



June 9, 2017

**Memorandum**

To: Members of the Board  
From: Domenic N. Savini, Assistant Director  
Through: Wendy M. Payne, Executive Director  
Subject: IPSASB Heritage Assets Response - **Tab B**<sup>1</sup>

**MEMBER ACTIONS REQUESTED:**

- Please provide comments on the suggested responses on pages 2 through 26 to staff by June 15th.

**MEETING OBJECTIVE**

The objective of this meeting is to consider draft responses prepared by staff regarding the International Public Sector Accounting Standards Board (IPSASB) Consultation Paper (CP) concerning *Financial Reporting for Heritage in the Public Sector*. Comments are due by September 30, 2017.

**BACKGROUND**

At the April 26, 2017 Board meeting, Mr. Dacey provided an update regarding the IPSASB which included the issuance of a CP entitled *Financial Reporting for Heritage in the Public Sector*. The CP seeks input regarding specific matters for comment and IPSASB’s preliminary views concerning the accounting and reporting of Heritage items.

Staff was tasked with developing draft responses to be included in a letter for the June meeting.

**MEMBER FEEDBACK**

Please contact me as soon as possible to convey your questions or suggestions. Communication before the meeting will help make the meeting more productive. You can contact me by telephone at 202-512-6841 or by e-mail at [savinid@fasab.gov](mailto:savinid@fasab.gov) with a cc to [paynew@fasab.gov](mailto:paynew@fasab.gov)

Thank you and I look forward to our meeting.

**Attachment 1** - Consultation Paper: *Financial Reporting for Heritage in the Public Sector*

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<sup>1</sup> The Staff prepares Board meeting materials to facilitate discussion of issues at the Board meeting. This material is presented for discussion purposes only; it is not intended to reflect authoritative views of the FASAB or its staff. Official positions of the FASAB are determined only after extensive due process and deliberations.

QUESTION - 1

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?

If not, please give reasons and identify any additional characteristics that you consider relevant.

IPSASB Basis / Rationale  
(see Attachment 1 for full context)

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, (b) Value, (c) Preservation, (d) Restrictions on use, (e) Benefits to others.

Staff Analysis

1.7 No. The identified characteristics are overly broad because they are typical characteristics and not distinctive features of Heritage items. For example, SFFAS 6 in discussing heritage assets states that, “*heritage assets are those assets possessing **significant educational, cultural, or natural characteristics.***” Other distinctive features could include that such items require: expert custodial care, enhanced security requirements, scientific conservation techniques, and continual restoration efforts.

1.8 There are additional consequences not listed such as: (a) ascertaining the type of element (e.g., asset or liability) an item is in relation to accrual based financial statements, (b) determining whether there may be legal rights of third parties in some but not all cases; that is, the entity is acting in a fiduciary capacity, (c) selecting the most appropriate recognition criteria; that is, deciding when to recognize and derecognize those heritage items that meet the definition of elements, (d) choosing the most meaningful type of display or disclosure/presentation of information, (e) assessing cost-benefit and (f) estimating a heritage item’s impact on future inflows/outflows of resources.

1.7 Suggested Response - *The Board may wish to emphasize that such items are expected to be significant in terms of their educational, cultural, or natural value. Additionally, heritage items often possess distinctive features which include: expert custodial care, enhanced security requirements, scientific conservation techniques, and continual restoration efforts. In so doing, entities will be better equipped to identify potential items for recognition. An additional characteristic is that some heritage items are used to support general operations. For example, many buildings remain in use as office space despite being on the historic registry.*

**1.8 Suggested Response** – *The Board may wish to consider including additional consequences such as (a) ascertaining the type of element an item is in relation to accrual based financial statements, (b) determining whether the entity is acting in a fiduciary capacity and reporting should follow suit, (c) selecting the most appropriate recognition criteria, (d) choosing the most meaningful type of display or disclosure/presentation of information, (e) assessing cost-benefit, (f) ensuring adequate information is available regarding heritage items used in general operations, and (g) estimating a heritage item’s impact on future inflows/outflows of resources.*

## QUESTION – 2

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.

Do you agree with the IPSASB's Preliminary View?  
If not, please provide your reasons.

Preliminary View

(see Attachment 1 for full context)

2.8 ...reliance only on legislation that identifies specific items as heritage presents two potential problems: (a) A legislated list of heritage items could either exclude items that are in substance, heritage items ...or include items that are not, in substance, heritage items. (b) A legislated list may not remain up-to-date.

2.9 ... other sources of information are needed to provide comprehensive and verifiable information on whether items are heritage items, such as: (a) Expert knowledge; (b) Historical studies, research writings and media reports; or (c) Established policies, systems and/or structures, which indicate that an entity expects to hold and preserve the item for present and future generations as a heritage item.

2.10. Although there is a view that identification of heritage items should be based on legislation, global disparities in approach mean that developing a description of heritage items for financial reporting purposes is necessary. This description identifies the

Staff Analysis

2.8 Not entirely. Discounting the importance of legislative lists carries significant risk to financial reporting. An overly broad definition would capture symbols of political, religious or societal struggles. For example, the Confederate Flag, Christian Cross or Star of David are in fact heritage items, however, should they be preserved at the Public's expense? Some adherents for each would argue yes, but other adherents and certainly those opposed to such symbols would argue no. Why should financial accounting be placed in a position of alienating users while favoring others? Reporting could become irrelevant and alienate users. In democratic societies, such issues are best addressed through legislative due process and debate, not accounting standards.

2.8 While we agree that an entity should not solely rely on legislation to identify heritage items, deviations from legislated lists should be rare. At SFFAS 29 we state that, "*One example of evidence that a particular asset is heritage in nature is that it is listed on the National Register of Historic Places.*" Additionally, SFFAS 29 requires disclosure in the form of a concise statement explaining how the heritage assets relate to the mission of the

## QUESTION – 2

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:

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Do you agree with the IPSASB's Preliminary View?  
If not, please provide your reasons.

special characteristics of heritage items that distinguish them.

entity.

2.10 Global disparities may often reflect local societal values, customs, aesthetics, etc. As such, financial reporting should complement and not compete with a jurisdiction's identification of heritage items.

**Suggested Response** – *The description is appropriate and helpful. Nonetheless, some areas could be clarified. (1) The Board may wish to clarify that while other factors impact the identification of heritage items, in democracies, reliance on legislative lists arising from public debate and due process is appropriate and that deviations from such lists should be rare as the lists reflect the will of the people and not merely a definitional or technical construct. (2) It may be helpful to shorten the list of areas an item may be significant in relation to. For example, a scientific or technological feature is unlikely to be a heritage item unless it has historical significance. (3) While an item may be "intended to be held indefinitely and preserved," it also may be used in general operations. The Board may wish to clarify that such items can qualify as heritage items.*

## QUESTION – 3

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.

Do you agree with the IPSASB's Preliminary View?  
If not, please provide your reasons.

Preliminary View

(see Attachment 1 for full context)

2.12 UNESCO conventions include living plants and organisms within natural heritage. However, individual living plants and organisms cannot be held indefinitely and preserved for present and future generations, and do not meet the proposed description of heritage items. On this basis they are excluded from further discussion in this CP.

Staff Analysis

No. It should be noted that:

1. An entity should be permitted to consider the use of non-financial information (NFI) if such information meets its reporting objectives and is both useful to users and cost-beneficial to present. That is, to the extent an entity deems appropriate, living plants and organisms should not be excluded from financial reporting.
  - a. Albeit rare, under certain conditions living plants or organisms might in fact be eligible for recognition. For example, scientists have a 100,000 year old sample for Neanderthal DNA found in a Belgian cave and that the longest lasting sample of human DNA was discovered in northeastern Spain with a survival age of 7000 years.<sup>2</sup>
2. IPSASB's preliminary view underscores an earlier point made by staff and serves as an interesting corollary. That is, IPSASB is making a similar argument staff makes concerning their overly broad characteristics discussed in Question 1. That is, although UNESCO concludes that living plants and organisms are a part of

<sup>2</sup> *How Long Does DNA Last?* by Roma Panganiban. <http://mentalfloss.com/article/48815/how-long-does-dna-last>

QUESTION – 3

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.

Do you agree with the IPSASB’s Preliminary View?  
If not, please provide your reasons.

natural heritage and given the fact that scientists or nature can preserve DNA indefinitely, such broad UNESCO interpretations of heritage should not pre-suppose financial recognition.

3. In staff’s opinion, interpretations and identification of what should be considered heritage requires an analysis of distinctive features of the item in question and not overly broad characteristics.

**Suggested Response** – *The Board may wish to consider the use of non-financial information (NFI) if such information meets an entity’s reporting objectives and is both useful to users and cost-beneficial to present. That is, to the extent an entity deems appropriate, living plants and organisms should not be excluded from financial reporting.*

## QUESTION – 4

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

Do you agree with the IPSASB’s Preliminary View?  
If not, please provide your reasons.

Preliminary View

(see Attachment 1 for full context)

**1.7 Characteristics of heritage items:** (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.

From Chapter 2: Question 3 - 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.

