

**Meeting:** International Public Sector Accounting Standards Board  
**Meeting Location:** Washington D.C., USA  
**Meeting Date:** March 12–15, 2019

# Agenda Item 7

For:  
 Approval  
 Discussion  
 Information

## Heritage

<b>Project summary</b>	Provide requirements and guidance on accounting for heritage.	
	<b>Topic</b>	<b>Agenda Item</b>
<b>Project management</b>	<a href="#">Instructions</a> —Up to March 2019 meeting	7.1.1
	<a href="#">Decisions</a> —Up to March 2019 meeting	7.1.2
	<a href="#">Project roadmap</a>	7.1.3
<b>Decisions required at this meeting</b>	<a href="#">Background to Heritage discussion</a>	7.2.1
	<a href="#">Definition/ description of heritage items</a>	7.2.2
	<a href="#">Heritage assets and their recognition</a>	7.2.3
	<a href="#">Presentation of information about heritage</a>	7.2.4

**IPSASB Instructions—December 2018 meeting and earlier**

<b>Meeting</b>	<b>Instructions</b>	<b>Actions</b>
December 2018	1. Develop agenda items for the March 2019 IPSASB meeting	Done
March to September 2018	No instructions during this period	Not applicable
December 2017	1. Heritage Task Force Chair to write a brief summary of the project's status. 2. Defer next IPSASB considerations, with timing related to progress made by the Public Sector Measurement project	Done Done
Earlier meetings	1. Instructions leading to approval of the consultation paper (CP), <i>Financial Reporting for Heritage</i> , in March 2017.	Done

**IPSASB Decisions—December 2018 meeting and earlier**

<b>Meeting</b>	<b>Decisions</b>
March – December 2018	<ol style="list-style-type: none"> <li>1. December 2018 decision that, given the progress made on Public Sector Measurement, Heritage should return to the IPSASB's meeting agenda in March 2019.</li> <li>2. No decisions from March to September, 2018, while project was on hold.</li> </ol>
December 2017	<ol style="list-style-type: none"> <li>1. Decision to defer further work given this project's relationship with the Public Sector Measurement project.</li> </ol>
March 2017	<ol style="list-style-type: none"> <li>1. The IPSASB approved the CP.</li> </ol>
Earlier meetings	<p>During discussions from September 2015 to December 2016 the IPSASB made a series of decisions on:</p> <ol style="list-style-type: none"> <li>1. Financial reporting for heritage issues; and,</li> <li>2. The content of the CP, including its draft chapters, preliminary views and specific matters for comment.</li> </ol>

## Heritage Project Roadmap

Meeting	Completed Discussions/ Planned Discussions:
<b>Next meetings<sup>1</sup></b>	
December 2019	Approve text on recognition of heritage assets that fall within the scope of IPSAS 17, <i>Property, Plant and Equipment</i> , (IPSAS 17)
September 2019	Provide directions on draft text on recognition of heritage items that fall within the scope of IPSAS 17
June 2019	Discuss Heritage Task Force recommendations on asset recognition issues and other issues as necessary.
<b>This meeting</b>	
March 2019	<ol style="list-style-type: none"> <li>1. Overview of project's progress to date, and the relationship between the Heritage project and the Public Sector Measurement project.</li> <li>2. Provide direction on topics on which the Heritage Task Force should develop recommendations for consideration at subsequent meetings.</li> <li>3. Comments on recognition of heritage assets (as input to Task Force development of recommendations for June)</li> </ol>
<b>Past meeting</b>	
December 2017	<ol style="list-style-type: none"> <li>1. Review of responses to the Consultation Paper, <i>Financial Reporting for Heritage</i>.</li> <li>2. Discussion (during the work plan discussion) of the relationship between the Heritage and the Public Sector Measurement projects.</li> </ol>
Earlier meetings	<ol style="list-style-type: none"> <li>1. The IPSASB approved the Consultation Paper, <i>Financial Reporting for Heritage</i>, at its March 2017 meeting.</li> <li>2. The IPSASB's first project discussion was in September 2015. At subsequent IPSASB meetings the IPSASB discussed issues raised by financial reporting for heritage; identified its preliminary views on such issues and specific matters for comment on which to request constituents' views; and reviewed draft consultation paper chapters.</li> </ol>

<sup>1</sup> Proposals on items for subsequent meetings may need revision, so that they remain aligned with Public Sector Measurement Project developments.

## Background to Heritage Discussions

### Purpose

1. The purpose is to:
  - (a) Provide the IPSASB with background information about the Heritage Project; and
  - (b) Confirm the IPSASB's 2017 decision that next steps for the Heritage Project are to address heritage asset recognition, while the Public Sector Measurement Project continues its work on public sector measurement.

