importance of property, plant and equipment to the entity and the amount of judgement involved in accounting for property, plant and equipment, thereby

A9 An entity shall consider whether to disclose additional information about the basis for measuring property, plant and equipment and any associated uncertainties of that measurement. This information helps users understand how the amounts recognised have been determined and any significant measurement uncertainties that are associated with that determination. Information that the entity considers disclosing includes:

- (a) Methods and assumptions used for depreciating property, plant and equipment, such as estimated useful lives and residual values.
- (b) Methods and assumptions used in assessing property, plant and equipment for impairment.
- (c) If major classes of property, plant and equipment are stated at revalued amounts, the methods and assumptions applied.
- (d) The sensitivity of the following to changes in the methods and assumptions disclosed in accordance with paragraph (a) to (c):
  - (i) Carrying amounts of property, plant and equipment at the reporting date; and
  - (ii) Changes in those carrying amounts during the reporting period.
- (e) Changes in any of the measurement bases, methods and assumptions applied during the reporting period.

### **Key risks and restrictions associated with property, plant and equipment**

A10 An entity shall consider whether to disclose information relating to key risks and restrictions associated with the entity's property, plant and equipment. Users need information about the nature and extent of those key risks and restrictions to understand and evaluate how they might affect the entity's ability to use, sell or otherwise derive economic benefits from its property, plant and equipment in future reporting periods. Information that the entity considers disclosing includes:

- (a) A description of the nature and extent of key risks to which the entity is exposed at the reporting date that could adversely affect the future recoverability of its investment in property, plant and equipment, such as through economic or technological obsolescence.
- (b) A description of the entity's objectives and policies for managing any such risks.
- (c) Restrictions on the use or disposal of property, plant and equipment.
- (d) The carrying amount of property, plant and equipment pledged as security for liabilities or commitments.

equipment from the beginning to the end of the reporting period, showing:

- (a) Depreciation expense.
- (b) Purchases and sales of property, plant and equipment.
- (c) Gains and losses on the sale or disposal of property, plant and equipment.
- (d) Impairment losses and reversals of impairment losses.
- (e) Revaluation increases and decreases.

#### **Future changes in property, plant and equipment**

- A12 An entity shall consider whether to disclose information about future transactions relating to property, plant and equipment that are relevant to an understanding of its investment in property, plant and equipment at the reporting date. This information is useful for assessing the likely future effect of those transactions on the entity's financial position, financial performance and cash flows. Information that the entity considers disclosing includes commitments at the end of the reporting period that will result in future changes in the entity's investment in property, plant and equipment, such as commitments to purchase or dispose of items of property, plant and equipment.

#### **Other information about property, plant and equipment**

- A13 An entity shall consider whether to disclose other information that helps users to understand and evaluate the entity's investment in property, plant and equipment and its efficient and effective use by the entity. Information that the entity considers disclosing includes:
- (a) Any indications that the current use of property, plant and equipment is not its highest and best use.
  - (b) The amount of property, plant and equipment that is idle or has excess capacity.

**Consultation Paper**  
**January 2017**  
*Comments due: June 30, 2017*

# Financial Reporting for Heritage in the Public Sector

**IPSASB**

International Public  
Sector Accounting  
Standards Board®

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

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

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

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

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

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## Executive Summary

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

Present financial reporting for heritage results in a mixture of different practices in different jurisdictions. IPSAS allows public sector entities to choose the accounting approach they use, including whether to recognize heritage items as assets in the financial statements and, if so, the measurement base applied. Therefore, current financial reporting practice is diverse. This diversity reduces comparability between public sector entities. Financial reporting practices may not provide the information that users of GPFs need for accountability and decision making.

This CP provides the IPSASB's preliminary view on a definition of heritage items. It discusses whether heritage items meet the definition of an asset and whether they can be measured and recognized in the financial statements.

This CP also considers whether heritage preservation responsibilities could involve obligations for entities, which should be recognized as liabilities in the financial statements. It also discusses presentation of information for heritage, in financial statements and other GPFs.

The CP's chapters address the following matters:

Chapter 1: Introduction;

Chapter 2: Categories of heritage and a definition of heritage items;

Chapter 3: Whether heritage items could be assets for financial reporting purposes;

Chapter 4: Recognition and measurement of heritage assets;

Chapter 5: Heritage-related obligations and liabilities; and

Chapter 6: Presentation of heritage-related information.

## REQUEST FOR COMMENTS

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

### Comments are requested by June 30, 2017

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

### Guide for Respondents

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

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

#### Preliminary View - Chapter 2 (following paragraph 2.16)

The following definition reflects the special characteristics of heritage items and distinguishes them from other phenomena for the purposes of financial reporting:

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

Do you agree with the IPSASB's Preliminary View – Chapter 2?

#### Specific Matter for Comment – Chapter 2 (following paragraph 2.16)

In your view, is the scope of this CP, which covers cultural heritage (tangible and intangible) and natural heritage, appropriate. If not, how should the scope be modified?

#### Preliminary View – Chapter 3 (following paragraph 3.22)

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

#### Specific Matter for Comment – Chapter 3 (following paragraph 3.22)

In your view,

- (a) Are there types of heritage items that cannot be assets for financial reporting purposes?
- (b) If you responded “yes” to (a),
  - (i) What types of heritage items do you consider cannot be assets for financial reporting purposes, and
  - (ii) Why do you think that those heritage items cannot be assets?

**Preliminary View – Chapter 4.1 (following paragraph 4.29)**

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

**Specific Matter for Comment – Chapter 4.1 (following paragraph 4.29)**

In your view,

- (a) Are there any types of heritage assets that should not be recognized in the statement of financial position, if they meet the recognition criteria?
- (b) If you responded “yes” to (a), what types of heritage assets should not be recognized in the statement of financial position, even though they meet the recognition criteria?
- (c) Are there heritage-related situations (or factors) in which the cost–benefit constraint applies and heritage assets should not be recognized because the costs of doing so would not justify the benefits? (If yes, please describe those heritage-related situations (or factors).)

**Preliminary View – Chapter 4.2 (following paragraph 4.29)**

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

**Specific Matter for Comment – Chapter 4.2 (following paragraph 4.29)**

In your view,

- (a) For initial recognition, should measurement of a heritage asset apply one of the following measurement bases: historical cost, market value or replacement cost?
- (b) Are there other measurement bases that you consider should be applied to heritage assets when they are initially recognized? (If so, please identify those bases and describe the circumstances in which they should be applied.)

**Preliminary View – Chapter 4.3 (following paragraph 4.34)**

There are no special issues related to the subsequent measurement of heritage assets.

**Specific Matter for Comment – Chapter 4.3 (following paragraph 4.34)**

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

**Preliminary View – Chapter 5 (following paragraph 5.24)**

The special characteristics of heritage items do not, of themselves, give rise to liabilities.

**Specific Matter for Comment – Chapter 5 (following paragraph 5.24)**

- (a) In your view, are there any types of obligations which are special to heritage items and should be recognized as liabilities in the statement of financial position?
- (b) If you answered “yes” to (a), please identify those heritage-related obligations, and explain why they are special to heritage items and should be recognized as liabilities in the statement of financial position.

**Preliminary View – Chapter 6 (following paragraph 6.6)**

The objectives of presenting information about heritage assets and heritage obligations are to help users to:

- (a) Hold entities accountable for their preservation of heritage assets;
- (b) Make decisions for heritage preservation, including decisions on resource allocation;
- (c) Assess the effect of the entity’s holding of heritage items on its operational capacity, cost of services and financial capacity; and
- (d) Understand the extent of an entity’s:
  - (i) Heritage holdings, covering both recognized and unrecognized heritage assets; and
  - (ii) Heritage-related obligations, covering recognized liabilities, contingent liabilities and further obligations that do not give rise to liabilities.

**Specific Matter for Comment – Chapter 6.1 (following paragraph 6.11)**

For heritage assets and heritage-related liabilities that are recognized, what are your views on:

- (a) The type of information that should be presented so that users of GPFs have the information that they need for accountability and decision making?
- (b) Where this information should be presented—on the face of the financial statements; in the notes to the financial statements; and/or in other locations, including financial statement discussion and analysis and other GPFs?

**Specific Matter for Comment – Chapter 6.2 (following paragraph 6.11)**

If you consider that some or all heritage assets should not be recognized, even though they meet the asset definition criteria, for unrecognized heritage assets, what are your views on:

- (a) The type of information that should be presented so that users of GPFs have the information that they need for accountability and decision making?
- (b) Where this information on unrecognized heritage assets should be presented?

**Specific Matter for Comment – Chapter 6.3 (following paragraph 6.11)**

Where an entity has obligations to maintain heritage items, which do not result in recognized liabilities, what are your views on:

- (a) Information that should be presented on those moral obligations; and
- (b) Where that information should be presented?