**3.10** For the discussion in this chapter it appears that, drawing on the Conceptual Framework, the special characteristics of heritage items do not prevent them from being:

(a) resources;

(b) Presently controlled by an entity;

Staff Analysis

Disagree in part. To the contrary, distinctive features of heritage items may in fact preclude asset recognition. For example, items requiring perpetual: expert custodial care, enhanced security requirements, scientific conservation techniques, and continual restoration efforts, may reflect unavoidable obligations which may far outweigh an items potential service capacity. Furthermore, it is not uncommon for some heritage items to lack provenance thus creating potential ownership disputes that can give rise to co-sharing agreements. In such cases, an entity’s rights or control over the item would preclude recognition.

The IPSASB preliminary view based upon an overly broad definition and characteristics pre-supposes asset recognition. Staff notes the following:

1. Selecting an appropriate measurement attribute is questionable. What value does one assign to “priceless” works of art or how is a fair value ascertained for items where no active market exists? Moreover, such amounts may not be verifiable or supportable. That is, different knowledgeable and independent observers may not reach a general consensus as to the amounts assigned.

## QUESTION – 4

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

Do you agree with the IPSASB’s Preliminary View?  
If not, please provide your reasons.

(c) As a result of a past event.

2. Assigning a financial value without also recognizing a corresponding obligation or liability would be misleading to the users of financial statements. Even if IPSASB’s conceptual framework precluded liability recognition, costs to preserve, maintain, and restore heritage assets could be accounted for in a similar manner as we account for them in DM&R. Not including liabilities or obligations undermines faithful representation because information is incomplete.
3. Ancillary income or derived benefits are often indirect and insufficient to sustain the heritage item in question.
4. Cost of services is distorted for items acquired at nil or no cost. For example, Italy’s Roman Forum and Coliseum complex predated its government. Assigning any value to reflect service potential and its loss belies the fact that the Italian government paid “niente” for acquiring the venues in question.
5. Similar to GASB’s infrastructure approach, the use of NFI should be considered especially in light of these special characteristics.

**Suggested Response** – *Although the special characteristics of heritage items may not prevent them from being conceptually considered as assets, many heritage items may also fail to meet the conceptual definition. The Board may wish to consider that the special characteristics noted as well as other distinctive features of heritage items in some cases may in fact prevent them from being considered for recognition. That is, such amounts may not be verifiable or supportable as different knowledgeable and independent observers may not reach a general*

QUESTION – 4

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

Do you agree with the IPSASB's Preliminary View?  
If not, please provide your reasons.

*consensus as to the amounts assigned. Moreover, not including liabilities or obligations undermines faithful representation because information is incomplete. Lastly, recognizing heritage items for which no payment was made that pre-date a government's founding will distort cost of services and provide misleading information to users.*

**QUESTION - 5**

**Do you support initially recognizing heritage assets at a nominal cost of one currency unit where historical cost is zero, such as when a fully depreciated asset is categorized as a heritage asset then transferred to a museum at no consideration, or an entity obtains a natural heritage asset without consideration?**

**If so, please provide your reasons.**

**IPSASB Basis / Rationale**

(see Attachment 1 for full context)

4.15. Where historical cost information is available but so old that it may not provide relevant information for achievement of the measurement objective, other measurement bases may be more appropriate.

4.16. Some take the view that there are cases where initial historical cost is zero; for example where an asset was fully depreciated before being categorized as a heritage asset and transferred to the entity, or where an entity obtains a natural heritage asset without consideration. In such cases if the controlling entity intends to incur subsequent capital expenditure, which is not separable from the underlying asset, they propose that a nominal cost of one currency unit should be used at initial recognition.

4.17. Those who support this approach consider that it provides useful information. They consider that this approach differs from symbolic value and is consistent with an historical cost approach. Those who do not support this approach argue that it does not provide information that is useful for decision-making and accountability purposes.

**Staff Analysis**

Yes, under certain circumstances. As stated above, selecting an appropriate measurement attribute is questionable and without also considering future claims on resources, potentially misleading regarding (net) asset display and cost of services.

Fair value estimates without also recognizing liabilities or obligations gives an impression that entities are flush with assets and distorts net position.

Recognizing heritage assets at a nominal cost of one currency unit where historical cost is zero is similar to how we account for HA and SL under SFFAS 29, (requiring entities to reference a note on the balance sheet that discloses information about heritage assets and stewardship land, but no asset dollar amount should be shown).

As long as information (for example, NFI) concerning such things as condition and DM&R are provided, reporting objectives can be adequately met without unduly complicating reporting.

**QUESTION - 5**

**Do you support initially recognizing heritage assets at a nominal cost of one currency unit where historical cost is zero, such as when a fully depreciated asset is categorized as a heritage asset then transferred to a museum at no consideration, or an entity obtains a natural heritage asset without consideration?**

**If so, please provide your reasons.**

***Suggested Response - The Board may wish to consider the use of a nominal cost of one currency unit where historical cost is zero accompanied by potential cash outflows required to sustain the heritage asset and non-financial information (NFI) such as condition or deferred maintenance and repairs/restoration. Such information meets an entity's reporting objectives and is both useful to users and cost-beneficial to present.***

## QUESTION - 6

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

Do you agree with the IPSASB's Preliminary View?  
If not, please provide your reasons.

Preliminary View

(see Attachment 1 for full context)

4.40 ...the IPSASB has concluded that in many cases it is possible to assign monetary values to those heritage items that meet the definition of an asset, and that there are benefits to both users and public sector entities by so doing. The measurement bases available to entities are likely to be restricted to historical cost, market value and replacement cost (where replacement cost includes restoration cost), each of which provides information relevant to an assessment of one or more of the measurement objectives (cost of services, operational capacity and financial capacity).

Staff Analysis

Yes, under certain circumstances. In light of the conceptual framework's note at Par. 6.9, "*The failure to recognize items that meet the definition of an element and the recognition criteria is not rectified by the disclosure of accounting policies, notes or other explanatory detail*" – IPSASB's analysis of the qualitative characteristics and cost-benefit constraints should be thorough. In particular, further exploration of the idea that recognition at one currency unit would enhance accountability is needed.

As previously noted, even if IPSASB's conceptual framework precluded liability recognition, costs to preserve, maintain, and restore heritage assets could be accounted for in a similar manner as we account for them in DM&R. Not including liabilities or obligations undermines faithful representation because information is incomplete and distorts the balance sheet.

Lastly, the Board's inclination to adopt multiple measurement bases may adversely affect comparability.

**Suggested Response** – *The Board may wish to fully assess the other criteria before deciding on balance sheet recognition. For example, reporting objectives, qualitative characteristics, user's needs, and cost-benefit constraints are factors that can be explored more fully and expanding the analysis to consider options for NFI may be helpful. Clarifying how recognition improves asset accountability (par. 4.34(a) and (c) and other additional factors before deciding on recognition seems prudent and warranted and would facilitate comparability.*

**QUESTION - 7**

**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.**

**Preliminary View**

(see Attachment 1 for full context)

4.35 - 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.

4.40 ...the IPSASB has concluded that in many cases it is possible to assign monetary values to those heritage items that meet the definition of an asset, and that there are benefits to both users and public sector entities by so doing. The measurement bases available to entities are likely to be restricted to historical cost, market value and replacement cost (where replacement cost includes restoration cost), each of which provides information relevant to an assessment of one or more of the measurement objectives (cost of services, operational capacity and financial capacity).

**Staff Analysis**

Yes.

- (a) It is not always possible to assign a relevant and verifiable monetary value to items such as priceless works of art, antiquities such as the Roman Coliseum, items with unknown or questionable provenance, un-accessioned items, and public domain land.
- (b) In addition to not being cost-beneficial, assigning values to many significant holdings would be arbitrary and adversely affect the qualitative characteristics of representational faithfulness and verifiability. For example:
  - i. Where markets are either limited or non-existent.
  - ii. Where items are part of a collection owned/managed by multiple entities.
  - iii. Where market values routinely fluctuate such as in the case of land and certain genres of art.
  - iv. Requiring routine impairment reviews.

**QUESTION - 7**

**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.**

***Suggested Response – The Board may wish to consider not allowing recognition of certain heritage items due to factors and conditions that directly affect representational faithfulness and verifiability. Such factors include: priceless works of art, antiquities, items with unknown or questionable provenance, un-accessioned items, and public domain land. Additional factors directly affecting cost-benefit consideration include where markets are either limited or non-existent, or those markets that experience routine price fluctuations such as in the case of land and certain genres of art, and items which are part of a collection owned/managed by multiple entities. Lastly, preparer burden will be increased due to impairment reviews which will need to be routinely performed.***

QUESTION - 8

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.

Do you agree with the IPSASB's Preliminary View? If not, please provide your reasons.

Preliminary View

(see Attachment 1 for full context)

4.2. Recognition is the process of incorporating and including an item in amounts displayed on the face of the appropriate financial statement. 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 GPFs.

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

4.4. 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.

Staff Analysis

Disagree. In many if not most cases it will not be possible to assign a monetary value to heritage items. Among the IPSASB identified measurement bases, replacement cost may not be appropriate because you cannot, for example replace natural heritage items such as Yellow Stone National Park or the Hope Diamond. Also, works of art such as DaVinci's Mona Lisa cannot be replaced.