### Detail

2. This paper provides an overview of the:
  - (a) Heritage project, background, current status, and progress to date;
  - (b) Relationship between the Heritage and the Public Sector Measurement projects; and
  - (c) Responses received on the CP, *Financial Reporting for Heritage*, (the Heritage CP) and IPSASB decisions after its review of responses.

### *The Heritage Project—Status and Background*

#### Current Status of the Project

2. The IPSASB reviewed responses to its Heritage CP in December 2017, and decided to defer further discussions until after the Public Sector Measurement Project developed generic measurement principles. [Appendix A](#) has a more detailed summary of the Heritage project's status, which the Chair of the Heritage Task Force, Mr. Bernhard Schatz, presented in January 2018. [Appendix B](#) has an overview of the extent to which respondents agreed with the CP's preliminary views (PVs) and specific matters for comment (SMCs).

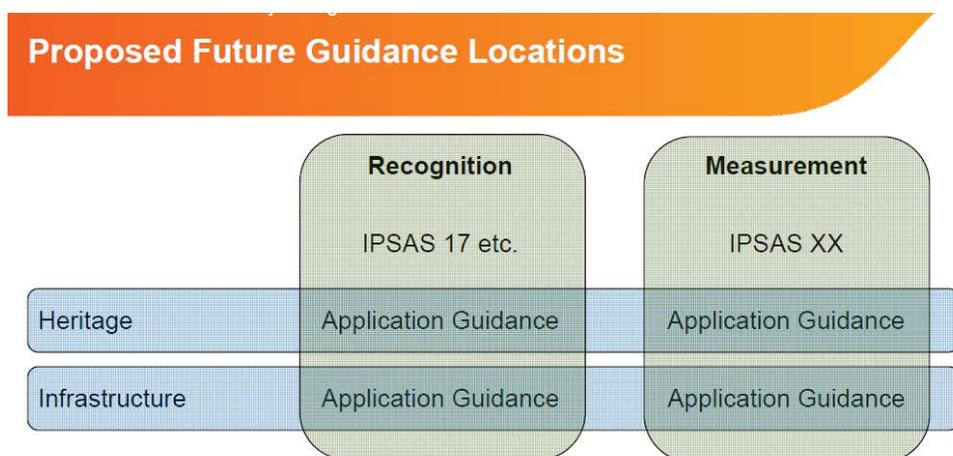
#### Background—Earlier Progress and Changed Approach—June 2015 to December 2017

3. The IPSASB approved this Heritage Project in June 2015<sup>2</sup>, and a Task Force was appointed in March 2016. A year later, in March 2017, the IPSASB approved its CP, *Financial Reporting for Heritage*, which set out the IPSASB's PVs on key issues and SMCs to collect constituents' views as input for development of new heritage reporting requirements.
4. In September 2017, the IPSASB discussed a modified approach to the Heritage Project:
 

Heritage...would be progressed as additional Application Guidance with recognition issues covered in IPSAS 17, *Property, Plant and Equipment*, and measurement in a separate umbrella IPSAS on Measurement. The approach to Heritage would be dependent on the due process related to the Heritage CP published earlier in 2017.:
5. The new approach addressed the relationship between three projects; Heritage, Infrastructure, and Public Sector Measurement, as shown in the picture on the following page.

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<sup>2</sup> An earlier Heritage Project occurred from 2004 to 2006, when the IPSASB collaborated with the United Kingdom's Accounting Standards Board (the UK-ASB) to develop a CP, published in 2006. After reviewing responses to the joint IPSASB-ASB (UK) CP, *Accounting for Heritage Assets under the Accrual Basis of Accounting*, the IPSASB decided to defer further work until after completion of its Conceptual Framework.



6. After reviewing CP responses in December 2017<sup>3</sup>, the IPSASB decided in favor of this approach and decided that:
  - (a) Further heritage discussions should be deferred until December 2018 (and subsequently the IPSASB decided to defer until March 2019); and
  - (b) Whether or not a definition for heritage items or heritage assets will be needed depends on future IPSASB decisions on the measurement and recognition of heritage assets.
7. No further IPSASB heritage discussions occurred during 2018, although heritage measurement issues and responses to the CP were available to inform the Public Sector Measurement Project.