# FINANCIAL REPORTING FOR HERITAGE IN THE PUBLIC SECTOR

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

### 1.1—Introduction

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

### 1.2—The IPSASB's Heritage Project

- 1.3 The IPSASB first considered heritage accounting during development of IPSAS 17, Property, Plant and Equipment (IPSAS 17), which includes paragraphs on accounting for heritage assets. IPSAS 17 describes heritage assets and allows entities to recognize them. If an entity recognizes some or all of its heritage assets, then it needs to make disclosures identified in the Standard. However, entities are not required to apply IPSAS 17's measurement requirements. The IPSASB took a similar approach in IPSAS 31, *Intangible Assets*, (IPSAS 31), which has paragraphs on accounting for intangible heritage assets, based on those in IPSAS 17. In effect, the IPSASB's approach in these two Standards acknowledged the difficult financial reporting issues raised by heritage items, and allowed preparers or national jurisdictions to determine how to account for heritage until this topic could be considered in depth.
- 1.4 In 2004 the IPSASB commenced a heritage assets project in collaboration with the United Kingdom's Accounting Standards Board (the ASB—UK). A CP, *Accounting for Heritage Assets under the Accrual Basis of Accounting*, was published in February 2006. The CP consisted of a discussion paper developed and approved by the ASB—UK, with an introduction and preface developed by the IPSASB's Heritage Assets Subcommittee. After reviewing submissions in late 2006, the IPSASB decided to defer further work until completion of its Conceptual Framework.
- 1.5 After completion of the Conceptual Framework in 2014, the IPSASB decided to reconsider financial reporting for heritage in the public sector. IPSASB constituents had indicated, in response to the 2013–2014 strategy and work plan consultation, that developing coverage of financial reporting for heritage in its pronouncements should be an IPSASB priority.

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

- 1.6 A project brief for the Heritage Project was approved in June 2015. The project's objectives include to develop a CP highlighting the main options to account for heritage. 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 a pronouncement (or revision of existing pronouncements) to address financial reporting for heritage in the public sector.

### 1.3—Challenges of Financial Reporting for Heritage

- 1.7 Financial reporting for heritage has been a challenging topic for the IPSASB and for national public sector accounting standard setters for many years. Worldwide there are different views on the definition of heritage items; whether heritage items are assets or liabilities for financial reporting purposes; whether they should be recognized in the financial statements; and, if recognized, how they should be measured. Standard setters have also had different views on the presentation of information about heritage items, where presentation covers both:
- (a) Enhanced disclosures in the financial statements; and,
  - (b) Presentation of information in other general purpose financial reports (GPFRs) that provide information which enhances, complements, and supplements the financial statements.
- 1.8 The financial reporting challenge may vary between countries. Developed countries could have different experiences with financial reporting for heritage compared to undeveloped countries. Factors that may impact on a country's experience include the extent of funding available for heritage valuation, availability of valuation expertise and the place of heritage within competing government priorities. The main type of heritage for some countries could be natural heritage, while for others the primary focus could be historic buildings, infrastructure and artifacts dating back thousands of years.

#### *Common Characteristics of Heritage Items*

- 1.9 Common characteristics of heritage items include that:
- (a) Their heritage significance may not be fully reflected, when a financial reporting perspective is applied and "value" is viewed as relating to economic benefits and service potential for which a monetary value may, or may not, be able to be attributed;
  - (b) They are often irreplaceable;
  - (c) There are often ethical, legal and/or statutory restrictions or prohibitions that restrict or prevent sale, transfer or destruction by the holder or owner; and
  - (d) They may have a long, possibly indefinite, useful life due to increasing rarity and/or significance.
- 1.10 Financial reporting issues raised by heritage items include:
- (a) *Value*: If assignment of monetary values does not convey the heritage significance of heritage items or their future claims on public resources, would users of GPFRs benefit more from non-financial information about heritage items, reported outside the financial statements?
  - (b) *Preservation*: If an entity's responsibility is to preserve heritage items rather than to generate cash flows from them, are heritage items resources or obligations from the entity's perspective?

- (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) *Benefits to others*: Can a reporting entity be said to control a heritage item for financial reporting purposes, when it is held for the benefit of current and future generations?

#### 1.4 The Public Interest and Financial Reporting for Heritage

- 1.11 Given these financial reporting challenges and the special characteristics of heritage, the question arises of what heritage-related information users of GPFRs need for the purposes of accountability and decision making. Users may need information to:
  - (a) Hold entities accountable for their preservation of heritage items; and
  - (b) Make decisions on resources needed for heritage preservation.
- 1.12 The purpose for which an entity holds heritage items could impact on the information that users of GPFRs need. For example, where an entity uses heritage items in its operations, users may need information for decision making on the entity's operational capacity and cost of services. Options for reporting information on heritage items and their related responsibilities could have implications for information available to users for the purposes of accountability and decision making related to the entity as a whole.
- 1.13 Improved financial reporting requirements and/or guidance on accounting for heritage are expected to enhance the quality of information that GPFRs provide for users, thereby improving accountability and decision making. As noted in paragraph 3 above, IPSAS presently allows entities to report on heritage items using different financial reporting practices. Worldwide there are inconsistent practices with respect to categorization of assets as either heritage or non-heritage, heritage items may or may not be recognized in an entity's financial statements and a variety of different measurement approaches are used. This has negative consequences for the public interest because it reduces the quality of information reported.

#### 1.5—Approach in this Consultation Paper

- 1.14 This CP applies the Conceptual Framework to discuss financial reporting for heritage in the public sector. It considers what heritage-related information users of GPFRs need for the purposes of accountability and decision making, where such information should achieve the qualitative characteristics of information reported in GPFRs<sup>2</sup>. This CP applies the Conceptual Framework's coverage of element definition, recognition and measurement, to consider whether heritage items could result in elements that should be recognized in the financial statements. Financial statement presentation issues are also discussed, applying the Conceptual Framework's approach to presentation, whereby presentation in the financial statements encompasses both the display and disclosure of information. Although this CP's primary focus is on information presented in the financial statements, it also notes scope to present information in other GPFRs, for example service performance information reported when an entity has heritage-related service performance objectives.

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<sup>2</sup> The qualitative characteristics of information included in GPFRs are the attributes that make that information useful to users and support the achievement of the objectives of financial reporting. The qualitative characteristics are relevance, faithful representation, understandability, timeliness, comparability, and verifiability. (See paragraphs 3.1 and 3.2 of the Conceptual Framework.)

1.15 While application of the Conceptual Framework underpins this CP's development of financial reporting options, the IPSASB has also considered national standard setters' and the IPSASB's own pronouncements. In addition to IPSAS 17 and IPSAS 31, IPSAS 19, *Provisions, Contingent Assets and Contingent Liabilities* and the IPSASB's recommended practice guidelines (RPGs), which address information in other GPFs, have been considered for their relevance to this project.

### **1.6—Structure of this Consultation Paper**

1.16 This CP covers financial reporting for heritage in the following order:

- (a) Chapter 2 describes heritage items and discusses issues related to their identification;
- (b) Chapter 3 discusses whether or not heritage items could be assets for financial reporting purposes;
- (c) Chapter 4 discusses the recognition and measurement of heritage assets;
- (d) Chapter 5 considers obligations related to heritage items and discusses their recognition and measurement; and
- (e) Chapter 6 discusses presentation of information on heritage items in the financial statements and in other GPFs.

## Chapter 2, Descriptions and Definitions of Heritage

### 2.1—Introduction

- 2.1. There are different views on what is meant by “heritage” and, consequently, what things should be identified as heritage items. This chapter describes different categories of heritage and proposes a definition of “heritage items”.

### 2.2—Categories of Heritage Items

- 2.2. This CP considers cultural heritage, which includes both tangible and intangible cultural heritage, and natural heritage. Intangible cultural heritage includes two broad subsets, called “knowledge-in-action” and “intellectual property” intangible cultural heritage. These categories are based on those defined in United Nations Educational, Scientific and Cultural Organization (UNESCO) international conventions for heritage protection, which were then adapted for the purposes of this CP<sup>3</sup>.

#### Cultural Heritage—Tangible and Intangible

- 2.3. Cultural heritage consists of man-made heritage items that could be either tangible or intangible. Examples of tangible cultural heritage include:
- (a) Monuments, archaeological sites, historic buildings, heritage works of art, and significant scientific collections;
  - (b) Under-water cultural heritage, for example, heritage buildings that are beneath the water or sunken ships; and
  - (c) Natural history collections such as collections of insects, or mineral collections.
- 2.4. Intangible cultural heritage consists of two broad types of intangible cultural heritage items; “knowledge-in-action” and “intellectual property”:
- (a) Knowledge-in-action consists of practices, representations, expressions, knowledge; and skills that are heritage items. Examples include languages, performing arts, rituals, and traditional craftsmanship.
  - (b) Intellectual property such as trademarks (including brand names and publishing titles), computer software, patents, copyrights, and rights over motion picture films. Rights over recordings of significant historical events and rights to use culturally significant films are examples of this subgroup of intangible cultural heritage.