In most cases historical costs may also not be appropriate because they may be unavailable or not consistent with the method of acquisition such as when a nation is first settled. That is, many heritage items are acquired by means other than exchange transactions.

Although theoretically restoration costs may be most appropriate for works of art or constructed heritage items and the value-in-use measurement base may be more appropriate for natural heritage items, they are problematic and not cost-beneficial to apply in practice.

**Suggested Response – We disagree that it will be possible to assign a monetary value to heritage assets in many cases. In most cases it will not be possible or cost-beneficial to assign a value to heritage items without sacrificing the qualitative characteristics of faithful representation, verifiability, and comparability. Moreover, market value cost does not exist for many items such as natural heritage or even works of art given non-existent or limited markets. In many cases historical cost information is unavailable and where it does exist, its usefulness is limited given the passage of time since acquisition. Lastly, replacement cost appears to be inappropriate for natural heritage items, works of art, and**

**QUESTION - 8**

**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.**

**Do you agree with the IPSASB's Preliminary View? If not, please provide your reasons.**

*antiquities.*

Chapter 4.3 - Additional Measurement Guidance - Paragraph 4.40	Specific Matters for Comment
<p><b>QUESTION - 9</b></p> <p><b>What additional guidance should the IPSASB provide through its Public Sector Measurement Project to enable these measurement bases to be applied to heritage assets?</b></p>	
<p style="text-align: center;"><u>IPSASB Basis / Rationale</u> (see Attachment 1 for full context)</p> <p>4.40 ...the IPSASB has concluded that in many cases it is possible to assign monetary values to those heritage items that meet the definition of an asset, and that there are benefits to both users and public sector entities by so doing. The measurement bases available to entities are likely to be restricted to historical cost, market value and replacement cost (where replacement cost includes restoration cost), each of which provides information relevant to an assessment of one or more of the measurement objectives (cost of services, operational capacity and financial capacity).</p>	<p style="text-align: center;"><u>Staff Analysis</u></p> <p>IPSASB should expand its discussion concerning liability recognition and measurement and also add restoration costs and value-in-use as potential measurement attributes for heritage items. Second, deferred maintenance and restoration/replacement (DM&amp;R) costs should also be addressed as they have a direct impact on asset and liability assessments.</p> <p>For example, if a heritage item is recognized as an asset and has a significant amount of DM&amp;R it might be considered to be impaired. Moreover, if a heritage item is recognized as a liability, such DM&amp;R may in fact be recognized as an additional obligation if it's determined that it cannot be continually avoided.</p>
<p><b><u>Suggested Response</u></b> – <i>The Board may wish to consider expanding its discussion concerning liability recognition and measurement and also add restoration costs and value-in-use as potential measurement attributes for heritage items. Additionally, deferred maintenance and restoration/replacement (DM&amp;R) costs should also be addressed as they have a direct impact on asset and liability assessments directly affecting faithful representation.</i></p>	

## QUESTION - 10

## Subsequent measurement of heritage assets:

- (a) Will need to address changes in heritage asset values that arise from subsequent expenditure, consumption, impairment and revaluation.
- (b) Can be approached in broadly the same way as subsequent measurement for other, non-heritage assets.

Do you agree with the IPSASB's Preliminary View? If not, please provide your reasons.

Preliminary View

(see Attachment 1 for full context)

5.13. After initial measurement at historical cost use of a revaluation model subsequently would require that market values and/or information for replacement cost will need to be available. As noted in paragraph 5.6, use of the new measurement basis will raise the same issues as those discussed in Chapter 4. Where the market value or replacement cost basis has been used for initial measurement, the same basis is likely to be available for subsequent revaluation.

5.14 Based on the discussion above, the IPSASB has concluded that the subsequent measurement of heritage assets can be approached in broadly the same way as for other, non-heritage assets. Subsequent measurement requirements for heritage assets will need to address changes in heritage asset values that arise from subsequent expenditure, consumption, impairment and revaluation, including the frequency of determining market value and their continued availability.

Staff Analysis

Generally agree. However, the cost incurred to re-measure does not seem to exceed the benefits. Requiring entities to establish policies, procedures and system changes will be costly and unnecessarily complicate financial reporting. A simpler solution is to forego measurement altogether and use NFI to achieve reporting objectives.

**Suggested Response** - *We question the cost-benefit of requiring entities to re-measure heritage assets. Requiring entities to establish policies, procedures and system changes will be costly and unnecessarily complicate financial reporting. As such, the Board may wish to consider the use of a nominal cost of one currency unit where historical cost is zero or forego measurement altogether. Instead, providing information such*

**QUESTION - 10**

**Subsequent measurement of heritage assets:**

- (a) Will need to address changes in heritage asset values that arise from subsequent expenditure, consumption, impairment and revaluation.**
- (b) Can be approached in broadly the same way as subsequent measurement for other, non-heritage assets.**

**Do you agree with the IPSASB's Preliminary View? If not, please provide your reasons.**

*as potential cash inflows and outflows accompanied by non-financial information (NFI) would meet reporting objectives and prove beneficial to users and be cost-beneficial.*

## QUESTION - 11

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.

IPSASB Basis / Rationale

(see Attachment 1 for full context)

5.13. After initial measurement at historical cost use of a revaluation model subsequently would require that market values and/or information for replacement cost will need to be available. As noted in paragraph 5.6, use of the new measurement basis will raise the same issues as those discussed in Chapter 4. Where the market value or replacement cost basis has been used for initial measurement, the same basis is likely to be available for subsequent revaluation.

5.14 Based on the discussion above, the IPSASB has concluded that the subsequent measurement of heritage assets can be approached in broadly the same way as for other, non-heritage assets. Subsequent measurement requirements for heritage assets will need to address changes in heritage asset values that arise from subsequent expenditure, consumption, impairment and revaluation, including the frequency of determining market value and their continued availability.

Staff Analysis

Yes. It is not always possible to assign a relevant and verifiable monetary value to items such as priceless works of art, antiquities such as the Roman Coliseum, items with unknown or questionable provenance, un-acquisitioned items, and public domain land.

In addition to not being cost-beneficial, assigning values to many significant holdings would be arbitrary and adversely affect the qualitative characteristics of representational faithfulness and verifiability. For example:

- (a) Where markets are either limited or non-existent.
- (b) Where items are part of a collection owned/managed by multiple entities.
- (c) Where market values routinely fluctuate such as in the case of land and certain genres of art.

**Suggested Response** – *As explained in our response to Specific Matters for Comment – Chapter 4.2, the Board may wish to consider not allowing recognition of certain heritage items due to factors and conditions that directly affect representational faithfulness and verifiability. Moreover, requiring entities to establish policies, procedures and system changes will be costly and unnecessarily complicate financial reporting. As such, the Board may wish to consider the use of a nominal cost of one currency unit where historical cost is zero or forego measurement altogether. Instead, providing information such as potential cash inflows and outflows accompanied by non-financial information*

*(NFI) would meet reporting objectives and prove beneficial to users and be cost-beneficial.*

**QUESTION - 12**

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.

Do you agree with the IPSASB’s Preliminary View? If not, please provide your reasons.

Preliminary View

(see Attachment 1 for full context)

6.10 The IPSASB acknowledges that there are many who believe that entities holding heritage items for the purposes stated in the description of heritage items developed in Chapter 2 have a moral duty to expend resources to preserve those items and to account for that duty as an obligation. The IPSASB considers, however, that the special characteristics of heritage items<sup>48</sup> do not of themselves give rise to present obligations that would result in the recognition of a liability.

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, (b) Value, (c) Preservation, (d) Restrictions on use, (e) Benefits to others.

Staff Analysis

Disagree. Heritage items often create a financial burden given the perpetual nature to preserve them. Failing reflect this burden and pre-judging all HA as assets undermines the representational faithfulness of financial reporting.

IPSASB should expand its discussion concerning liability recognition and measurement. Also, deferred maintenance and restoration/replacement (DM&R) costs should be addressed as they have a direct impact on asset and liability assessments.

For example, if a heritage item is recognized as an asset and has a significant amount of DM&R it might be considered to be impaired. Moreover, if a heritage item is recognized as a liability, such DM&R may in fact be recognized as an additional obligation if it’s determined that it cannot be continually avoided.

Lastly, comparing resource inflows to outflows would provide meaningful information and help meet the reporting objectives.

**Suggested Response** – *As explained in our response to Specific Matters for Comment – Chapter 4.3, the Board may wish to consider expanding its discussion concerning liability recognition and measurement. In so doing, obligations which do not meet the definition of a liability should be considered eligible for deferred maintenance and restoration/replacement costs reporting. Additionally, potential cash*

*inflows and outflows accompanied by non-financial information (NFI) should also be addressed as they have a direct impact on asset and liability assessments and faithful representation.*

## QUESTION - 13

Information about heritage should be presented in line with existing IPSASB pronouncements.

Do you agree with the IPSASB's Preliminary View?

If not, please provide your reasons and describe what further guidance should be provided to address these.

Preliminary View

(see Attachment 1 for full context)

7.7 Information on recognized heritage assets might include: (a) The main types of heritage assets; (b) How heritage assets are measured, including impairment or other changes in measurement; and (c) Resource outflows and inflows as a result of holding, acquiring and disposing of heritage assets (for example through transfer or sale).