#### *Responses to the CP*

8. Responses indicated good support for many of the IPSASB's preliminary views, including that:
  - (a) The special characteristics of heritage items do not prevent them being assets for financial reporting purposes; and
  - (b) Heritage assets should be included in the financial statements, if they meet the recognition criteria in the Conceptual Framework.
9. However, many of the respondents raised issues with respect to the measurement of heritage assets. For further information on responses, the 124-page staff summary of responses (agenda item 7.3.1 at the December 2017 meeting) can be accessed [here](#), while the CP itself provides information on how the IPSASB reached its PVs, and is available from the IPSASB's website [here](#).

#### **Decisions required**

The IPSASB is asked to:

- (a) Note the information provided on the Heritage Project; and
- (b) Confirm that the Heritage Project's next steps are to address heritage asset recognition.

<sup>3</sup> 40 comment letters were received, with a good mix of respondents' functions, perspectives, expertise, and financial reporting backgrounds. A significant number of comment letters represented groups of respondents or were underpinned by consultative processes that engaged groups beyond the entity providing the response.

## Appendix A

## Heritage Project Status Report following IPSASB Meeting in December 2017

## Heritage Task Force Chair, Mr. Bernhard Schatz

Review of Responses to the Consultation Paper, *Financial Reporting for Heritage in the Public Sector*

This note summarizes the outcome of the International Public Sector Accounting Standards Board (IPSASB) discussion of the issues raised by constituents who responded to the Consultation Paper (CP), *Financial Reporting for Heritage in the Public Sector*, taking into account the comments made by the IPSASB's Consultative Advisory Group (CAG).

There were differing views about the appropriateness of the **definition/description** of Heritage Items given in the CP. In its discussion with the IPSASB, the CAG tentatively concluded that an extensive description or definition might not be needed for Financial Reporting for Heritage. Instead, an entity may need first to assess whether or not an item is an asset and, as a second step, determine whether the item is heritage. This will pose specific issues for measurement and disclosure.

Regarding **recognition and initial measurement** of assets with heritage significance, respondents to the CP emphasized, in response to several Specific Matters for Comment and Preliminary Views, the usefulness of recognition and initial measurement at nominal/symbolic value. However, although the pragmatism of symbolic value is acknowledged, the IPSASB remains of the view that symbolic value does not provide relevant information on financial capacity, operational capacity or cost of services.

There was a wide variety of views from constituents in the area of **measurement**. Comments included the definition of useful lives for heritage items; impairment considerations; the application of deemed cost if historical cost is not available; the circumstances where items are replaceable and therefore replacement cost might be applicable, but noting that heritage items are likely to be irreplaceable; and finally when market values for heritage items might be available and applicable. The IPSASB found the distinction between "operational" heritage and "pure" heritage mentioned by respondents to the CP as particularly helpful to guide the applicability of certain measurement bases. In discussion, the IPSASB noted that these issues will have to be assessed through the lens of the reporting entity and their accounting/reporting objectives. The IPSASB reaffirmed that it has decided to look at measurement issues in conjunction with the currently ongoing project on Public Sector Measurement.

Some respondents to the CP took the view that an appropriate way to cope with heritage assets might be **disclosure and/or use of other reports**. The IPSASB's position is that disclosures cannot be a substitute for recognition and measurement of assets. In respect of stewardship, heritage items that might fall within the responsibility of the reporting entity but (currently) do not serve the objectives of the entity don't constitute a resource of the entity; there are, therefore, no assets to recognize. However, disclosures could be made in the notes to the financial statements or in other reports, providing additional information about them, their management and any relationship to the financial statements.

The Task Force on Heritage will work on refining these issues with the objective to come back to the IPSASB in late 2018 with proposals for any draft guidance that is needed in the areas of definition/description, recognition and disclosure. Measurement will be covered within the prospective IPSAS on Public Sector Measurement.