#### Natural Heritage

- 2.5. Natural heritage covers natural features, areas or sites that are heritage items. Examples include natural features such as mountains, naturally occurring rock formations, and bodies of water such

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<sup>3</sup> Article 1, 1954 *Convention for the Protection of Cultural Property in the Event of Armed Conflict with Regulations for the Execution of the Convention* defines “cultural property”, as does Article 1 of the 1970 *Convention on the Means of Prohibiting and Preventing the Illicit Import, Export and Transfer of Ownership of Cultural Property*. Article 1 of the 1972 *Convention on Protecting the World Cultural and Natural Heritage* defines “cultural heritage” and “natural heritage”. Article 1, 2001 *Convention on Safeguarding the Underwater Cultural Heritage*, defines “underwater cultural heritage”. Article 2, 2003 *Convention on Safeguarding the Intangible Cultural Heritage*, defines “intangible cultural heritage”.

as lakes or waterfalls. Where natural heritage has been moved and shaped to create a human-made form it becomes cultural heritage.

### **2.3—Heritage Item Identification Issues**

- 2.6. Heritage item identification raises a number of issues. Definitions of heritage items emphasize the importance, significance or value of heritage items. They may also emphasize heritage items' sacred or historic nature and their rarity.
- 2.7. There is an issue of how to objectively and consistently identify heritage items. Some argue that objective identification is not possible, whereas others argue that only a narrow set of heritage items—those specifically identified in national legislation—should be counted as heritage.
- 2.8. 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.
- 2.9. Where legislation identifies specific items as heritage, this has the result of requiring little if any need for professional judgment by preparers, when they classify items as heritage items. However, the use of heritage legislation as the sole means by which heritage items are identified presents two potential problems related first to the purpose of heritage legislation and second to its relatively static, slow-changing nature.
- 2.10. First, a list of heritage items in legislation could result in either exclusion of items that are, in substance, heritage items, or the reverse, i.e. inclusion of items that are not, in substance, heritage items. For example, heritage legislation may officially list only those heritage items that warrant special funding or a special level of protection, so that other heritage items are not listed. Second, the relatively static, slow-changing nature of legislation means that its list of heritage items may not remain up-to-date from year to year. "New" heritage items, not included on any official list, may arise, for example, because they are:
  - (a) Purchased or received through donation from other governments or private collectors; or
  - (b) Discovered, for example through excavations that uncover previously unknown heritage items or through reassessments of items that were not viewed as heritage items.
- 2.11. Either of these two problems could mean that heritage items are excluded from coverage (or non-heritage items included), so that information reported in a GPFR does not faithfully represent an entity's heritage portfolio. That is why this CP proposes that a principles rather than a rules-based approach be used to identify heritage items with support, where relevant, through reference to national heritage legislation guidelines involving the use of criteria and/or formally established processes.
- 2.12. If special characteristics of heritage items are their rarity and significance, an objective evaluation of whether an item is a heritage item will depend on access to verifiable information on the rarity and

significance of the item. At the national or local level the following sources could provide verifiable information on these characteristics:

- (a) Expert knowledge;
- (b) Historical studies, research writings and media reports;
- (c) Legislation; regulation and/or heritage items formally identified through application of a process outlined in legislation or regulation; or
- (d) Policies, systems and/or structures that an entity has established, which indicate that it expects to preserve the item for present and future generations as a heritage item.

2.13. Point 12(c) highlights that, despite the problems identified earlier in this chapter with respect to use of legislation to identify heritage items, there could still be scope to use national or local guidelines, including legislation, to support identification of heritage items for financial reporting purposes. Where legislation establishes a set of principles, it is more likely to provide a helpful basis for identification of heritage items. Lists of heritage items enshrined in legislation could be a starting point for identification of heritage items, with consideration then of any further items that should be included or excluded from the legislated list.

*Are Expenditures on Heritage also Heritage items?*

2.14. Public sector entities may expend large amounts on heritage. Examples of the types of expenditure made in order to preserve or conserve heritage items, or to expand public access to heritage items, include:

- (a) Repairs and restoration such as replacement of the roof, foundation or other parts of a heritage building;
- (b) Construction of a new security system or a new air conditioning system for a historic building or a new pedestal for an important sculpture; and
- (c) Construction of fire breaks, flood protection or other security arrangements for national parks and other natural heritage items.

2.15. Some expenditures create items that do not exhibit the special characteristics associated with heritage items. For example, expenditures may be used to build a gift shop or a parking lot. This CP proposes that where this is the case such items fall outside of the scope of this CP.

## **2.4—Definition of Heritage Items**

2.16. Based on the considerations above, the IPSASB developed the following preliminary view:

*Preliminary View 1 –Chapter 2*

The following definition reflects the special characteristics of heritage items and distinguishes them from other phenomena for the purposes of financial reporting:

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

Do you agree with the IPSASB's Preliminary View – Chapter 2?

**Specific Matter for Comment – Chapter 2**

In your view, is the scope of this CP, which covers cultural heritage (tangible and intangible) and natural heritage, appropriate. If not, how should the scope be modified?

## Chapter 3, Heritage Items as Assets

### 3.1—Introduction

- 3.1. This chapter considers whether heritage items could be assets for financial reporting purposes. This has been a difficult question for many years. There is general agreement that heritage items are valuable and 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.
- 3.2. The Conceptual Framework states that an asset is “a resource presently controlled by the entity as a result of a past event<sup>4</sup>.” This chapter discusses each of these three asset definition criteria (resources, control and past event) as they apply to heritage items, focusing particularly on the resource and control aspects, and considers whether heritage items could be assets for financial reporting purposes. Where an asset exists it must also meet the recognition criteria of measurability, before it can be recognized in financial statements. Chapter 4 discusses whether heritage assets can be measured and recognized.

### 3.2—Heritage Items as Resources

#### *Meaning of “Resource” in the Conceptual Framework*

- 3.3. The Conceptual Framework states that a resource is an item with service potential or the ability to generate economic benefits<sup>5</sup>. Service potential is the capacity to provide services that contribute to achieving the entity’s objectives. It enables an entity to achieve its objectives without necessarily generating net cash inflows<sup>6</sup>. Economic benefits are cash inflows or a reduction in cash outflows<sup>7</sup>. Cash inflows (or reduced cash outflows) may be derived from, for example, an asset’s use in the production and sale of services; or the direct exchange of an asset for cash or other resources<sup>8</sup>.
- 3.4. Heritage items appear more likely to be held for their service potential rather than their ability to generate economic benefits. Therefore, the discussion below focuses primarily on service potential, although there is also a brief discussion of economic benefits.

#### *Heritage Items with Service Potential*

- 3.5. The Conceptual Framework refers to heritage assets in its discussion of service potential. 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<sup>9</sup>.
- 3.6. For example, when a museum or art gallery holds a heritage collection of, for example, paintings or prehistoric artifacts to contribute to achievement of its objective of preserving (and making accessible) such heritage items for the benefit of present and future generations those heritage

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<sup>4</sup> Paragraph 5.6 of the Conceptual Framework.

<sup>5</sup> See paragraph 5.7 of the Conceptual Framework.

<sup>6</sup> See paragraph 5.8 of the Conceptual Framework.

<sup>7</sup> See paragraph 5.10 of the Conceptual Framework.

<sup>8</sup> Ibid.

<sup>9</sup> See paragraph 5.9 of the Conceptual Framework.

collections have service potential. Similarly, when a public sector entity such as a city council or regional government, has an objective to beautify an area for the enjoyment of the community, and holds parks and natural reserves for this purpose, those examples of natural heritage have service potential. Although these entities hold heritage items to provide services to third parties, the items have service potential for the entity, as stated in the Conceptual Framework<sup>10</sup>. 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.

- 3.7. Heritage items may also contribute to an entity's objectives, where its objectives are other than to hold heritage items for public enjoyment and appreciation. For example, heritage artwork held by a Ministry of Finance to decorate its head office, can contribute to its Finance Ministry objectives, by providing staff and visitors with a sense of history and purpose related to the function of that part of government. Similarly, if the Ministry's headquarters' building is a heritage item, it has the capacity to provide services that contribute to its objectives, because it provides office space.

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

- 3.8. Some heritage items may be able to generate economic benefits for the reporting entity. Economic benefits could arise through one or more of the following:
- (a) Use of the heritage item in the production and sale of services;
  - (b) Sale of tickets to view the heritage items and/or sale of related merchandising;
  - (c) Loan or rent of the item to other entities; and
  - (d) Sale of the item itself.
- 3.9. Heritage items may be used in an entity's production and sale of services, because they continue to fulfil their original purpose and have only subsequently acquired heritage significance. For example, an entity may use an historic railway station in its production and sale of rail transport services
- 3.10. 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 decide to sell (or rent out) heritage items that ordinarily would be expected to remain fully under the control of the national, state or local government.

#### *Heritage Items without Service Potential or Ability to Generate Economic Benefits*

- 3.11. An entity may hold heritage items that do not, from the entity's perspective, have either service potential or the ability to generate economic benefits, with the result that they are not resources. For example, a world heritage listed national park does not have either service potential or the ability to generate economic benefits, so it is not a resource for financial reporting purposes.