7.8 An entity could present information in its financial statements discussion and analysis or another GPFR to assist users to understand the: (a) Effect of the entity's holding of heritage items on its operational capacity, cost of services and financial capacity; (b) Extent of an entity's heritage holdings, encompassing any heritage items recognized as assets as well as unrecognized heritage items; (c) Extent of maintenance expenses; and (d) Nature of the entity's custodial responsibilities with respect to heritage and legislation that establishes such responsibilities.

7.9 Different entities have different portfolios of heritage items. Each entity will need to determine what information needs to be presented in light of the heritage items they hold and IPSASB pronouncements.

Staff Analysis

The IPSASB conceptual framework recognizes that in some circumstances, the elements identified in its framework does not preclude the Board from requiring or allowing the recognition of resources or obligations that do not satisfy the definition of these pre-defined elements. As such, the Board should consider the use of non-financial information (NFI) to improve heritage reporting especially because heritage items do not typically have a direct impact on costs of services or possess measurable operational capacity.

Specific areas that require further analysis and discussion follow:

1. Determining how cost of services and operational capacity apply to heritage items. Adopting this position pre-supposes asset recognition on items that have an indirect and ancillary effect on benefits while having a direct and perpetual effect on resource consumption; that is, cash outflows.
2. Assessing whether heritage items create an obligation that the entity cannot avoid; that is, potential for liability recognition or as a minimum, disclosure of cash outflows and DM&R.
3. Considering whether a heritage item could be a fiduciary asset.
4. Narrowing the overly broad definition of heritage items that would require all such items to (unnecessarily) be candidates for (asset) recognition.

## QUESTION - 13

Information about heritage should be presented in line with existing IPSASB pronouncements.  
Do you agree with the IPSASB's Preliminary View?

If not, please provide your reasons and describe what further guidance should be provided to address these.

5. Considering the use of NFI in helping to meet the IPSASB reporting objectives.
6. Acknowledging that other factors or considerations such as country/societal norms may affect recognition.
7. Specifying that additional factors are at-play before deciding on whether to recognize a heritage item.

**Suggested Response** – *The IPSASB conceptual framework recognizes that in some circumstances, the elements identified in its framework do not preclude the Board from requiring or allowing the recognition of resources or obligations that do not satisfy the definition of these pre-defined elements. As such, the Board should consider the use of non-financial information (NFI) to improve heritage reporting especially because heritage items do not typically have a direct impact on costs of services or possess measurable operational capacity. To that end, the use of deferred maintenance and repairs/restoration (DM&R) would greatly enhance financial reporting especially if heritage obligations do not give rise to liabilities.*

*Additionally, the Board may wish to consider whether heritage items should be accounted for as fiduciary assets. In many jurisdictions heritage assets are not owned by the government per se but are managed on behalf of its people. As such, not comingling heritage items with an entity's other assets may better reflect the substance of the relationship between the entity and its heritage items.*

*Narrowing the definition of heritage to emphasize that (1) such items are expected to be significant in terms of their educational, cultural, or natural value and (2) other distinctive features such as expert custodial care, enhanced security requirements, scientific conservation techniques, and continual restoration efforts are often present for significant items. Narrowing the definition will ease preparer burden and enhance comparability.*

*Lastly, noting that global disparities may often reflect local societal values, customs, aesthetics, etc., and that any forthcoming accounting guidance should complement and not compete with a jurisdiction's identification of heritage items would clarify the Board's intentions and improve financial reporting on heritage items.*

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## ATTACHMENT 1

**Consultation Paper**  
**April 2017**  
*Comments due: September 30, 2017*

IPSAS®

*Proposed International Public Sector  
Accounting Standard®*

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# 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

Currently there are a variety of practices for the financial reporting of heritage in different jurisdictions. IPSAS 17, *Property, Plant and Equipment*, 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. This diversity reduces comparability between public sector entities. Financial reporting practices may not provide the information that users of general purpose financial reports (GPFs) need for accountability and decision making.

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 consider the need to develop additional guidance on financial reporting for heritage, in order to meet the needs of users of GPFs for information for the purposes of accountability and decision making.

For the purposes of this CP, heritage items are described as "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."

This CP 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 present obligations for entities, which should be recognized as liabilities in the financial statements. It discusses presentation of information for heritage in financial statements and other GPFs.

The CP proposes that the special characteristics of heritage items do not prevent them from being considered as assets for the purposes of financial reporting, and that they should be recognized in the statement of financial position if they meet the recognition criteria in the Conceptual Framework. 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. Subsequent measurement of heritage assets can be approached in broadly the same way as subsequent measurement for other, non-heritage assets.

The CP also proposes that an intention to preserve heritage items for present and future generations, does not, of itself, result in a present obligation such that an entity has little or no realistic alternative to avoid an outflow of resources and should therefore recognize a liability. An entity should present heritage-related information in line with existing IPSASB pronouncements.

## 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 September 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.

#### **Specific Matters for Comment—Chapter 1 (following paragraph 1.8)**

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?

If not, please give reasons and identify any additional characteristics that you consider relevant.

#### **Preliminary View—Chapter 2.1 (following paragraph 2.11)**

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.

Do you agree with the IPSASB’s Preliminary View? If not, please provide your reasons.

#### **Preliminary View—Chapter 2.2 (following paragraph 2.12)**

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.

Do you agree with the IPSASB’s Preliminary View? If not, please provide your reasons.

#### **Preliminary View—Chapter 3 (following paragraph 3.11)**

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

Do you agree with the IPSASB’s Preliminary View? If not, please provide your reasons.

**Specific Matters for Comment—Chapter 4.1 (following paragraph 4.17)**

Do you support initially recognizing heritage assets at a nominal cost of one currency unit where historical cost is zero, such as when a fully depreciated asset is categorized as a heritage asset then transferred to a museum at no consideration, or an entity obtains a natural heritage asset without consideration?

If so, please provide your reasons.

**Preliminary View—Chapter 4.1 (following paragraph 4.40)**

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

Do you agree with the IPSASB's Preliminary View? If not, please provide your reasons.

**Specific Matters for Comment—Chapter 4.2 (following paragraph 4.40)**

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.

**Preliminary View—Chapter 4.2 (following paragraph 4.40)**

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.

Do you agree with the IPSASB's Preliminary View? If not, please provide your reasons.

**Specific Matters for Comment—Chapter 4.3 (following paragraph 4.40)**

What additional guidance should the IPSASB provide through its Public Sector Measurement Project to enable these measurement bases to be applied to heritage assets?

**Preliminary View – Chapter 5 (following paragraph 5.14)**

Subsequent measurement of heritage assets:

- (a) Will need to address changes in heritage asset values that arise from subsequent expenditure, consumption, impairment and revaluation.
- (b) Can be approached in broadly the same way as subsequent measurement for other, non-heritage assets.

Do you agree with the IPSASB's Preliminary View? If not, please provide your reasons.

**Specific Matters for Comment—Chapter 5 (following paragraph 5.14)**

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.

**Preliminary View—Chapter 6 (following paragraph 6.10)**

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.

Do you agree with the IPSASB's Preliminary View? If not, please provide your reasons.

**Preliminary View—Chapter 7 (following paragraph 7.9)**

Information about heritage should be presented in line with existing IPSASB pronouncements.

Do you agree with the IPSASB's Preliminary View? If not, please provide your reasons and describe what further guidance should be provided to address these.

# FINANCIAL REPORTING FOR HERITAGE IN THE PUBLIC SECTOR

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

### Introduction

- 1.1 *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>. 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, the view is provided, along with discussion to explain how the IPSASB reached its view.

### The IPSASB's Heritage Project

- 1.2 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 to determine how to account for heritage until this topic could be considered in depth.
- 1.3 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.
- 1.4 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 2014 strategy and work plan consultation, that developing coverage of financial reporting for heritage in its pronouncements should be an IPSASB priority.

### Challenges of Financial Reporting for Heritage

- 1.5 Worldwide there are different views on what items are 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,

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

- (b) Presentation of information in other general purpose financial reports (GPFs) that provide information which enhances, complements, and supplements the financial statements.
- 1.6 The financial reporting challenges may vary between countries. These challenges 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.

*Characteristics of Heritage Items*

- 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?

**Specific Matters for Comment—Chapter 1**

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?

If not, please give reasons and identify any additional characteristics that you consider relevant.

**The Public Interest and Financial Reporting for Heritage**

- 1.9 Given these financial reporting challenges and the special characteristics of heritage, the question arises of what heritage-related information users of GPFs 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.

- 1.10 The purpose for which an entity holds heritage items could impact on the information that users of GPFs 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. This could have implications for information available to users for the purposes of accountability and decision making related to the entity as a whole.
- 1.11 As noted in paragraph 1.2 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 comparability of information reported.
- 1.12 This CP discusses financial reporting for heritage in light of constituents' concerns. It considers whether or not additional financial reporting requirements and/or guidelines are necessary, including scope for information in the financial statements and/or in other GPFs. The IPSASB will take decisions on the nature and extent of any additional requirements in the context of feedback from constituents.

### **Approach in this Consultation Paper**

- 1.13 This CP draws on 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 draws on 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, drawing on 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 GPFs, for example service performance information reported when an entity has heritage-related service performance objectives.
- 1.14 While the Conceptual Framework underpins this CP's consideration of financial reporting for heritage in the public sector, 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.