Responses to Heritage Consultation Paper–Extent of Agreement on PVs and SMCs

SMC(s) and/or PV for Constituents (In each case constituents were asked whether or not they agreed.)	Agreed?
<i>1–Heritage items</i>	
Do you agree that the IPSASB has captured all of the characteristics of heritage items and the potential consequences for financial reporting in paragraphs 1.7 and 1.8? (SMC Chapter 1) <i>(The two paragraphs are provided after this table.)</i>	55% agreed
For the purposes of this CP, the following description reflects the special characteristics of heritage items and distinguishes them from other phenomena for the purposes of financial reporting: <i>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/or significance in relation, but not limited, to their archeological, architectural, agricultural, artistic, cultural, environmental, historical, natural, scientific or technological features.</i> (PV-Chapter 2.1)	55% agreed
For the purposes of this CP, natural heritage covers areas and features, but excludes living plants and organisms that occupy or visit those areas and features. (PV-Chapter 2.2)	28% agreed (60% disagreed)
<i>2–Heritage assets and their recognition</i>	
The special characteristics of heritage items do not prevent them from being considered as assets for the purposes of financial reporting. (PV-Chapter 3)	80% agreed
Do you support initially recognizing heritage assets at a nominal cost of one currency unit where historical cost is zero, such as when an asset was fully depreciated before being categorized as a heritage asset and transferred to the entity, or an entity obtains a natural heritage asset without consideration? (SMC -Chapter 4.1)	28% agreed (58% disagreed)
Heritage assets should be recognized in the statement of financial position if they meet the recognition criteria in the Conceptual Framework. (PV-Chapter 4.1)	78% agreed
Are there heritage-related situations (or factors) in which heritage assets should not initially be recognized and/or measured because: (a) It is not possible to assign a relevant and verifiable monetary value; or (b) The cost-benefit constraint applies and the costs of doing so would not justify the benefits? If yes, please describe those heritage-related situations (or factors) and why heritage assets should not be recognized in these situations. (SMC-Chapter 4.2)	68% agreed (28% disagreed)
<i>3–Measurement of heritage assets</i>	
In many cases it will be possible to assign a monetary value to heritage assets. Appropriate measurement bases are historical cost, market value and replacement cost. (PV-Chapter 4.2)	35% agreed (43% disagreed) 23% partial
What additional guidance should the IPSASB provide through its Public Sector Measurement Project to enable these measurement bases to be applied to heritage assets? (SMC-Chapter 4.3)	Comments sent to PSM project

SMC(s) and/or PV for Constituents (In each case constituents were asked whether or not they agreed.)	Agreed?
<i>4-Subsequent measurement of heritage assets</i>	
Subsequent measurement of heritage assets: (a) Will need to address changes in heritage asset values that arise from subsequent expenditure, depreciation or amortization, impairment and revaluation. (b) Can be approached in broadly the same way as subsequent measurement for other, non-heritage assets. (PV-Chapter 5)	38% agreed (45% disagreed)
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 indicate what guidance IPSASB should provide to address them. (SMC-Chapter 5)	62% said "yes"
<i>5-Heritage-related obligations</i>	
The special characteristics of heritage items, including an intention to preserve them for present and future generations, do not, of themselves, result in a present obligation such that an entity has little or no realistic alternative to avoid an outflow of resources. The entity should not therefore recognize a liability. (PV-Chapter 6)	78% agreed (10% disagreed)
<i>6Presentation of Information</i>	
Information about heritage should be presented in line with existing IPSASB pronouncements. (PV-Chapter 7)	58% agreed (28% disagreed)

Characteristics of heritage items—Paragraphs 1.7 and 1.8

- 1.7 Characteristics of heritage items include that: (a) They are often irreplaceable; (b) 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 (c) They are expected to have a long, possibly indefinite, useful life due to increasing rarity and/or significance.
- 1.8 These characteristics of heritage items may have consequences for financial reporting for heritage in the following areas: (a) Measurement: Is it possible to measure heritage items in a way that reflects their service potential or their ability to generate economic benefits? (b) 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 GPFs benefit more from non-financial information about heritage items, reported outside the financial statements? (c) 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? (d) 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? (e) 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?

**Definition or Description of Heritage Assets****Question**

1. Does the IPSASB agree that further discussion of a definition or description of heritage assets should be deferred until after the IPSASB has firmed up its positions on their recognition and measurement?

**Detail***Background*

2. The IPSASB had a PV in its Heritage CP for a description of “heritage items” as follows:  
  
For the purposes of this CP, the following description 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/or significance in relation, but not limited, to their archeological, architectural, agricultural, artistic, cultural, environmental, historical, natural, scientific or technological features.
3. [Appendix A](#) has a brief summary of constituents’ responses to this PV. After the CAG and IPSASB discussions, in December 2017, the Task Force Chair explained that:  
  
There were differing views about the appropriateness of the definition/description of Heritage Items given in the CP. In its discussion with the IPSASB, the CAG tentatively concluded that an extensive description or definition might not be needed for Financial Reporting for Heritage. Instead, an entity may need first to assess whether or not an item is an asset and, as a second step, determine whether the item is heritage. This will pose specific issues for measurement and disclosure. [Status Report, January 2018]

*Future Decisions on Recognition and Measurement will inform the Need for a Definition*

4. If heritage assets are considered to be no different from other property, plant and equipment, or if the critical distinction is between operational/non-operational assets, rather than heritage/non-heritage, then the need for a definition for “heritage items” or “heritage assets” is weaker. Given the link between a definition and its function, it is proposed to defer further IPSASB consideration of a definition until its purpose becomes clearer. For example, depending on the outcome of Task Force and IPSASB discussions, it may be more useful to focus on defining particular subsets of heritage items—for example, “operational heritage items”—rather than amend the present description of heritage items.