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<sup>10</sup> Paragraph 5.9 of the Conceptual Framework 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."

### 3.3—An Entity’s Ability to Control a Heritage Resource

3.12. The Conceptual Framework states that: “Control of the resource entails the ability of the entity to use the resource (or direct other parties on its use) so as to derive the benefit of the service potential or economic benefits embodied in the resource in the achievement of its service delivery or other objectives<sup>11</sup>.” It identifies the following indicators of control:

- (a) Legal ownership;
- (b) Access to the resource, or the ability to deny or restrict access to the resource;
- (c) The means to ensure that the resource is used to achieve its objectives; and
- (d) The existence of an enforceable right to service potential or the ability to generate economic benefits arising from a resource<sup>12</sup>.

#### *Indicators of Control Related to Heritage Items*

3.13. Where an entity is able to use a heritage resource (or direct other parties on its use) so as to derive the benefits of the service potential or economic benefits embodied in it in the achievement of its service delivery or other objectives, the entity has control. Control over a heritage item may initially be indicated by legal ownership, followed by consideration of whether an entity is able to deny or restrict access to the heritage item, and/or can ensure that the heritage item is used to achieve the entity’s objectives.

3.14. For example, a museum has legal ownership of its permanent collection of ancient artifacts. It can restrict access to the collection through its decisions on opening hours for the museum and whether to show particular collection items or place them in storage. The permanent collection is used to provide services consistent with the museum’s objectives. Therefore, applying the Conceptual Framework’s indicators of control and its overarching principle that an entity (the museum) be able to use the service potential embodied in its resource (in this case, its permanent collection) to achieve its objectives, the museum has control over its permanent collection.

3.15. Other examples where control over heritage items appears to exist include:

- (a) A city council owns a public square and usually ensures that the space is freely available to the public for their enjoyment by, for example, prohibiting its use by other entities for commercial purposes such as operation of stalls to sell food, etc. On occasion the city council may issue permits to allow others to operate in the public space (for example, a farmer’s market may be given permission to sell produce there, one day a week). If maintenance or security require that the public be excluded from the area, then the city council can do this. The city council uses the service potential embodied in the public square to achieve its objectives.
- (b) An entity owns publication rights over, for example, a heritage film or audio–recording and is able to license users to broadcast the heritage item. The entity allows use consistent with its objectives, which could include providing public access to heritage films or audio–recordings via accredited public channels.

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<sup>11</sup> Paragraph 5.11 of the Conceptual Framework.

<sup>12</sup> Paragraph 5.12 of the Conceptual Framework.

### Control over a Heritage Item Resides with another Entity

- 3.16. 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. The relevant loan agreement would establish that control remains with the entity that has loaned the heritage items.
- 3.17. An entity may have delegated responsibility for heritage items, while another entity appears otherwise to control them, given control indicators such as legal ownership and ability to decide what entity has responsibility for the heritage items. For example, a national government delegates responsibility for national parks to a government department, which is responsible for their preservation.

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

- 3.18. 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. This is because an entity cannot gain legal ownership over people’s on-going enactment of this type of cultural heritage, cannot restrict or deny access, cannot use the resource to achieve its objectives (except in the sense that something such as a shared language is a resource for everyone’s use) and it is impossible to hold an enforceable right to service potential or the ability to generate economic benefits arising from this type of heritage item. Knowledge-in-action intangible cultural heritage is “owned” by a whole community. Therefore, because it cannot be controlled by an entity, this type of intangible cultural heritage does not meet the definition of an asset.

### 3.4—Heritage Items and Present Control as Result of a Past Event

- 3.19. The Conceptual Framework describes the type of past transaction or other past event that could indicate that the entity presently controls a resource<sup>13</sup>.
- 3.20. Past events that could indicate that an entity controls a heritage item include:
- (a) Purchase from an external party;
  - (b) Receipt through a non-exchange transaction such as donation, confiscation or nationalization; and
  - (c) Passing of legislation and/or signing of treaties (supported by international law) that establish a government’s rights to heritage items, including rights over otherwise unclaimed lands of natural significance or otherwise contested lands, waterways and/or bodies of water.
- 3.21. These events are not so unusual as to suggest that heritage items present special issues with respect to past events and related existence of control. It appears that an assessment of whether or not a past event has occurred will follow a similar approach to that used for other, similar assets that are not heritage items. On that basis no further discussion of this criterion is provided here.

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<sup>13</sup> Paragraph 5.13 of the Conceptual Framework.

### 3.5 Heritage Items as Assets

3.22. The discussion in this chapter it appears to be the case that, applying the Conceptual Framework, the special characteristics of heritage items, whereby they are “intended to be held indefinitely and preserved for the benefit of present and future generations” do not appear to present barriers to their resources presently controlled by an entity as a result of a past event. Therefore, heritage items can be assets for financial reporting purposes, where these three asset definition criteria are met.

#### *Preliminary View –Chapter 3*

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

#### **Specific Matter for Comment – Chapter 3**

In your view,

- (a) Are there types of heritage items that cannot be assets for financial reporting purposes?
- (b) If you responded “yes” to (a),
  - (i) What types of heritage items do you consider cannot be assets for financial reporting purposes, and
  - (ii) Why do you think that those heritage items cannot be assets?

## CHAPTER 4, RECOGNITION AND MEASUREMENT OF HERITAGE ASSETS

### 4.1 Introduction

4.1. This chapter applies the guidance in the Conceptual Framework to evaluate whether heritage items can meet the recognition criteria for assets. Chapter 3 concluded that the special characteristics of heritage items—the intention to hold them indefinitely and preserve them for the benefit of present and future generations, because of their rarity and significance—do not affect their satisfaction of the asset definition for financial reporting purposes, which is the first criterion for recognition. Therefore, this chapter focuses on the second recognition criterion, measurability. It considers whether the special characteristics of heritage items have any implications for their measurement at initial recognition and subsequent to recognition.

### 4.2 Recognition in the Conceptual Framework

4.2. Recognition is the process of incorporating and including an item in amounts displayed on the face of the appropriate financial statement<sup>14</sup>. The recognition criteria are that:

- (a) An item satisfies the definition of an element; and
- (b) Can be measured in a way that achieves the qualitative characteristics and takes account of constraints on information in GPFRs<sup>15</sup>.

4.3. Recognition considerations occur within the context of financial reporting objectives. GPFRs provide information to users for accountability and decision making. Public sector entities are accountable to those that provide them with resources and depend on them to use those resources to deliver services<sup>16</sup>.

#### *Measurement of Assets at Initial Recognition*

4.4. The Conceptual Framework states that measurement involves<sup>17</sup>:

- (a) Attachment of a monetary value to the item;
- (b) Choice of an appropriate measurement basis; and
- (c) Determination of whether the measurement of the item achieves the qualitative characteristics, taking into account the constraints on information in GPFRs, including that the measurement is sufficiently relevant and faithfully representative for the item to be recognized in the financial statements.

4.5. The objective of measurement is to select those measurement bases that most fairly reflect the cost of services, operational capacity and financial capacity of the entity in a manner that is useful in holding the entity to account, and for decision-making purposes<sup>18</sup>. The Conceptual Framework

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<sup>14</sup> Paragraph 6.1 of the Conceptual Framework.

<sup>15</sup> Paragraph 6.2 of the Conceptual Framework.

<sup>16</sup> Paragraph 2.8 of the Conceptual Framework.

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

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

provides guidance on the selection of a measurement basis, rather than proposing a single measurement basis (or combination of bases) for all transactions, events and conditions<sup>19</sup>.

4.6. The Conceptual Framework identifies the following measurement bases for assets:

- (a) Historical cost;
- (b) Market value;
- (c) Replacement cost;
- (d) Net selling price; and
- (e) Value in use.

### **4.3 Measurement of Heritage Assets for Recognition**

4.7. This section discusses the five measurement bases above, considering whether the resulting information is relevant to assessments of the cost of services, operational capacity and financial capacity. It also discusses the use of symbolic values to measure heritage assets.

4.8. Entities usually hold heritage assets for use in the delivery of services. As discussed in Chapter 3, those heritage items that are assets for financial reporting purposes have service potential and contribute to achievement of an entity's objectives. Their service potential forms part of an entity's operational capacity. In some circumstances heritage assets may also contribute to an entity's financial capacity. Therefore, the measurement objective of fairly reflecting 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 applies to heritage assets.

#### *Measurement Bases—Availability and Measurement Objective*

##### Historical Cost

4.9. The Conceptual Framework describes historical cost information as relevant to assessments of cost of services, operational capacity and financial capacity, and as often being straightforward to apply, because cost at acquisition information is usually readily available. Entities may find that historical cost information is available for some of the heritage assets that they hold, for example, where heritage assets were purchased recently. Historical cost could be an appropriate measurement base for heritage assets in those circumstances. However, many heritage assets may be so old that information on the cost at acquisition is not available. They may also have been acquired through a government's sovereign powers, rather than through purchase, so that there is no historical cost. As for other assets, where heritage assets have been acquired over very long periods of time, historical cost information will not be comparable.