### **Structure of this Consultation Paper**

- 1.15 This CP covers financial reporting for heritage in the following order:
- (a) Chapter 2 describes heritage items and discusses issues related to their identification;

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

- (b) Chapter 3 discusses whether or not heritage items could be assets for financial reporting purposes;
- (c) Chapter 4 discusses the recognition and initial measurement of heritage assets;
- (d) Chapter 5 examines subsequent measurement;
- (e) Chapter 6 considers obligations related to heritage items and discusses their recognition and measurement; and
- (f) Chapter 7 discusses presentation of information on heritage items in the financial statements and in other GPFRs.

## Chapter 2, Descriptions of Heritage

### Introduction

- 2.1. This chapter considers what heritage is, discusses heritage identification issues, and then proposes a description of “heritage items”, as a basis for subsequent discussion of financial reporting for heritage in the public sector. This chapter does not consider whether heritage items are assets from the perspective of a reporting entity, which is discussed in Chapter 3.

### Heritage

- 2.2. There are different views on what is meant by “heritage” and, consequently, what things should be identified as heritage items. United Nations Educational, Scientific and Cultural Organization (UNESCO) international conventions for heritage protection have defined heritage and different categories of heritage<sup>3</sup>. These definitions emphasize the importance, significance and/or value of heritage items, highlighting their sacred or historic nature and their rarity. 192 countries have ratified the UNESCO convention on protection of world heritage sites<sup>4</sup> and therefore the UNESCO meaning of heritage would appear to be widely accepted.
- 2.3. UNESCO classifies heritage as cultural and natural. The remainder of the discussion in this chapter uses these UNESCO categories as a basis for developing a description of heritage items for the purpose of financial reporting.

### Cultural Heritage

- 2.4. 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, works of art, and scientific collections;
  - (b) Underwater cultural heritage, for example, buildings that are beneath the water or sunken ships; and
  - (c) Natural history collections such as collections of insects, or mineral collections.
- 2.5. UNESCO defines intangible cultural heritage as, what this CP will call, “knowledge-in-action”. To align with financial reporting terminology, this CP also considers “intellectual property” as a second type of intangible cultural heritage:
- (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 includes rights over recordings of significant historical events and rights to use culturally significant films.

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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”.

<sup>4</sup> 1972 *Convention on Protecting the World Cultural and Natural Heritage*

## Natural Heritage

2.6. Natural heritage covers natural features or areas. Examples include natural features such as mountains, naturally occurring rock formations, and bodies of water such as lakes or waterfalls.

### Heritage Item Identification Issues

2.7. Some jurisdictions have developed different ways to identify heritage items. For example:

- (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.

2.8. However, reliance only on legislation that identifies specific items as heritage presents two potential problems:

- (a) A legislated list of heritage items could either exclude items that are, in substance, heritage items, or include items that are not, in substance, heritage items. For example, legislation may list only those heritage items that warrant special funding or a special level of protection, so that other heritage items are not listed.
- (b) A legislated list may not remain up-to-date. For example, “new” heritage items may be identified and not be captured by the list, because, after enactment of the legislation, they are:
  - (i) Purchased or received through donation;
  - (ii) Discovered, for example through excavations that uncover previously unknown heritage items or through reassessments of items that were not viewed as heritage items; or
  - (iii) Created, for example through construction of an iconic building.

2.9. Given these problems with legislated lists of heritage items, other sources of information are needed to provide comprehensive and verifiable information on whether items are heritage items, such as:

- (a) Expert knowledge;
- (b) Historical studies, research writings and media reports; or
- (c) Established policies, systems and/or structures, which indicate that an entity expects to hold and preserve the item for present and future generations as a heritage item.

2.10. Although there is a view that identification of heritage items should be based on legislation, global disparities in approach mean that developing a description of heritage items for financial reporting purposes is necessary. This description identifies the special characteristics of heritage items that distinguish them.

### Description of Heritage Items

2.11. Given the special characteristics of heritage identified in the UNESCO conventions, and the discussion above on a principles-based approach to identification of heritage items, the IPSASB has developed the following preliminary view:

**Preliminary View—Chapter 2.1**

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.

Do you agree with the IPSASB's Preliminary View?

If not, please provide your reasons.

2.12. UNESCO conventions include living plants and organisms within natural heritage. However, individual living plants and organisms cannot be held indefinitely and preserved for present and future generations, and do not meet the proposed description of heritage items. On this basis they are excluded from further discussion in this CP.

**Preliminary View—Chapter 2.2**

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.

Do you agree with the IPSASB's Preliminary View?

If not, please provide your reasons.

## Chapter 3, Heritage Items as Assets

### Introduction

3.1. This chapter considers whether heritage items could be assets for financial reporting purposes. The Conceptual Framework states that an asset is “a resource presently controlled by the entity as a result of a past event<sup>5</sup>.” This chapter discusses each of these three aspects (resources, control and past event) in the context of heritage items, focusing particularly on the resource and control aspects. Where an asset exists it must also be measurable, before it can be recognized in financial statements, and this is considered in Chapter 4.

### Heritage Items as Resources

3.2. The Conceptual Framework states that a resource is an item with service potential or the ability to generate economic benefits<sup>6</sup>. Service potential is the capacity to provide services that contribute to achieving the entity’s objectives, without necessarily generating net cash inflows<sup>7</sup>. Economic benefits are cash inflows or a reduction in cash outflows<sup>8</sup>, which may be derived from, for example, an asset’s use in the production and sale of services<sup>9</sup>. Heritage items appear more likely to be held for their service potential rather than their ability to generate economic benefits<sup>10</sup>. Therefore, the discussion below focuses primarily on service potential.

3.3. Public sector entities’ objectives can include providing services either directly or indirectly to individuals or institutions. The objectives of an entity holding heritage items may include, for example:

- (a) Providing access to heritage items directly to individuals (for their education, appreciation, etc.);
- (b) Holding heritage items indefinitely in a custodial capacity;
- (c) Preserving heritage items to benefit the whole community; or
- (d) Promoting heritage-related tourism.

3.4. Heritage items may also provide services that contribute to achievement of an entity’s objectives, for reasons other than their heritage characteristics. For example, a heritage building can be used as office space.

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

3.5. Some heritage items may be able to generate economic benefits for the reporting entity. Economic benefits could arise, for example, 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; and
- (c) Loan or rent of the item to other entities.

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<sup>5</sup> Paragraph 5.6 of the Conceptual Framework.

<sup>6</sup> Paragraph 5.7 of the Conceptual Framework.

<sup>7</sup> Paragraph 5.8 of the Conceptual Framework.

<sup>8</sup> Paragraph 5.10 of the Conceptual Framework.

<sup>9</sup> Ibid.

<sup>10</sup> The Conceptual Framework refers to heritage assets in its discussion of service potential in paragraph 5.9.

**Control of a Heritage Resource**

- 3.6. 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>.”
- 3.7. An entity is likely to have the ability to control heritage resources when it can demonstrate some or all of the following:
- (a) Legal ownership—for example through a purchase document or deed of transfer, etc.
  - (b) Other enforceable rights given to an entity that give it the ability to access or deny or restrict access. For example, an entity might:
    - (i) Decide whether to set an entrance fee to a museum and deny access to those who do not pay the fee;
    - (ii) Prohibit the use of a public square for commercial purposes; or
    - (iii) Grant other entities limited reproduction rights to a heritage film or audio-recording.
  - (c) Direct the use of heritage resources to achieve the entity’s objectives, as discussed in paragraphs 3.3 and 3.4.

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

- 3.8. As explained in Chapter 2, one subcategory of intangible cultural heritage called “knowledge-in-action” consists of heritage items such as languages, performing arts, rituals, and traditional craftsmanship. 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.

**Past Event for Present Control over Heritage Resources**

- 3.9. The Conceptual Framework describes the type of past event that could indicate that the entity presently controls a resource<sup>12</sup>. Past events that could indicate that an entity controls a heritage resource include:
- (a) Purchase from an external party;
  - (b) Receipt through a non-exchange transaction such as donation, confiscation or nationalization;

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

<sup>12</sup> Paragraph 5.13 of the Conceptual Framework.

- (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; and
- (d) Construction or development.

### **Heritage Items as Assets**

3.10. From the discussion in this chapter it appears that, drawing on the Conceptual Framework, the special characteristics of heritage items<sup>13</sup> do not prevent them being:

- (a) Resources;
- (b) Presently controlled by an entity;
- (c) As a result of a past event.

3.11. The IPSASB has therefore developed the following preliminary view:

#### **Preliminary View—Chapter 3**

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

Do you agree with the IPSASB's Preliminary View?

If not, please provide your reasons.

3.12. The next chapter will consider whether heritage assets can be measured and recognized for the purposes of financial reporting.

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<sup>13</sup> Chapter 2's description of heritage items describes the special characteristics of heritage items that distinguish them from other phenomena for the purposes of financial reporting.

## Chapter 4, Recognition and Initial Measurement of Heritage Assets

### Introduction

4.1. This chapter draws on 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 do not prevent them from being considered as assets, which is the first criterion for recognition. Therefore, this chapter focuses on the second recognition criterion, measurability at initial recognition<sup>14</sup>. Subsequent measurement is considered in Chapter 5.