**Decisions required**

Does the IPSASB agree to defer discussion of a definition for heritage assets until the need for such a definition becomes clearer?

**Appendix A****Excerpt from December 2017 Agenda Paper 7.2.2****Staff Summary of Responses to Description of Heritage Items****Description of Heritage Items**

- A1. PV–Chapter 2.1 asked constituents whether they agreed with the CP’s description of heritage items. The description was:

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/or significance in relation, but not limited, to their archeological, architectural, agricultural, artistic, cultural, environmental, historical, natural, scientific or technological features.

- A2. About half of respondents agreed with this description (22 respondents, 55%). Nine (22%) partially agreed. Eight (20%) did not agree. One (3%) did not comment.
- A3. The boundary between respondents who agreed or partially agreed was at times difficult to determine. Respondents in both groups frequently identified further points to consider and/or indicated some level of agreement. A respondent was classified as “agreeing” where they started with clear agreement and subsequent comments did not indicate significant reservations. By contrast, partial agreement responses would use words that weakened their agreement (e.g. “broadly agree” or “generally agree”) and then have strongly stated views on how to improve the description.
- A4. The main issues raised in responses were:
- (a) Additional examples of heritage types should be added; e.g. add “religious” or “social”. (See, for example, R07, R21, R24 and R27.)
  - (b) The list of heritage types should be shortened; e.g. combine agriculture with natural (R28).
  - (c) Strengthen the description so that it can operate as a definition. (See, for example, R01, R14, and R20.)
  - (d) Address the significance of those heritage items that are used operationally, for example historic buildings used for other, non-heritage purposes. (See, for example, R20 and R29.)
  - (e) Either amend the idea of “intended to be held indefinitely” or address its implications for financial reporting, with concerns focusing on both “intended” and “indefinitely”. (See, for example, R26, R32, R33, R34, and R35.)

**Heritage Assets and their Recognition****Purpose**

1. The purpose is to provide background information on the issue of heritage asset recognition, noting that the Heritage Task Force will submit recommendations for the IPSASB's consideration in June 2019.

**Detail**

2. As noted in agenda item 7.2.1, the IPSASB has previously decided that next steps for the Heritage Project are to address heritage asset recognition, while the Public Sector Measurement Project continues its work on measurement.
3. The IPSASB Chair's summary of the IPSASB's December 2017 discussion explained that:  
The [CP] responses support the IPSASB's September decision that the focus going forward should be on application guidance for heritage recognition and measurement, and its view that many heritage items are assets and should be recognized. The main issue is measurement. Applying the operational versus non-operational distinction potentially narrows this difficult area to non-operational heritage. The challenge will be the valuation of museum collections.
4. The Heritage Task Force will submit recommendations on heritage asset recognition to the June 2019 meeting. This paper describes the background information, which the Task Force will consider as it develops those recommendations. It covers:
  - (a) Asset recognition in the Conceptual Framework;
  - (b) CP responses on PVs and SMCs related to heritage asset recognition; and
  - (c) Some examples of criteria that could be relevant to the recognition of heritage assets.

*The Conceptual Framework on Asset Recognition*

5. Recognition criteria in the Conceptual Framework (CF) 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 GPFs<sup>4</sup>.
6. The CF defines an asset to be "a resource presently controlled by the entity as a result of a past event<sup>5</sup>." [Appendix A](#) provides an excerpt from the CF, which explains the meaning of "resource" and other key terms.

*Responses to the Heritage CP related to Heritage Asset Existence and Recognition*

7. 80% of constituents agreed that the special characteristics of heritage items do not prevent them being assets<sup>6</sup>. 78% agreed that heritage assets should be recognized if they meet the Conceptual Framework's recognition criteria<sup>7</sup>. However, 68% agreed that there are "heritage-related situations (or factors) in which heritage assets should not initially be recognized and/or

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<sup>4</sup> CP, paragraph 6.2.

<sup>5</sup> CF paragraph 5.6.

<sup>6</sup> PV–Chapter 3.

<sup>7</sup> PV–Chapter 4.1.

measured because it is not possible to assign a relevant and verifiable monetary value; or the cost-benefit constraint applies and the costs of doing so would not justify the benefits<sup>8</sup>:

- 8. [Appendix B](#) has a summary of CP responses, which includes issues raised by respondents with respect to heritage asset recognition.