4.10. Where heritage assets are very old and their historical cost is likely to be minimal, the possibility of using 1 currency unit, as a surrogate for historical cost, was raised during development of this CP. This approach would facilitate initial measurement and recognition of heritage assets on an historical cost basis. There are similarities to use of a "symbolic value" (see paragraphs 4.17–4.18). However, the 1 currency unit surrogate for historical cost would only apply to heritage assets that are very old. By contrast, symbolic value has previously been promoted for application to all heritage assets and, as noted below, its conceptual basis is different.

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<sup>19</sup> Paragraph 7.5 of the Conceptual Framework.

### Market Value

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

### Replacement Cost

- 4.12. Replacement cost relies on the existence of other assets that would provide the same service potential as the heritage asset being valued. For heritage assets replacement cost may not be available. For some heritage assets no replacement cost is available, because they are so rare as to be irreplaceable. For other heritage assets a replacement cost could be available for broadly similar heritage assets, although it may not fully reflect the service potential of the heritage assets to the entity holding them<sup>20</sup>. However, for operational heritage assets replacement costs that reflect their value in terms of their operational use appears likely to be available and relevant. For example, a replacement cost for a heritage building used as office space could be found through reference to market values of other office buildings of a similar size and functionality. However, a replacement cost related to this type of operational use would not reflect the heritage significance of the building.
- 4.13. Restoration costs may be relevant as a replacement cost. An entity may have plans to rebuild or otherwise restore a heritage item, if that proved to be necessary. Restoration would aim to reproduce, as closely as possible, the heritage aspects of the original item. Restoration costs could be more relevant when optimized replacement cost could be inappropriate, because the heritage asset's service potential is embodied in heritage aspects such as an historic appearance, rather than in an optimized modern equivalent. The Conceptual Framework notes that there may be cases where replacement cost equates to reproduction cost, because the most economical way of replacing service potential is to reproduce the asset<sup>21</sup>.

### Net Selling Price

- 4.14. The Conceptual Framework describes net selling price as being useful where the most resource-efficient course available to the entity is to sell the asset. It is not an appropriate measurement base if the entity is expected to be able to use the resource more efficiently by employing it in another way, for example by using it in the delivery of services. Heritage assets are expected to be held and preserved rather than sold, and their value usually relates to their service potential<sup>22</sup>. Therefore, net selling price generally does not provide relevant measurement information for heritage assets.

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<sup>20</sup> For example, the replacement cost to purchase a similar collection of paintings could be available, and yet not convey the service potential of the paintings held by an art gallery, because its collections is significant for the local community.

<sup>21</sup> Footnote 14 of the Conceptual Framework.

<sup>22</sup> Arguably, where an entity does not intend to hold heritage items indefinitely they cease to meet the special characteristics of heritage items, and accounting for them would be covered by existing IPSAS.

However, net selling price could be relevant in rare circumstances, when an entity is, for example, forced to sell heritage items due to financial distress.

#### Value in Use

- 4.15. The Conceptual Framework explains that value in use is appropriate where it is less than the replacement cost of the resource and greater than the net selling price. The operationalization of value-in-use for non-cash-generating assets involves the use of replacement cost as a surrogate. Many heritage assets are non-cash-generating assets, so if value-in-use is relevant it would be equivalent to replacement cost.
- 4.16. For these reasons value in use does not appear to be relevant to the measurement of heritage assets.

#### Symbolic Value

- 4.17. In some jurisdictions heritage assets are recognized at what is described as a “symbolic value”, typically one unit of the presentation currency. Entities use this treatment on the basis that it is difficult, costly and inappropriate to obtain a valuation for heritage assets. Supporters of symbolic values consider that they provide useful information to users of financial statements and facilitate a linkage between financial reporting and asset management. They also argue that entering a symbolic value facilitates recognition of subsequent capital expenditure on the heritage asset.
- 4.18. During development of the Conceptual Framework the IPSASB considered the use of symbolic values. While acknowledging that such an approach is intended to provide useful information, the majority of IPSASB members took the view that symbolic values do not meet the measurement objective, because they do not provide relevant information on cost of services, operational capacity or financial capacity. Symbolic value was discussed during development of this CP, and the IPSASB is still of this view that.

#### 4.4 Qualitative Characteristics and Constraints

- 4.19. This section considers whether heritage items’ special characteristics have implications for the ability to measure heritage assets in a way that achieves the qualitative characteristics and takes account of the constraints on information in GPFRs. The qualitative characteristics of information included in GPFRs of public sector entities are relevance, faithful representation, understandability, timeliness, comparability, and verifiability. Pervasive constraints on information included in GPFRs are materiality, cost-benefit, and achieving an appropriate balance between the qualitative characteristics.

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

- 4.20. The Conceptual Framework explains that information is relevant if it is capable of making a difference in achieving the objectives of financial reporting. Information is capable of making a difference when it has confirmatory value, predictive value, or both<sup>23</sup>. Information on the monetary value of heritage assets that entities hold appears likely to support users’ ability to make decisions about entities’ resources and hold entities accountable for their stewardship of heritage assets. Therefore, such information appears likely to achieve the qualitative characteristics of relevance.

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<sup>23</sup> Paragraph 3.6 of the Conceptual Framework.

Monetary values for heritage assets also appear likely to provide information that supports users' assessments of entities' operational capacity and cost of services.

- 4.21. 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<sup>24</sup>. For financial reporting purposes heritage assets are resources, and their measurement should faithfully represent their service potential and/or ability to generate economic benefits. From this perspective, monetary values are capable of faithfully representing heritage assets as resources for financial reporting purposes. Others argue that the heritage significance of heritage assets cannot be shown with monetary values, because monetary values do not convey their "true value". From that perspective monetary values do not provide relevant information.

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

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

#### *Timeliness, Comparability and Verifiability*

- 4.23. Timeliness means having information available for users before it loses its capacity to be useful for accountability and decision-making purposes<sup>26</sup>. Comparability is the quality of information that enables users to identify similarities in, and differences between, two sets of phenomena<sup>27</sup>. Verifiability is the quality of information that helps assure users that information in GPFRs faithfully represents economic and other phenomena that it purports to represent<sup>28</sup>.
- 4.24. The special characteristics of heritage items do not appear to have any particular implications for these three qualitative characteristics of timeliness, comparability and verifiability, although some may argue that monetary values attached to heritage assets could be difficult to verify.

#### *Materiality*

- 4.25. The Conceptual Framework explains that information is material if its omission or misstatement could influence the discharge of accountability by the entity, or the decisions that users make on

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<sup>24</sup> Paragraph 3.10 of the Conceptual Framework.

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

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

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

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

the basis of the entity's GPFRs prepared for that reporting period. Materiality depends on both the nature and amount of the item judged in the particular circumstances of each entity. The Conceptual Framework does not specify a uniform quantitative threshold at which a particular type of information becomes material<sup>29</sup>.

#### *Cost-Benefit*

- 4.26. The Conceptual Framework explains that financial reporting imposes costs and the benefits of financial reporting should justify those costs<sup>30</sup>. Assessing whether the benefits of providing information justify the related costs is often a matter of judgment, because it is often not possible to identify and/or quantify all the costs and all the benefits of information included in GPFRs. The costs of providing information include the costs of collecting and processing the information, the costs of verifying it and/or presenting the assumptions and methodologies that support it, and the costs of disseminating it. Users incur the costs of analysis and interpretation. Omission of useful information also imposes costs, including the costs that users incur to obtain needed information from other sources and the costs that result from making decisions using incomplete data provided by GPFRs.
- 4.27. The earlier discussion of measurement bases indicates that, while valuations could be costly in some circumstances, in other circumstances it may be relatively straightforward to obtain monetary values, for example, when:
- (a) Heritage assets have been purchased recently or components of heritage assets have been replaced recently, so that a transaction is identifiable and the cost at acquisition is known;
  - (b) Replacement costs are available to value heritage assets that are also operational assets; or
  - (c) An active market exists.
- 4.28. Jurisdictions and entities have argued that the cost-benefit constraint could be a factor against attaching a monetary value to heritage assets. In this view the costs of carrying out heritage asset valuations is a costly exercise, and is not justified by the benefits of the information for users. Others argue that the cost concerns commonly cited are either:
- (a) Similar to costs applicable to other assets that are, nonetheless, measured for recognition, because the benefits of recognition are viewed as justifying the costs; or
  - (b) Arise in the context of first time adoption of accrual basis financial reporting, when the cost of recognizing assets generally, not only heritage assets, can be viewed as very high.

#### **4.5 Preliminary View on Recognition and Measurement of Heritage Assets**

- 4.29. This chapter has considered whether appropriate measurement bases are available to measure heritage assets and whether measurement will achieve the qualitative characteristics and take account of the constraints on information in GPFRs. Based on the discussion, it appears that, while there may be cases where valuation costs are high enough to trigger the cost-benefit constraint, it will also be possible to measure heritage assets, applying an appropriate measurement base.