### 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>15</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 GPFs<sup>16</sup>.

4.3. 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 that meets the measurement objective; and
- (c) Determination of whether the measurement of the item achieves the qualitative characteristics, taking into account the constraints on information in GPFs, including that the measurement is sufficiently relevant and faithfully representative for the item to be recognized in the financial statements.

4.4. 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>.

### Heritage Assets and the Measurement Objective

4.5. The following paragraphs discuss the measurement objective in the context of heritage assets.

#### *Cost of Services*

4.6. An entity's cost of services should reflect the amount of resources expended to acquire, develop and preserve heritage assets used in the provision of services. While many heritage assets are used to provide services but are not 'consumed' (e.g. conservation land, museum collections and art), some heritage assets may depreciate such that those costs could also be relevant. Where heritage assets are being used over time (e.g. buildings) or faithfully restored or purchased to build a current

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<sup>14</sup> This chapter's discussion of initial recognition focuses on an entity's initial recognition on acquisition of heritage items rather than initial recognition on first time adoption of accrual basis IPSASs.

<sup>15</sup> Paragraph 6.1 of the Conceptual Framework.

<sup>16</sup> Paragraph 6.2 of the Conceptual Framework.

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

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

collection, the initial asset expenditure is important and does provide useful information about the cost of services.

*Operational capacity*

- 4.7. By assigning an appropriate monetary value to heritage assets<sup>19</sup>, the resulting information may be useful for users' assessments of the resources required to provide services and available for the entity's operations, which include delivery of services in future periods. Operational capacity relates to a range of services, as discussed in Chapter 3 (paragraphs 3.3 and 3.4)<sup>20</sup>.

*Financial capacity*

- 4.8. Heritage assets can appreciate in value over time or generate cash flows through, for example, access fees, and thereby contribute to an entity's financial capacity. Information on the monetary value of heritage assets could also be viewed as relevant to assessments of the entity's financial position. Inclusion of such information can provide information that is more faithfully representative of financial capacity.
- 4.9. Heritage assets' contribution to an entity's financial capacity may not be the primary focus for users, because heritage assets are not normally expected to raise funds through sale or as security for borrowings. In many situations the generation of cash will not have a direct relationship (or even any relationship) with the monetary value of the heritage assets. Where heritage assets cannot be sold and the cash they generate for the entity is much less than their monetary value some would argue that their measurement and recognition will overstate an entity's financial capacity.

Measurement of Heritage Assets and their Symbolic Value

- 4.10. Some argue that a monetary value cannot show the value of heritage assets, which is their heritage significance. From this perspective, either a monetary value understates the heritage assets' value in terms of service potential<sup>21</sup> or incorrectly implies that heritage significance can be represented with a monetary value. These are the arguments in favor of a "symbolic value" for heritage assets, which could be one currency unit.

**Measurement Bases**

- 4.11. 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. It identifies the following measurement bases for assets<sup>22</sup>.
- (a) Historical cost;
  - (b) Market value;

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<sup>19</sup> Chapter 5 discusses subsequent expenditure. The same arguments for assignment of a monetary value are expected to apply to subsequent expenditure on heritage assets, where subsequent expenditure meets recognition criteria or, at standards level, specific criteria (appropriate to the type of asset) for capitalization versus expense.

<sup>20</sup> The Conceptual Framework describes operational capacity as "the physical and other resources currently available to support the provision of services in future periods" (paragraph 2.11) and "the capacity of the entity to support the provision of services in future periods through physical and other resources" (paragraph 7.3).

<sup>21</sup> The IPSASB's Public Sector Measurement Project is expected to consider measurement of service potential as one part of a broad consideration of measurement in IPSASs. Its recommendations could have implications for the valuation of heritage assets.

<sup>22</sup> Chapter 7 of the Conceptual Framework.

- (c) Replacement cost;
  - (d) Net selling price; and
  - (e) Value in use.
- 4.12. This section discusses the five measurement bases noted above, in the context of heritage assets, considering whether the resulting information is relevant to assessments of the cost of services, operational capacity and financial capacity.

*Historical Cost*

- 4.13. 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 information on the cost at acquisition is usually readily available.
- 4.14. Historical cost is likely to be available to measure heritage assets that have been purchased recently. Where historical cost information is unavailable – because, for example, heritage assets were acquired through a donation – or historical cost information has been lost, another measurement basis such as market value or replacement cost may be obtainable.
- 4.15. Where historical cost information is available but so old that it may not provide relevant information for achievement of the measurement objective, other measurement bases may be more appropriate.
- 4.16. Some take the view that there are cases where initial historical cost is zero; for example where an asset was fully depreciated before being categorized as a heritage asset and transferred to the entity, or where an entity obtains a natural heritage asset without consideration. In such cases if the controlling entity intends to incur subsequent capital expenditure, which is not separable from the underlying asset, they propose that a nominal cost of one currency unit should be used at initial recognition.
- 4.17. Those who support this approach consider that it provides useful information. They consider that this approach differs from symbolic value and is consistent with an historical cost approach. Those who do not support this approach argue that it does not provide information that is useful for decision-making and accountability purposes.

**Specific Matters for Comment—Chapter 4.1**

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?

If so, please provide your reasons.

*Market Value*

- 4.18. Market values will be available for some heritage assets, through reference to the market values of similar items, if an active, open and orderly market exists. A market value generally supports information about operational and financial capacity.
- 4.19. However, market values in an active, open and orderly market may not be available in some circumstances. Many heritage assets have restrictions on their sale and/or disposal, which reduces the availability of market values. Where heritage assets are unique meaningful market values are unlikely to be available for them. Some heritage items, such as artwork and items of archeological

significance, are bought and sold through specialist markets, including auction houses. However, the market may not be sufficiently active, open and orderly to generate representationally faithful market values. Therefore, market values could be inappropriate in these circumstances.

#### *Replacement Cost*

- 4.20. The Conceptual Framework defines replacement cost to be the “optimized depreciated replacement cost”, which is: “The most economic cost required for the entity to replace the service potential of an asset<sup>23</sup>.”
- 4.21. Replacement cost relies on the existence of other assets that would provide the same service potential as the heritage asset being valued. Where a replacement cost is available for heritage assets, it could provide useful information for assessments of cost of services, operational and financial capacity. For heritage assets used in an entity’s operations, replacement costs that reflect their value in terms of their operational use appear 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 will not be available for some heritage assets, because they are irreplaceable.
- 4.22. The Conceptual Framework notes that there may be cases where replacement cost equates to estimated reproduction cost, because the most economical way of replacing service potential is to reproduce the asset<sup>24</sup>. Restoration would aim to reproduce, as closely as possible, the heritage aspects of the original item. Restoration cost 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 a historic appearance, rather than in an optimized modern equivalent.

#### *Net Selling Price*

- 4.23. 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.
- 4.24. Heritage assets are expected to be held and preserved rather than sold, and their value usually relates to their service potential<sup>25</sup>. Therefore, net selling price generally does not provide relevant measurement information for heritage assets. However, if an entity is able to sell its heritage assets and plans to do so, net selling price may be an appropriate measurement base.

#### *Value in Use*

- 4.25. 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 in these cases value-in-use would be equivalent to replacement cost.

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<sup>23</sup> Paragraphs 7.40, 7.47 and footnote 14 of the Conceptual Framework.

<sup>24</sup> Footnote 14 of the Conceptual Framework.

<sup>25</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.

### Measurement and the Qualitative Characteristics and Constraints

4.26. This section considers whether heritage items' special characteristics<sup>26</sup> 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*

4.27. 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. Information on the monetary value of heritage assets that entities hold supports 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. The extent to which monetary values for heritage assets achieve the qualitative characteristic of representational faithfulness depends on the choice of measurement bases combined with other factors. For example, initial monetary values are likely to be representationally faithful in these circumstances<sup>27</sup>:

- (a) *Historical cost*: Where transaction information is available;
- (b) *Replacement cost*: Where replacement cost can be estimated simply and subjective judgments are not required; and
- (c) *Market value*: Where values are determined in an open, active and orderly markets<sup>28</sup>.

4.28. However, as noted in paragraph 4.10 above, some argue that the heritage significance of heritage assets cannot be represented by monetary values, because monetary values do not convey their value. From that perspective monetary values either do not provide relevant information or the information provided is not representationally faithful.

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

4.29. Understandability is the quality of information that enables users to comprehend its meaning<sup>29</sup>. Monetary values for heritage assets appear more likely in many cases to provide understandable information to users, than would an absence of monetary values. 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. Disclosures on heritage asset restrictions and/or their special nature can be used

<sup>26</sup> Chapter 2's description of heritage items describes the special characteristics of heritage items that distinguish them from other phenomena for the purposes of financial reporting.

<sup>27</sup> This paragraph applies the discussion of measurement bases and their achievement of the qualitative characteristics in Chapter 7 of the Conceptual Framework.

<sup>28</sup> Paragraph 7.28 of the Conceptual Framework describes the characteristics of open, active and orderly markets.

<sup>29</sup> Paragraph 3.17 & 3.18 of the Conceptual Framework.