*Distinguishing between Recognition and Measurement—Heritage Assets*

- 9. Table 1 has examples of factors that could potentially be important for asset existence/recognition and contrasts them with factors that are more directly relevant to the measurement of heritage assets.

Table 1: Factors Related to Asset Existence/Recognition versus Asset Measurement/Recognition

Heritage items—Factors and Situations to Consider	
Asset Existence/Recognition	Asset Measurement/Recognition
<ul style="list-style-type: none"> <li>• Relationship of items to the entity’s objectives (contribute or not?)</li> <li>• Entity’s treatment of the items (e.g. engaged (or not) in preservation or display activities, and would replace (or not) the items if they are lost)</li> <li>• Item has (or does not have) service potential (identify services)</li> <li>• Operational item or “pure heritage” (e.g. building with heritage character versus heritage collection)</li> </ul>	<ul style="list-style-type: none"> <li>• Applicable historic cost, replacement cost, or market value likely to exist</li> <li>• Active market exists for items</li> <li>• Item generates cashflows, which can be used to derive a Net Present Value.</li> <li>• Can entity dispose of the item?</li> <li>• How should the item be valued?</li> </ul>

**No decision required**

The IPSASB is asked to:

- (a) Note that the Heritage Task Force will submit its recommendations on heritage asset recognition to the IPSASB’s June meeting; and
- (b) Provide any immediate views on factors and situations that the Task Force should consider when developing its recommendations on heritage asset recognition.

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<sup>8</sup> SMC—Chapter 4.2

**EXCERPT FROM THE CONCEPTUAL FRAMEWORK—DEFINITION OF AN ASSET****Assets****Definition**

5.6 An asset is:

A resource presently controlled by the entity as a result of a past event.

**A Resource**

5.7 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:

- Use the resource to provide services<sup>6</sup>;
- Use an external party's resources to provide services, for example, leases;
- Convert the resource into cash through its disposal;
- Benefit from the resource's appreciation in value; or
- Receive a stream of cash flows.

5.8 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.

5.9 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.

5.10 Economic benefits are cash inflows or a reduction in cash outflows. 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.

**Presently Controlled by the Entity**

5.11 An entity must have control of the resource. 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.

Footnote 6—References to "services" in the Conceptual Framework encompass "goods".

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

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

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

#### **Past Event**

5.13 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.

**Appendix B****OVERVIEW OF RESPONSES TO HERITAGE ASSETS AND THEIR RECOGNITION**

This overview is a shortened version of the summary provided to the IPSASB in December 2017.

**Heritage Items as Assets**

1. 80% of respondents agreed that the special characteristics of heritage items do not prevent them from being considered as assets for the purposes of financial reporting, with most agreeing without any major reservation. The main issues raised were:
  - (a) The extent to which intangible heritage items are assets and lack of control over knowledge-in-action (a subset of intangible heritage), with some respondents arguing that intangible cultural heritage should not be classified as assets;
  - (b) That natural areas and features should not be classified as assets;
  - (c) The need to consider factors such as:
    - (i) Restrictions and the ability to transfer or sell heritage items and their impact on asset existence;
    - (ii) Existence of service potential or future economic benefits;
    - (iii) The meaning of control; and
    - (iv) The ability to measure reliably.

**Initial Measurement of Heritage Assets at Nominal Cost (One Currency Unit)**

2. Only 28% of respondents agreed with initially recognizing heritage assets at a nominal cost of one currency unit where historical cost is zero, while 58% disagreed. Those respondents who agreed commented on the difficulty and meaning of other approaches to measurement.

**Recognition of Heritage Assets**

3. 77% of respondents agreed with the IPSASB's PV that heritage assets should be recognized if they meet the recognition criteria in the Conceptual Framework. 10% partially agreed, while only three respondents (8%) disagreed. However, the level of agreement may link to the use of 1 currency unit for initial measurement. 11 "agree" responses (28% of total respondents) also agreed with initial measurement of heritage assets at 1 currency unit. Two of those respondents linked recognition to the availability of 1 currency unit for measurement.
4. A respondent who disagreed with recognition identified two factors to consider when assessing the existence of service potential and/or future economic benefits: (a) whether a heritage item is used in carrying out the objectives of the organization; and (b) whether, in the event of loss or damage to the item, the organization would replace the item.
5. One respondent (the Council of Australasian Museum Directors) agreed with recognition, but disagreed with the idea that monetary values for heritage "increase the inherent understanding of a heritage asset for management purposes," explaining that:

The Australian experience, involving over twenty years of market testability in valuation and audit function has failed to produce a coherent, consistently applicable methodology within or between jurisdictions, resulting in fluctuation in the valuation of even high-value, well understood assets. This has led to collection valuations fluctuating over time and jurisdictional authorities refusing to accept the results of valuations.