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<sup>29</sup> Paragraph 3.35 to 3.36 of the Conceptual Framework.

<sup>30</sup> Paragraph 3.32 of the Conceptual Framework.

*IPSASB's Preliminary View– Chapter 4.1*

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

Do you agree with the IPSASB's Preliminary View – Chapter 4-1?

**Specific Matter for Comment – Chapter 4.1**

In your view,

- (a) Are there any types of heritage assets that should not be recognized in the statement of financial position, if they meet the recognition criteria?
- (b) If you responded “yes” to (a), what types of heritage assets should not be recognized in the statement of financial position, even though they meet the recognition criteria?
- (c) Are there heritage-related situations (or factors) in which the cost–benefit constraint applies and heritage assets should not be recognized because the costs of doing so would not justify the benefits? (If yes, please describe those heritage-related situations (or factors).)

*IPSASB's Preliminary View– Chapter 4.2*

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

Do you agree with the IPSASB's Preliminary View – Chapter 4-2?

**Specific Matter for Comment – Chapter 4.2**

In your view,

- (a) For initial recognition, should measurement of a heritage asset apply one of the following measurement bases: historical cost, market value or replacement cost?
- (b) Are there other measurement bases that you consider should be applied to heritage assets when they are initially recognized? (If so, please identify those bases and describe the circumstances in which they should be applied.)

**4.6 Subsequent Measurement**

4.30. After initial recognition subsequent events could impact on the monetary value of heritage assets. Changes in the value of heritage assets appears likely to be relevant for accountability and decision making. Subsequent value changes can be viewed as potentially arising through the following events:

- (a) Market value changes;
- (b) Expenditure on the heritage asset;
- (c) Impairment; and/or
- (d) Consumption of the asset.

- 4.31. Accumulated deferred maintenance may be viewed as a factor that indicates impairment, although it could also be viewed as an additional indicator of heritage asset value changes.
- 4.32. During development of the Conceptual Framework, the IPSASB concluded that, in principle, the same considerations apply to initial and subsequent measurement<sup>31</sup>. Therefore, subsequent measurement should achieve the qualitative characteristics, taking into account the constraints. Subsequent measurement has the objective to select those measurement bases that most fairly reflect the cost of services, operational capacity and financial capacity of the entity in a manner that is useful in holding the entity to account, and for decision-making purposes.
- 4.33. When considering whether heritage assets' special characteristics present special issues for their subsequent measurement, the IPSASB noted that:
- (a) Heritage assets cover many different types of assets, including land, buildings, infrastructure, intangible assets and collections of artwork and other heritage items; and
  - (b) IPSAS address subsequent measurement for similar non-heritage items (i.e. land, etc.), and cover, for example, revaluation, impairment, and treatment of subsequent expenditures (capitalization or expensing).
- 4.34. Once the special characteristics of heritage items have been considered for initial measurement, the IPSASB's view is that those special characteristics do not raise additional issues for subsequent measurement.

*IPSASB's Preliminary View – Chapter 4.3*

There are no special issues related to the subsequent measurement of heritage assets.

Do you agree with the IPSASB's Preliminary View – Chapter 4-3?

**Specific Matter for Comment – Chapter 4.3**

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

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

## CHAPTER 5, HERITAGE ITEMS AND RELATED OBLIGATIONS

### 5.1—Introduction

- 5.1. This chapter applies the Conceptual Framework’s definition of a liability and its recognition criteria to discuss obligations related to heritage items. It considers the implications of heritage items’ special characteristics for the existence of obligations.
- 5.2. The definition of heritage items proposed in this CP conveys that they are items intended to be held indefinitely and preserved for the benefit of present and future generations<sup>32</sup>. This chapter discusses whether heritage preservation intentions could result in present obligations for financial reporting purposes and lead to liabilities that should be recognized in the financial statements. In particular, it considers whether entities that have postponed maintenance or other preservation-related activities for the heritage items they hold could have liabilities. Chapter 6 discusses possible disclosures related to heritage items’ preservation.

#### *Possible Obligations Related to Heritage*

- 5.3. The discussion below considers whether obligations resulting in liabilities arise when entities:
- (a) Receive funding for heritage preservation activities;
  - (b) Receive services to preserve heritage items;
  - (c) Are subject to legislation that requires entities to preserve heritage items (including penalties for failure to preserve heritage items);
  - (d) Hold heritage items for which maintenance or preservation generally is needed, such that:
    - (i) Heritage items have deteriorated so that there is a demonstrable need to restore them;
    - (ii) Planned maintenance has been deferred; and/or
    - (iii) A need for maintenance is likely (foreseeable) in the future.
- 5.4. The main question that arises, in each case, is whether there is a present obligation. Neither a “moral obligation” that does not bind an entity, nor a foreseeable future obligation will suffice for existence of a liability for financial reporting purposes.

### 5.2—Conceptual Framework, Liabilities and Present Obligations

- 5.5. The Conceptual Framework defines a liability as “a present obligation of the entity for an outflow of resources that results from a past event”<sup>33</sup>.
- 5.6. A liability is recognized when an item satisfies the definition of a liability and can be measured in a way that achieves the qualitative characteristics and takes account of constraints on information in

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<sup>32</sup> Chapter 2 includes the following definition for heritage items: “Heritage items are items that are intended to be held indefinitely and preserved for the benefit of present and future generations because of their rarity and significance in relation, but not limited, to their archeological, architectural, agricultural, artistic, cultural, environmental, historical, natural, scientific or technological features.”

<sup>33</sup> Paragraph 5.14 of the Conceptual Framework.

GPFRs<sup>34</sup>. The discussion below focuses on whether or not a liability exists. It discusses entities' responsibilities to preserve heritage items and any implications for liability existence.

### 5.3—Outflows of Resources—Heritage Items

- 5.7. A liability must involve an outflow of resources from the entity for it to be settled. An obligation that can be settled without an outflow of resources from the entity is not a liability<sup>35</sup>.
- 5.8. Holding heritage items is likely to involve outflows of resources for their preservation. These can be considered in terms of their timing. For example, the focus could be on outflows of resources that are likely to arise:
- (a) Within the budget period, i.e. one or two years;
  - (b) Over the entity's usual planning period, for example, the next 5 to 10 years; or
  - (c) For future generations, i.e. a very long time horizon.
- 5.9. Given the importance (and expense) of preservation for heritage items, some commentators have argued that a liability should be recognized to reflect the resource outflows required to preserve heritage items for present and future generations. Others have argued that a liability exists, if preservation activities have been deferred, where "deferral" could be by comparison to an agreed cycle of maintenance or with respect to some other criteria.
- 5.10. However, the likelihood of outflows of resources does not, by itself, result in the existence of a heritage-related liability. For a liability to exist an entity needs to have a present obligation for those outflows of resources as a result of a past transaction or other event.

### 5.4—Heritage-Related Obligations and Past Events

- 5.11. To satisfy the definition of a liability, it is necessary that a present obligation arise as a result of a past transaction or other event<sup>36</sup>.
- 5.12. Identifiable past events for possible heritage preservation obligations include when an entity:
- (a) Acquires heritage items;
  - (b) Makes a public commitment to heritage item preservation for future generations;
  - (c) Includes a heritage preservation objective (or other statement) in its publicly available planning documents;
  - (d) Creates a plan for resource outflows necessary to the heritage item preservation;
  - (e) Receives an approved budget or an appropriation for heritage item preservation;
  - (f) Receives funding designated for heritage item preservation; and
  - (g) Receives services for which payment is due.

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<sup>34</sup> Paragraph 6.2 of the Conceptual Framework.

<sup>35</sup> Paragraph 5.16 of the Conceptual Framework.

<sup>36</sup> Paragraph 5.17 the Conceptual Framework.

- 5.13. An assessment of each of these past events to consider whether an entity would have little or no realistic alternative to avoid an outflow of resources suggests that the entity appears likely to have alternatives enabling it to avoid an outflow of resources, with the exceptions of:

*Receipt of funding*, if a funding results in a performance obligation (discussed in paragraph 14 below); and

*Receipt of services*, if the entity has obligations (to pay for services received) arising from either a legal contract or other binding arrangement.

- 5.14. Where an entity has received heritage preservation services, there is a legal obligation arising from the contract (or other equivalent arrangement). Then, until the entity has discharged its legal obligation to pay for the heritage preservation services received, it will have a present obligation for an outflow of resources that results from a past event, i.e. a liability that meets the Conceptual Framework's definition of a liability for financial reporting purposes.
- 5.15. The following subsection discusses "present obligations" and when a present obligation is likely to exist in the context of heritage preservation.

### 5.5—Heritage Items and Present Obligations

- 5.16. For a liability to exist there must be a present obligation of the entity. A present obligation is a legally binding obligation (legal obligation) or non-legally binding obligation, which an entity has little or no realistic alternative to avoid<sup>37</sup>. The Conceptual Framework states that an obligation must be to an external party in order to give rise to a liability<sup>38</sup>. An entity cannot be obligated to itself, even where it has publicly communicated an intention to behave in a particular way. An entity that holds heritage items is often viewed as having a moral obligation to preserve them. However this is not a sufficient basis to conclude that the entity has a present obligation for financial reporting purposes.