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*

- 4.30. Timeliness means having information available for users before it loses its capacity to be useful for accountability and decision-making purposes<sup>30</sup>. Comparability is the quality of information that enables users to identify similarities in, and differences between, two sets of phenomena<sup>31</sup>. Verifiability is the quality of information that helps assure users that information in GPFRs faithfully represents the economic and other phenomena that it purports to represent<sup>32</sup>.
- 4.31. The special characteristics of heritage items do not appear to raise issues additional to those identified in the Conceptual Framework for timeliness, comparability and verifiability of monetary values applying historical cost, replacement cost and market value. However, some may argue that monetary values attached to heritage assets could be difficult to verify.

*Materiality*

- 4.32. 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>33</sup>. An entity will need to consider the materiality of their heritage asset holdings in the context of the legislative, institutional and operating environment within which it operates and prepares its GPFRs.

*Cost-Benefit*

- 4.33. The Conceptual Framework states that "Financial reporting imposes costs. The benefits of financial reporting should justify those costs"<sup>34</sup>.
- 4.34. Benefits of recognizing heritage assets in the Statement of Financial Position include:
- (a) Supports users' ability to:
    - (i) Hold the entity accountable for its heritage assets; and
    - (ii) Make decisions relevant to the entity as a whole and its heritage-related responsibilities;
  - (b) Provides relevant information to users of financial statements that helps them gain an overview of the financial position and performance of the entity, and which could also assist in driving improvements in an entity's performance management; and
  - (c) Improved asset accountability and management, including better identification of preservation priorities.

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<sup>30</sup> Paragraph 3.19 of the Conceptual Framework.

<sup>31</sup> Paragraph 3.21 of the Conceptual Framework.

<sup>32</sup> Paragraph 3.26 of the Conceptual Framework.

<sup>33</sup> Paragraph 3.32 to 3.34 of the Conceptual Framework.

<sup>34</sup> Paragraph 3.35 of the Conceptual Framework.

- 4.35. 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.
- 4.36. 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, carrying out heritage asset valuations may be a costly exercise, and not justified by the benefits of the information for users. Specifically, those that hold this view argue that:
- (a) Disclosure of units and other information can provide appropriate accountability over heritage assets; and
  - (b) Benefits of assigning a monetary value to heritage assets are frequently limited, for example, where monetary values:
    - i. Are not used in decision-making related to heritage assets, including preservation, or
    - ii. May not represent relevant or meaningful information to users.
- 4.37. 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.
- 4.38. Some jurisdictions respond to the cost-benefit constraint by assigning a one currency unit value to heritage items. Supporters of this approach point out that, in the case of very ancient assets measured on a historical cost basis, this approach is the only way to include them in the accounts without overstating the monetary value. Others consider that it provides useful information to users of financial statements and facilitates:
- (a) Asset management; and
  - (b) Recognition of subsequent capital expenditure.
- 4.39. However, during development of the Conceptual Framework the majority of the IPSASB concluded that this approach, which assigns a symbolic value to the asset, does not meet the measurement objective, because it does not provide information for the assessment of cost of services, operational capacity or financial capacity<sup>35</sup>.

### **Recognition and Initial Measurement of Heritage Assets**

- 4.40. Based on the discussion above, the IPSASB has concluded that in many cases it is possible to assign monetary values to those heritage items that meet the definition of an asset, and that there are benefits to both users and public sector entities by so doing. The measurement bases available to entities are likely to be restricted to historical cost, market value and replacement cost (where replacement cost includes restoration cost), each of which provides information relevant to an

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<sup>35</sup> Paragraphs BC7.40-BC7.41.

assessment of one or more of the measurement objectives (cost of services, operational capacity and financial capacity). The IPSASB has therefore reached the following Preliminary Views, and requests constituents' comments on these and the related Specific Matters for Comment.

**Preliminary View—Chapter 4.1**

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

Do you agree with the IPSASB's Preliminary View?

If not, please provide your reasons.

**Specific Matters for Comment—Chapter 4.2**

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.

**Preliminary View—Chapter 4.2**

In many cases it will be possible to assign a monetary value to heritage assets. Appropriate measurement bases are historical cost, market value and replacement cost.

Do you agree with the IPSASB's Preliminary View?

If not, please provide your reasons.

**Specific Matters for Comment—Chapter 4.3**

What additional guidance should the IPSASB provide through its Public Sector Measurement Project to enable these measurement bases to be applied to heritage assets?

## Chapter 5, Subsequent Measurement of Heritage Assets

### Introduction

- 5.1. This chapter discusses the subsequent measurement of heritage assets. It builds on the IPSASB's preliminary views, reached in Chapter 4, that:
- (a) Heritage assets should be recognized in the statement of financial position if they meet the recognition criteria; and
  - (b) Historical cost, market value and replacement cost (where replacement cost includes estimated reproduction cost) are appropriate measurement bases for heritage assets, dependent on circumstances.
- 5.2. The discussion draws on the Conceptual Framework and existing IPSAS requirements for the subsequent measurement of non-heritage assets, on the basis that these illustrate approaches that could, potentially, be applied to heritage assets.

### Subsequent Measurement in the Conceptual Framework and IPSASs

- 5.3. During development of the Conceptual Framework, the IPSASB concluded that, in principle, the same considerations apply to initial and subsequent measurement<sup>36</sup>. Therefore, subsequent measurement:
- (a) Should achieve the qualitative characteristics, taking into account the constraints; and
  - (b) 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.
- 5.4. IPSAS requirements<sup>37</sup> for subsequent measurement address entities' reporting of information on:
- (a) Subsequent expenditures related to assets, and the extent to which such expenditures should be capitalized or expensed;
  - (b) Consumption of tangible and intangible assets through depreciation and amortization, while allowing that some assets (for example, land) are not consumed;
  - (c) Impairment of cash-generating and non-cash-generating assets; and
  - (d) Revaluations of assets, where a revaluation model is applied.
- 5.5. Each of these topics is considered in the following paragraphs in relation to heritage assets.

### Subsequent Measurement of Heritage Assets

- 5.6. Once a measurement basis has been applied for initial recognition of a heritage asset, subsequent measurement in the form of (a) accounting for subsequent expenditures, (b) depreciation/amortization and (c) impairment, is facilitated through the existence of an initial measurement. For example, the initial monetary value of an asset is a starting point for adjustments for any subsequent expenditure. However, a change in measurement basis (for example, moving to

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<sup>36</sup> Paragraph BC7.12 of the Conceptual Framework.

<sup>37</sup> IPSAS 17, *Property, Plant and Equipment*, IPSAS 21, *Impairment of Non-Cash-Generating Assets*, IPSAS 26, *Impairment of Cash-Generating Assets*, and IPSAS 31, *Intangible Assets*.

a revaluation model) may present the same issues as those raised at initial recognition (see Chapter 4).

#### *Subsequent Expenditure*

- 5.7. Entities could expend large amounts directly on preserving heritage assets. For example, parts of heritage buildings deteriorate; those parts need to be replaced, using similar materials, to maintain their historic character. The key issue will be whether such expenditure should be expensed or capitalized. Appropriate classification is important to provide users with relevant and representationally faithful information on expenses and assets for assessments of cost of services, operational capacity and financial capacity.
- 5.8. IPSASs apply a recognition principle, whereby subsequent expenditures are recognized, increasing the carrying amount of the relevant asset, if it is probable that they confer future economic benefits or service potential for the entity and can be measured reliably. For example, IPSAS 17 states an entity will recognize in the carrying amount of an item of property, plant, and equipment the cost of replacing part of such an item when that cost is incurred, if this recognition principle applies. The carrying amount of the replaced part is then derecognized<sup>38</sup>.
- 5.9. The special characteristics of heritage items<sup>39</sup> do not appear to have any particular implications for classifying subsequent expenditure as either an expense or asset.

#### *Depreciation and Amortization*

- 5.10. Many heritage assets deteriorate over time, although some, for example land and jewelry, do not. Heritage assets used in an entity's operations are likely to be consumed in line with those operations. Heritage assets held for their heritage significance are not expected to become functionally obsolete, because their heritage significance increases with age. Their useful lives can be difficult to determine, because the intention to preserve heritage assets for future generations suggests that they could be held in perpetuity or at least that their useful lives are significantly longer than those for non-heritage assets. Therefore, depreciation could be applicable to some (but not all) heritage assets and their components, to provide information relevant to assessments of cost of services and operational capacity.

#### *Impairment*

- 5.11. Heritage assets may be impaired, even though they are still intended to be preserved for future generations. Subsequent measurement that reflects impairment provides relevant information for assessments of costs of service and operational capacity.

#### *Revaluation*

- 5.12. This CP does not consider whether revaluation should be applied to heritage assets, but focuses on whether the special characteristics of heritage assets represent barriers to revaluation. When applying a revaluation model, entities will need to consider the pervasive constraints on information

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<sup>38</sup> Paragraphs 14 and 23-25 of IPSAS 17.

<sup>39</sup> Chapter 2's description of heritage items describes the special characteristics of heritage items that distinguish them from other phenomena for the purposes of financial reporting.

included in GPFRs<sup>40</sup>, because these will affect the frequency with which heritage assets should be revalued. For example, from a cost-benefit perspective, the benefits of providing potentially more relevant information on heritage assets that have appreciated in value should be balanced against the costs of revaluation, which could be high for heritage assets.