**Situations (Factors) where Heritage Assets not Recognized or Measured**

6. The majority of respondents (67%) stated that there are situations (or factors) where heritage assets should not initially be recognized and/or measured, while 28% did not agree. Responses focused on measurement difficulties, and particularly the inability to assign a relevant and verifiable monetary value and situations where the costs of measurement exceed the benefits.

**Initial Measurement of Heritage Assets and Measurement Bases**

7. Only 35% of respondents agreed with the IPSASB's PV that:
  - (a) In many cases it will be possible to assign a monetary value to heritage assets, and
  - (b) Appropriate measurement bases are historical cost, market value and replacement cost.
8. Respondents from national jurisdictions that do value and recognize heritage items generally considered assignment of a monetary value to be feasible, while acknowledging measurement difficulties, including the cost of valuations.
9. 43% of respondents disagreed with this PV, with the main issues identified being:
  - (a) That particular measurement bases would be unavailable or are inappropriate.
  - (b) The resulting monetary values are irrelevant.
  - (c) There needs to be scope to use other measurement bases, including the one currency unit (or a symbolic value) either in some situations or for all heritage assets.
10. The following views, expressed by R10, are fairly representative of the "disagree" group:
 

Heritage assets, as defined, generally do not have active, open and orderly markets. Even where a market exists, for example for a work of art, restrictions on disposal will make such a value inappropriate. Conceptual Framework Para 7.27 states that for an orderly market "There are no barriers that prevent the entity from transacting in the market". Clearly restrictions on disposal would be a barrier.

By their nature heritage assets are typically irreplaceable, e.g. a work of art may be copied, but cannot be replaced. Therefore, whilst in principle the valuation bases are appropriate, in practice restrictions on disposal and/or irreplaceability make such valuation bases inappropriate for most heritage assets

Paragraph 4.24 refers to heritage assets that are to be sold—but the decision to sell heritage assets means that by definition they are no longer heritage assets. This only leaves cost as a valuation base. However, many heritage assets have no cost, or only some items of a collection have a cost, or the acquisition was so long ago as to make the cost meaningless.

Our conclusion is therefore that it is only exceptionally that a monetary value can be assigned to a heritage asset.
11. Some respondents proposed distinguishing between operational and non-operational heritage assets for measurement purposes.

## Presentation of Information about Heritage

### Purpose

1. The purpose of this paper is to propose that the Heritage Project's primary focus going forward should be on information in the financial statements, on the basis that existing pronouncements already provide sufficient guidance for heritage-related information presented outside of the financial statements.

### Detail

2. During development of the CP the IPSASB reached a preliminary view that:
 

The special characteristics of heritage items do not warrant presentation objectives specific to heritage. Rather, just as for any other revenues, expenses, assets and liabilities, an entity should present information in a way that meets the objectives of financial reporting, applying existing IPSASB pronouncements, including Recommended Practice Guidelines (RPGs) where appropriate<sup>9</sup>.
3. [Appendix A](#) (to this agenda item) has a summary of responses to this PV.
4. The Task Force Chair's status report from January 2018 explained the IPSASB's position, given its December 2017 discussions:

Some respondents to the CP took the view that an appropriate way to cope with heritage assets might be **disclosure and/or use of other reports**. The IPSASB's position is that disclosures cannot be a substitute for recognition and measurement of assets. In respect of stewardship, heritage items that might fall within the responsibility of the reporting entity but (currently) do not serve the objectives of the entity don't constitute a resource of the entity; there are, therefore, no assets to recognize. However, disclosures could be made in the notes to the financial statements or in other reports, providing additional information about them, their management and any relationship to the financial statements.

### *Proposal to focus on Information in the Financial Statements*

5. This proposal to focus on information presented in the financial statements reflects the IPSASB's preliminary view, responses to that view, and the IPSASB's December 2017 discussion. Key points from the December 2017 IPSASB discussion are:
  - (a) *Information outside of the financial statements*: Noted that some national jurisdictions require supplementary stewardship information, rather than monetary-based information. Depending on the entity heritage-related service performance information could be presented. Arguably the IPSASB's existing pronouncements provide sufficient tools, unless something inherent in heritage suggests otherwise.
  - (b) The IPSASB Chair's summary of the discussion explained that there is a need to identify the heritage information gap. Development of an RPG would be a different project from that presently in progress, and consideration of the need for guidance on presentation of heritage-related information will need to occur at a later stage of the project, with decisions taken in the light of other work plan priorities.
6. Where respondents have proposed that information should be disclosed as a substitute for recognition, the IPSASB does not support that approach, as indicated in its Conceptual Framework, which states that disclosure is not a substitute for display<sup>10</sup>.