#### Legal Obligations

- 5.17. Funds designated for heritage preservation, through an exchange or non-exchange transaction, may have conditions or performance obligations attached to them. Exchange transactions are usually contractual in nature and therefore enforceable through the laws of contract or equivalent authority or arrangements. IPSAS 23, *Revenue from Non-Exchange Transactions (Transfers and Taxes)*, identifies factors relevant to whether an entity that receives funding in a non-exchange transaction has a liability. As noted in the context of past events, where an entity receives services from another entity, a binding legal obligation to pay for the services received is likely to arise.
- 5.18. An entity holding heritage items may receive instructions from an external party, or be required by legislation, to preserve them. For example, the national government may direct the national museum to preserve the heritage items that it holds. The question arises whether such instructions or a legislative requirement give rise to a present obligation.
- 5.19. Heritage legislation may include legal penalties (for example, a fine) for damaging a heritage item. The IPSASB's pronouncement on liability recognition, IPSAS 19, *Liabilities, Contingent Liabilities and Contingent Assets*, addresses the existence of obligations when an entity contravenes

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<sup>37</sup> Paragraph 5.15 of the Conceptual Framework.

<sup>38</sup> Paragraph 5.18 of the Conceptual Framework.

legislation and incurs a fine or other legal penalty<sup>39</sup>. The special characteristics of heritage items, including their preservation, do not appear to raise heritage-specific financial reporting issues where there are instructions or legislation for heritage preservation.

- 5.20. Heritage preservation instructions and legislation do not generally appear to include legally enforceable requirements to carry out repairs to preserve a heritage item. For example, if an entity owns a heritage building and there is a problem with the foundation, which requires repair, it is likely that there is no external legal requirement for the entity to address that problem. However, if legislation includes penalties for failure to preserve heritage, then a legal obligation could arise when such penalties are triggered by an entity failing to preserve heritage items that it holds. The legislated penalties may indicate that the entity cannot realistically avoid taking action to preserve the heritage item(s). However there remains a question of whether the obligation to preserve the heritage items is an obligation to the legislator (another party) or to the entity itself.

#### Non-legally Binding Obligations

- 5.21. Liabilities can arise from non-legally binding obligations. Non-legally binding obligations that give rise to liabilities have the following attributes:
- (a) The entity has indicated to other parties by an established pattern of past practice, published policies, or a sufficiently specific current statement that it will accept certain responsibilities;
  - (b) As a result of such an indication, the entity has created a valid expectation on the part of those other parties that it will discharge those responsibilities; and
  - (c) The entity has little or no realistic alternative to avoid settling the obligation arising from those responsibilities<sup>40</sup>.
- 5.22. An entity that holds heritage items may behave in ways that suggest a non-legally binding obligation exists. For example, it may announce a heritage preservation policy, including an approved budget to give effect to that policy. However, as noted in the context of past events and obligations, the early stages of implementation (for example, making an electoral pledge or announcing a policy) are unlikely to give rise to present obligations that meet the definition of a liability.
- 5.23. There may be a correlation between the availability of funding to settle a particular obligation and the creation of a present obligation<sup>41</sup>. For example, where both a budget line item for heritage preservation has been approved and linked funding is assured through an appropriation, the availability of contingency funding or a transfer from a different level of government, it could be argued that a non-legally binding obligation may exist. Economic coercion, political necessity or other circumstances may give rise to situations where, although the entity is not legally obliged to incur an outflow of resources for heritage preservation, the economic or political consequences of refusing to do so are such that the entity may have little or no realistic alternative to avoid an outflow of resources, with the result that an entity has a liability arising from a non-legally binding obligation<sup>42</sup>. However, the obligation would need to be to another party, since an entity cannot be

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<sup>39</sup> See paragraphs 27-30 of IPSAS 19 for discussion of this type of legal obligation.

<sup>40</sup> Paragraph 5.23 of the Conceptual Framework.

<sup>41</sup> Paragraph 5.25 of the Conceptual Framework.

<sup>42</sup> Paragraph 5.26 of the Conceptual Framework.

obligated to itself. Thus, for example, where an entity holds a heritage item, receives funding to repair that item, and the political consequences of failing to carry out the necessary repairs appear to show that the entity has little or no realistic alternative to carry them out, the entity itself benefits from maintaining its heritage resource, so that no other party is involved.

- 5.24. Approval of a budget for heritage preservation may, however, result in rights to receive funding rather than an obligation to engage in heritage preservation activities. The special characteristics of heritage items, which raise the possibility of plans, policies and approved funding for heritage preservation, do not appear to raise heritage-specific financial reporting issues, when identifying the existence of present obligations.

*Preliminary View – Chapter 5.1*

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

For existence of a present obligation as a result of a past event other factors must exist (for example, a funding agreement that could result in a performance obligation or legislation that could result in fines and other penalties), and those factors are independent of heritage items' special characteristics and similar in nature to factors considered in the context of other types of obligation for which financial reporting requirements and guidelines already exist.

Do you agree with the IPSASB's Preliminary View – Chapter 5.1?

**Specific Matter for Comment–Chapter 5**

In your view,

(a) Are there heritage-related obligations (specific to heritage items) that should be recognized as liabilities in the statement of financial position?

(b) If you answered “yes” to (a), please explain and describe:

(i) What types of heritage-related obligations (specific to heritage items) should be recognized as liabilities in the statement of financial position?

(ii) What factors or circumstances would indicate that an entity has heritage-related obligations (specific to heritage items) that should be recognized as liabilities in the statement of financial position?

Please provide the reasons for your views on recognition of heritage-related obligations, including the conceptual merits and weaknesses; the extent that the liability recognition approach you propose addresses the objectives of financial reporting and how it provides useful information to users.

## CHAPTER 6, PRESENTATION OF INFORMATION ON HERITAGE ITEMS

### 6.1—Introduction

6.1. This chapter applies the Conceptual Framework to discuss the presentation of information for heritage in GPFRs. It discusses whether the special characteristics of heritage items—the intention to hold them indefinitely and preserve them for the benefit of present and future generations, because of their rarity and significance—have implications for the presentation of information in GPFRs.

### 6.2—Conceptual Framework and Presentation in GPFRs

6.2. The Conceptual Framework defines presentation as “the selection, location and organization of information that is reported in the GPFRs<sup>43</sup>.”

6.3. Presentation aims to provide information that contributes towards the objectives of financial reporting and achieves the qualitative characteristics while taking into account the constraints on information included in GPFRs. Decisions on selection, location and organization of information are made in response to the needs of users for information<sup>44</sup>. The types of information that users need to meet the objectives of financial reporting guide decisions on whether particular types of reports are needed<sup>45</sup>. Decisions on information selection address what information is reported in the financial statements, and in GPFRs outside the financial statements (other GPFRs). The objectives of financial reporting are to provide information about the entity that is useful to users of GPFRs for accountability and decision-making purposes<sup>46</sup>.

#### *Scope of Financial Reporting*

6.4. The information needs of the primary users of GPFRs and the objectives of financial reporting determine the scope of financial reporting. GPFRs are likely to comprise multiple reports. GPFRs encompass financial statements including their notes and the presentation of information that enhances, complements and supplements the financial statements<sup>47</sup>. A GPFR presents information related to a reporting entity. Reports that present information on transactions and other events that cross reporting entity boundaries are outside of the scope of financial reporting.

6.5. Internal reports, prepared for the management of an entity, can be distinguished from those prepared for users of GPFRs. Internal reports are not within the scope of financial reporting. Internal reports could contain heritage-related information. For example, asset management plans can may hold information on deferred maintenance and cost projections related to entities’ planned heritage asset preservation activities. Internal reports could be an input for information reported in GPFRs, however they are not GPFRs, because they are not prepared to meet the needs of users of GPFRs.

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<sup>43</sup> Paragraph 8.4 of the Conceptual Framework.

<sup>44</sup> Paragraph 8.5 of the Conceptual Framework.

<sup>45</sup> Paragraph 8.10 of the Conceptual Framework.

<sup>46</sup> Appendix A for this chapter provides an excerpt from Chapter 8 of the Conceptual Framework, which considers the scope of financial reporting linked to presentation.

<sup>47</sup> Paragraph 1.6 of the Conceptual Framework.

### 6.3—Presentation Objectives for Information on Heritage Assets

- 6.6. This section proposes presentation objectives for information on heritage assets, to guide what heritage-related information should be presented in GPFRs<sup>48</sup>. If constituents' feedback supports these presentation objectives, then they will be used to identify more specific proposals on information to display and disclose for further consultation.

#### *IPSASB's Preliminary View— Chapter 6*

The objectives of presenting information about heritage assets and heritage obligations are to help users to:

- (a) Hold entities accountable for their preservation of heritage assets;
- (b) Make decisions for heritage preservation, including decisions on resource allocation.
- (c) Assess the effect of the entity's holding of heritage items on its operational capacity, cost of services and financial capacity; and
- (d) Understand the extent of an entity's:
  - (iii) Heritage holdings, covering both recognized and unrecognized heritage assets; and
  - (iv) Heritage-related obligations, covering both recognized liabilities, contingent liabilities and general obligations.