- 5.13. After initial measurement at historical cost use of a revaluation model subsequently would require that market values and/or information for replacement cost will need to be available. As noted in paragraph 5.6, use of the new measurement basis will raise the same issues as those discussed in Chapter 4. Where the market value or replacement cost basis has been used for initial measurement, the same basis is likely to be available for subsequent revaluation.
- 5.14. Based on the discussion above, the IPSASB has concluded that the subsequent measurement of heritage assets can be approached in broadly the same way as for other, non-heritage assets. Subsequent measurement requirements for heritage assets will need to address changes in heritage asset values that arise from subsequent expenditure, consumption, impairment and revaluation, including the frequency of determining market value and their continued availability. Approaches in existing IPSASs are relevant to development of those requirements. The IPSASB has therefore reached the following Preliminary View:

**Preliminary View—Chapter 5**

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.

Do you agree with the IPSASB's Preliminary View?

If not, please provide your reasons.

**Specific Matters for Comment—Chapter 5**

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.

<sup>40</sup> Paragraph 3.3 of the Conceptual Framework.

## Chapter 6, Heritage-Related Obligations

### Introduction

6.1. The description of heritage items proposed in this CP indicates that they are items intended to be held indefinitely and preserved for the benefit of present and future generations<sup>41</sup>. This chapter discusses whether the intention to preserve heritage items could give rise to liabilities.

### Conceptual Framework, Liabilities and Present Obligations

6.2. 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>42</sup>. 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 GPFRs<sup>43</sup>.

6.3. In considering whether an entity’s heritage preservation intentions might give rise to present obligations, the IPSASB had in mind the following types of events or transactions:

- (a) The receipt of funding for heritage preservation activities;
- (b) The receipt of services to preserve heritage items;
- (c) Legislation that requires entities to preserve heritage items (including penalties for failure to preserve heritage items);
- (d) Heritage items for which maintenance or preservation generally is needed because:
  - (i) They 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.

### Heritage-Related Present Obligations

6.4. An entity that holds heritage items is often viewed as having a moral duty to preserve them. However, this moral duty appears to be no different from that of, for example, maintaining infrastructure assets such as road networks or the electricity supply. A moral duty does not give rise to a present obligation and therefore a liability. A present obligation is either legally binding or non-legally binding, which an entity has little or no realistic alternative to avoid<sup>44</sup>. The Conceptual Framework states that an obligation must be to an external party in order to give rise to a liability<sup>45</sup>. An entity cannot be obligated to itself, even where it has publicly communicated an intention to behave in a particular way. Existing IPSASB pronouncements address obligations that could arise from the events in paragraph 6.3. It is unlikely that the types of events and transactions in bullet points 6.3(c) and (d) would, on their own, create a legally binding obligation.

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<sup>41</sup> Chapter 2 includes the following description 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>42</sup> Paragraph 5.14 of the Conceptual Framework.

<sup>43</sup> Paragraph 6.2 of the Conceptual Framework.

<sup>44</sup> Paragraph 5.15 of the Conceptual Framework.

<sup>45</sup> Paragraph 5.18 of the Conceptual Framework.

### Heritage-Related Outflows of Resources

- 6.5. 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>46</sup>.
- 6.6. Holding heritage items is likely to involve outflows of resources over time. Given the ongoing expense of preserving heritage items for present and future generations, some have argued that a liability should be recognized to reflect these resource outflows, including deferred outflows, where deferral could be by comparison to an agreed cycle of maintenance or with respect to some other criteria. However, the ability to defer these outflows suggests that an entity does not have a present obligation for the outflow of resources.

### Heritage-Related Past Events

- 6.7. Possible past events relating to heritage preservation obligations might include when an entity:
- (a) Acquires heritage items;
  - (b) Makes a public commitment to preserve heritage items 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 for preserving heritage items;
  - (e) Receives an approved budget or an appropriation or other funding for preserving heritage items;
  - (f) Receives services for which payment is due.
- 6.8. Drawing on discussion in the Conceptual Framework, an assessment of each of these past events suggests that the entity appears likely to have alternatives enabling it to avoid an outflow of resources, with the exceptions of<sup>47</sup>:
- (a) *Receipt of funding*, if funding results in a performance obligation; and
  - (b) *Receipt of services*, if the entity has obligations (to pay for services received) arising from either a legal contract or other binding arrangement.
- 6.9. However, whether an entity has received funding or services related to heritage preservation, the arrangements are unlikely to differ from receipt of other funding with performance obligations or from any normal contract for services and there would appear to be no reason why the transaction should be accounted for in a different way.

### Heritage-Related Liabilities

- 6.10. The IPSASB acknowledges that there are many who believe that entities holding heritage items for the purposes stated in the description of heritage items developed in Chapter 2 have a moral duty to expend resources to preserve those items and to account for that duty as an obligation. The IPSASB

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<sup>46</sup> Paragraph 5.16 of the Conceptual Framework.

<sup>47</sup> The IPSASB's Revenue and Non-Exchange Expenses project considers performance obligations. If funds contain conditions/performance obligations there is a present obligation to the resource provider until they are fulfilled. In such circumstances there is an obligation to an external party. Therefore it meets the requirement discussed in paragraph 6.4.

considers, however, that the special characteristics of heritage items<sup>48</sup> do not of themselves give rise to present obligations that would result in the recognition of a liability. The IPSASB has therefore reached the following Preliminary View.

**Preliminary View—Chapter 6**

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.

Do you agree with the IPSASB's Preliminary View?

If not, please provide your reasons.

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<sup>48</sup> Chapter 2's description of heritage items describes the special characteristics of heritage items that distinguish them from other phenomena for the purposes of financial reporting.

## Chapter 7, Presentation of Information on Heritage Items

### Introduction

- 7.1. This chapter draws on 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/or significance—have implications for the presentation of information in GPFRs.
- 7.2. The Conceptual Framework states that 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>49</sup>. Presentation, defined as “the selection, location and organization of information that is reported in the GPFRs<sup>50</sup>”, is one of the means by which the objectives of financial reporting are met.

### Presentation Objectives for Information on Heritage

- 7.3. In Chapter 3 of this CP the IPSASB reached the Preliminary View that the special characteristics of heritage items<sup>51</sup>, as described in Chapter 2, do not prevent them from being considered as assets for the purposes of financial reporting. In Chapters 4 and 6 the IPSASB reached Preliminary Views that:
- (a) Heritage assets should be recognized in the statement of financial position if they meet the recognition criteria in the Conceptual Framework;
  - (b) In many cases it will be possible to assign a monetary value to heritage assets and historical cost, market value and replacement cost are appropriate measurement bases for heritage assets, dependent on circumstances; and
  - (c) 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 and should therefore recognize a liability.
- 7.4. The IPSASB concludes that the corollary of those Preliminary Views is that the special characteristics of heritage items (whether or not recognised as assets, with any associated liabilities), 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 (RPG) where appropriate<sup>52</sup>.
- 7.5. Others take the view that the special characteristics of heritage items do require enhanced disclosures, to meet users’ need for information relevant to entities’ preservation of heritage items for present and future generations.
- 7.6. In line with existing IPSASB pronouncements, an entity considers materiality when deciding whether a line item for heritage assets should be displayed on the face of the financial statements and what

<sup>49</sup> Paragraph 2.1 of the Conceptual Framework.

<sup>50</sup> Paragraph 8.4 of the Conceptual Framework.

<sup>51</sup> Chapter 2’s heritage items description reflects their special characteristics of heritage items and distinguishes them from other phenomena for the purposes of financial reporting.

<sup>52</sup> The IPSASB has issued three RPGs; RPG 1, *Reporting on the Long-Term Sustainability of an Entity’s Finances*, RPG 2, *Financial Statement Discussion and Analysis*, and RPG 3, *Reporting Service Performance Information*.

information should be disclosed in the notes. If the entity applies one or more RPGs, it may also need to provide information in other GPFRs.

7.7 Information on recognized heritage assets might include:

- (a) The main types of heritage assets;
- (b) How heritage assets are measured, including impairment or other changes in measurement; and
- (c) Resource outflows and inflows as a result of holding, acquiring and disposing of heritage assets (for example through transfer or sale).

7.8 An entity could present information in its financial statements discussion and analysis or another GPFR to assist users to understand the:

- (a) Effect of the entity's holding of heritage items on its operational capacity, cost of services and financial capacity;
- (b) Extent of an entity's heritage holdings, encompassing any heritage items recognized as assets as well as unrecognized heritage items;
- (c) Extent of maintenance expenses; and
- (d) Nature of the entity's custodial responsibilities with respect to heritage and legislation that establishes such responsibilities.

7.9 Different entities have different portfolios of heritage items. Each entity will need to determine what information needs to be presented in light of the heritage items they hold and IPSASB pronouncements (IPSASs and, where applicable, RPGs).

**Preliminary View—Chapter 7**

Information about heritage should be presented in line with existing IPSASB pronouncements.

Do you agree with the IPSASB's Preliminary View?

If not, please provide your reasons and describe what further guidance should be provided to address these.

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