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<sup>9</sup> PV— Chapter 7 of the CP.

<sup>10</sup> Paragraph 8.15 of the Conceptual Framework.

7. Where respondents argued that, regardless of what happens with recognition, there is a wider set of heritage-related information that needs to be publicly available, the IPSASB's view is that other IPSAS pronouncements already adequately address that wider set of information becomes relevant. For example, respondents quoted in [Appendix A](#) strongly support a wider set of heritage-related information being made available to the public, and yet also identify appropriate other reports within which this type of information should be presented. Their comments highlight, for example the use of:
  - (a) Information on an entity's management of its heritage responsibilities in its service performance report, if the entity presents this type of report.
  - (b) Budget information in budget and planning documents, including long-term sustainability reports (when presented by the entity) to show the entity's future obligations to hold and preserve heritage assets.
  - (c) A statement of significance for heritage collection items, where this type of *non-GPFR report* is usually a one page summarised pictorial and written statement of the meaning and importance of the specific heritage item.
8. The IPSASB's pronouncements include guidelines that are appropriately flexible to allow entities with heritage responsibilities to disclose both financial and non-financial information about their heritage holdings, heritage-related services, and heritage-related financial matters in terms of:
  - (a) Service performance information (RPG 3, *Reporting Service Performance Information*);
  - (b) Budgets (IPSAS 24, *Presentation of Budget Information in Financial Statements*),
  - (c) Information on longer term resource availability (RPG 1, *Reporting on the Long-Term Sustainability of an Entity's Finances*) ; and
  - (d) Discussion and analysis of financial performance and position (RPG 2, *Financial Statement Discussion and Analysis*).

#### Decisions required

Does the IPSASB agree that the Heritage Project's primary focus going forward should be on information presented in the financial statements?

## Appendix A

## Summary of Responses: PV on Presentation of Information about Heritage

## Presentation in line with IPSASB Pronouncements

1. 57% (23) of respondents agreed with the IPSASB's PV that information about heritage should be presented in line with existing IPSASB pronouncements, while 7% partially agreed and 28% did not agree. 14 of the "agrees" identified additional presentation requirements for heritage.
2. The main presentation issues raised were:
  - (a) In the financial statements:
    - (i) Additional note disclosures on, for example, heritage assets held or their measurement.
    - (ii) Disclosures if heritage assets are measured at a nominal value or measurement is impossible.
    - (iii) A heritage line item on the face of the statement of financial position.
  - (b) Information that is more extensive and/or different in nature from that which would usually be presented in the financial statements:
    - (i) More information, but did not refer to a new report or schedule.
    - (ii) Heritage-specific report or schedule.
3. Some respondents highlighted that heritage information should not be viewed exclusively in terms of the financial statements. For example, R16 and R27 commented:

R16: Financial statements are not the most appropriate reports to provide heritage information that is most useful to those concerned with assessing management's stewardship over the item or collection of items. Many jurisdictions prepare reports on the extent and current condition of their heritage items, and plans for their restoration. As well, long-term sustainability reports which indicate the entity's future obligations to hold and preserve heritage assets would be useful for accountability and decision-making.

R27: Although we support heritage assets that meet the recognition criteria being recognised in financial statements, we acknowledge the limitations of financial statements, and the role that disclosures, or other forms of reporting, have in providing information about heritage items. For example, it is relevant for an entity with responsibility for managing heritage assets to provide information on its management of heritage assets in its service performance report.

We acknowledge that the value obtained for financial reporting purposes is not the only value that a heritage item may have for a community. In particular, the significance of a heritage item to an ethnic group is not readily converted to financial value but is nonetheless an important indicator of heritage in the museum community. The seminal reference on significance is Significance 2.0, a guide to assessing the significance of collections, a publication of the Collections Council of Australia Ltd. This guide promotes the writing of a statement of significance for heritage collection items. The statement of significance would usually be a one page summarised pictorial and written statement of the meaning and importance of the specific heritage item. Information from these statements could form the basis for some non-financial disclosures about heritage items. In some cases, it is the human context that gives an item its value. For example, a weapon has more significance when it has been used by a famous person, than when it is just an example of 19th Century weaponry.