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

- 6.7. The IPSASB considers that information to meet these presentation objectives should be presented in the financial statements and, where appropriate, other GPFRs.

#### *Financial Statements—Heritage Assets and Heritage-Related Liabilities*

- 6.8. Heritage assets that meet the recognition criteria are included in the financial statements. The type of information that users need could be similar to that for other categories of assets. For example, users may need information on:

- (a) What items fall into the heritage assets category;
- (b) How heritage assets are measured;
- (c) Resource outflows and inflows as a result of holding, acquiring and/or relinquishing control of heritage assets (for example through transfer or sale); and
- (d) Where to find information about any unrecognized heritage assets, i.e. heritage assets that do not meet the recognition criteria of measurability.

- 6.9. Chapter 5 discusses heritage-related liabilities. Where such liabilities exist and meet the recognition criteria they will be included in the financial statements. Again, the type of information that users need for heritage-related liabilities could be similar to that for other liabilities. For example, information on the nature of the liability, expected timing of any resulting outflows of economic benefits or service potential and uncertainties about the amount or timing of those outflows.

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<sup>48</sup> Note that the Conceptual Framework defines presentation to include both display and disclosure. Presentation also covers information in the financial statements or in other GPFRs. Therefore these “presentation objectives” could be met through information presented either in the notes to the financial statements, in other GPFRs or on the face of the financial statements.

- 6.10. Information on heritage assets and heritage-related liabilities recognized in the financial statements should contribute to achievement of the presentation objectives identified above. Information presented could include the measurement bases and related measurement uncertainties of the entity's heritage assets and heritage-related liabilities.

#### Reporting against Budget

- 6.11. IPSAS 24, *Presentation of Budget Information in Financial Statements*, addresses information that enables users to compare financial results with the budget and facilitates their assessment of the extent to which an entity has met its financial objectives. As discussed in Chapter 5, entities may receive an appropriation that is designated for heritage preservation or heritage-related activities. Reporting against budget can demonstrate compliance with legal requirements relating to public finances, including the appropriate application of heritage-related appropriations and funding, which is information that users need to hold entities accountable for their preservation of heritage assets.

#### Specific Matter for Comment – Chapter 6.1

For heritage assets and heritage-related liabilities that are recognized, what are your views on:

- (a) The type of information that should be presented so that users of GPFRs have the information that they need for accountability and decision making?
- (b) Where this information should be presented—on the face of the financial statements; in the notes to the financial statements; and/or in other locations, including financial statement discussion and analysis and other GPFRs?

Please provide the reasons for your views, including how this information contributes to achievement of the presentation objectives in the IPSASB's Preliminary View—Chapter 6 and/or the information needs of users of GPFRs.

#### Specific Matter for Comment – Chapter 6.2

If you consider that some or all heritage assets should not be recognized, even though they meet the asset definition criteria, what are your views on:

- (a) The type of information on unrecognized heritage assets that should be presented so that users of GPFRs have the information that they need for accountability and decision making?
- (b) Where this information on unrecognized heritage assets should be presented?

Please provide the reasons for your views, including how this information contributes to achievement of the presentation objectives in the IPSASB's Preliminary View—Chapter 6 and/or the information needs of users of GPFRs.

**Specific Matter for Comment – Chapter 6.3**

Where an entity has obligations to maintain heritage items, which do not result in recognized liabilities, what are your views on:

- (a) Information that should be presented on those moral obligations; and
- (b) Where that information should be presented?

Please provide the reasons for your views, including how this information contributes to achievement of the presentation objectives in the IPSASB's Preliminary View—Chapter 6 and/or the information needs of users of GPFs.

**6.4—Presentation in Other GPFs**

6.12. The IPSASB has issued three Recommended Practice Guidelines (RPGs) applicable to information presented in other GPFs:

- (a) RPG 1, *Reporting on the Long-Term Sustainability of an Entity's Finances* (RPG 1);
- (b) RPG 2, *Financial Statement Discussion and Analysis* (RPG 2); and
- (c) RPG 3, *Reporting Service Performance Information* (RPG 3).

6.13. This section discusses the relevance of these three RPGs for presentation of heritage-related information. If an entity that holds heritage items applies one or more of these RPGs, then the information presented may contribute to achievement of the presentation objectives.

*RPG 1—Information on Long-Term Sustainability of Entity's Finances*

6.14. RPG 1 provides guidelines on reporting information on the long-term sustainability of entity's finances. Governments and other entities that apply RPG 1 may not mention heritage preservation as a separate item, since it may not be material to their financial position and financial performance. Information on the long-term sustainability of an entity's finances may indicate whether, given competing priorities, the entity will provide funds for heritage preservation at the same, higher or lower level in the long term. This information is relevant when users make decisions on heritage preservation, including resource allocation decisions.

6.15. If heritage preservation is important to an entity's objectives, then information presented on the long-term sustainability of its finances may include projections of heritage preservation costs and availability of funding to meet those costs. This information would be relevant to users' assessments of the entity's ability to preserve the heritage items they hold for present and future generations and users' heritage-related resource allocation decisions.

*RPG 2—Financial Statement Discussion and Analysis*

6.16. Where an entity manages heritage assets to achieve its objectives and strategy, its financial statement discussion and analysis (FSD&A) should present information on them. RPG 2 states, for example, that FSD&A should:

- (a) Discuss the entity's objectives and strategies relating to its financial position, financial performance and cash flows in a way that enables users of the financial statements to

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understand the entity's priorities and to identify the resources that must be managed to achieve these objectives and strategies<sup>49</sup>; and

- (b) Include an analysis of significant changes and trends in an entity's financial position, financial performance and cash flows<sup>50</sup>.

6.17. The objective of RPG 2 is to assist users to understand the financial position, financial performance and cash flows presented in the financial statements<sup>51</sup>. It provides guidelines on financial statement discussion and analysis (FSD&A), which should include:

- (a) An overview of the entity's operations and the environment in which it operates;
- (b) Information about the entity's objectives and strategies;
- (c) An analysis of the entity's financial statements including significant changes and trends in an entity's financial position, financial performance and cash flows; and
- (d) A description of the entity's principal risks and uncertainties that affect its financial position, financial performance and cash flows, an explanation of changes in those risks and uncertainties since the last reporting date and its strategies for bearing or mitigating those risks and uncertainties<sup>52</sup>.

6.18. Where heritage assets are important for an entity's objectives and strategy, heritage-related information is likely to be included in FSD&A. Such information is likely to support achievement of the presentation objectives proposed above. For example, it could include information on:

- (a) Trends in an entity's heritage asset holdings and its heritage-related obligations; and
- (b) Trends in cash flows relevant to assessments of the entity's ability to preserve its heritage items.

### *RPG 3—Reporting of Service Performance Information*

6.19. The IPSASB has issued RPG 3, Reporting Service Performance Information (RPG 3) which explains that:

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 GPFRs (hereafter termed "users") to assess the entity's service efficiency and effectiveness<sup>53</sup>.

6.20. 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.

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<sup>49</sup> Paragraph 20 of RPG 2.

<sup>50</sup> Paragraph 22 of RPG 2.

<sup>51</sup> Paragraph 1 of RPG 2.

<sup>52</sup> Paragraph 16 of RPG 2.

<sup>53</sup> Paragraph 1 of RPG 3.

- 6.21. An entity that provides services related to heritage items can apply RPG 3 and present information on those services. The type of heritage-related information that an entity presents will depend on the heritage-related service performance objectives on which it reports and its choice of performance indicators. For example, a museum may present performance indicators that describe the extent and condition of the heritage items it holds, if its service performance objectives include an objective to expand and preserve its heritage collections. This type of information would help users to hold the entity accountable for its preservation of heritage assets and understand the extent of the entity's heritage holdings.

*Link to Specialist (Non-GPFR) Reports in Service Performance Information*

- 6.22. Some public sector entities may provide heritage-related services that are not restricted to those heritage items that the entity holds. For example, a Ministry for Culture and Heritage may be responsible for regulations, monitoring of heritage items, and management of funding to preserve heritage items within a national jurisdiction, regardless of whether the heritage items are held by public or private sector entities. It may prepare specialist (non-GPFR) heritage status reports on those heritage items, where the information reported crosses reporting entity boundaries.
- 6.23. As noted earlier in this chapter, this type of report is not within the scope of financial reporting. However, if an entity reports service performance information, it may reference information in a non-GPFR heritage status report, if such information is relevant to its service performance objectives. For example, if an entity responsible for preservation of a nation's natural heritage, including endangered species, reports outcome performance indicators, then those indicators could reference non-GPFR reports on endangered species and present information on the number of endangered species. Whether or not an entity presents this type of service performance information will depend on the entity's service performance objectives and its choice of performance indicators.

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