

Meeting: IPSASB Consultative Advisory Group

Meeting Location: Stellenbosch, South Africa

Meeting Date: December 5, 2016

Agenda Item 6

For:

☐ Approval

☒ Discussion

☐ Information

Heritage

Project summary	Develop a consultation paper (CP) on financial reporting for heritage	
	Topics	Agenda Item
Heritage discussion	Introduction	6.1
	1. Definition of “Heritage Items”, Categories, Information Needs and Public Interest	
	2. Heritage Items as Assets, Recognition and Measurement	
	3. Obligations related to Heritage	
Supporting items	Heritage Project: Progress to Date and Roadmap: <ul style="list-style-type: none"> • Decisions • Roadmap • IPSASB Discussions 	6.2

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Introduction: What Heritage Information do Users Need?

1. The IPSASB's Consultation Paper (CP), *Financial Reporting for Heritage in the Public Sector*, addresses the following matters in its chapters:

Chapter 1: Introduction;

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

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

Chapter 4: Recognition and measurement of heritage assets;

Chapter 5: Heritage-related obligations and liabilities; and

Chapter 6: Presentation of heritage-related information.
2. The central issue for the IPSASB's Heritage Project is whether heritage items are assets for financial reporting purposes, and should be recognized in the statement of financial position.
3. Consideration of whether heritage items are assets takes place in the over-arching context of the objectives of General Purpose Financial Reports (GPFRs), which are to provide useful information for accountability and decision making purposes. The Conceptual Framework's measurement objective, for elements recognized in the financial statements, emphasizes information that is useful for the assessment of:
 - (a) Cost of services;
 - (b) Operational capacity; and
 - (c) Financial capacity.
4. There appears to be general agreement that entities should be held accountable for the heritage items they hold. Are heritage items being cared for? Are available resources adequate to ensure heritage items' preservation? But does information for accountability involve monetary information about heritage items, included in the financial statements? Do users need other types of information, which could be presented outside of the financial statements?
5. There are different views on this. One view is that recognition of heritage items as assets is a necessary starting point for effective management, stewardship and accountability. Recognition generates sufficient benefits to justify the costs. From this perspective non-recognition places heritage items at greater risk of neglect. An alternative view is that recognition of heritage items as assets diverts users' attention away from what should be the primary concern, which is to preserve heritage items for present and future generations. Some argue that publishing information on their monetary value could either misrepresent their heritage significance (i.e. the reasons to cherish them) or convey the impression that they are available for sale. From this second perspective, information reported on heritage items should:
 - (a) Treat any monetary value presented as "symbolic" of the heritage item's heritage significance, rather than indicative of its value as a resource; and
 - (b) Focus primarily on qualitative information about heritage (rather than quantitative, monetary measurement); and
 - (c) Focus on heritage item preservation including (for example) information on the extent of any deferred maintenance and whether expenditure budgeted for heritage preservation is sufficient and has been applied according to the budget.

Topic 1: Heritage Items, Categories, Public Interest and Information Needs

Questions

1. What are the CAG's views on:
 - (a) Categories of heritage for consideration in the draft CP; and
 - (b) Public interest issues raised by this topic, in particular the type of information that users of GPFRs need about heritage items, for accountability and decision making?

Summary of Relevant Consultation Paper Coverage¹

2. The Chapter 2—*Preliminary View* states that “The following definition captures the special characteristics that define heritage items and distinguish them from other phenomena for the purposes of financial reporting:

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

Categories of Heritage

3. The CP identifies categories of heritage as follows: cultural heritage (tangible and intangible) and natural heritage. Examples of tangible cultural heritage include:
 - (a) Monuments, archaeological sites, historic buildings, heritage works of art, and significant scientific collections; and
 - (b) Under-water cultural heritage, for example, heritage buildings underneath the water.
4. Intangible cultural heritage includes “knowledge-in-action” and “intellectual property”:
 - (a) Knowledge-in-action includes practices, representations, expressions, knowledge; and skills. Examples include languages, performing arts, rituals, and traditional craftsmanship.
 - (b) Intellectual property includes heritage trademarks, copyrights, and rights over motion picture films. Examples include rights over recordings of significant historical events and rights to use culturally significant films.
5. Natural heritage includes natural features and areas. Mount Fuji is an example.

Public Interest and Information Needs—Heritage

6. Worldwide there are inconsistent practices with respect to categorization of assets as heritage. Heritage items may be recognized (or not) in an entity's financial statements, and a variety of different measurement approaches are used. This reduces the comparability of information. Development of financial reporting requirements in this area should improve information available for accountability and decision making, which is in the public interest. But what type of heritage-related information do users of GPFRs need for accountability and decision making?
7. The Chapter 6 *Preliminary View* states that: “The objectives of presenting information about heritage assets and heritage obligations are to help users to:

¹ Agenda Item 5 (available from: <http://www.ipsasb.org/meetings/ipsasb-meeting-18>) includes the draft Heritage Consultation Paper, as of November 2016.

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

CAG Views Requested

- 8. CAG members are asked to provide their views on:
 - (a) Categories of heritage for consideration in the draft CP;
 - (b) The type of heritage-related information that users of GPFRs need for accountability and decision making; and
 - (c) Public interest issues relevant to financial reporting on heritage in the public sector.
- 9. CAG members may also wish to comment on the proposed definition of "heritage items".

Topic 2: Heritage Assets, Recognition and Measurement

Questions

1. What are the CAG's views on whether or not:
 - (a) Heritage items can be assets for financial reporting purposes;
 - (b) Heritage assets can be measured such that they can (and should) be recognized in the statement of financial position; and
 - (c) Appropriate measurement bases for heritage assets for recognition?

Summary of Relevant Consultation Paper Coverage

Heritage Items as Assets—Proposed Preliminary View

2. Chapter 3 of the draft CP applies the Conceptual Framework definition of an asset to heritage items. For heritage items to be assets they should be resources, controlled by the entity as a result of a past event. The Chapter 3 *Preliminary View* states that: "The special characteristics of heritage items do not prevent them from being assets for the purposes of financial reporting."
3. The following example illustrates this approach:

A museum holds a heritage collection of prehistoric artifacts, which contributes to achievement of its objective of making heritage accessible to the public. Although the collection provides services to third parties (the public), the collection has service potential and is a resource for the entity. The museum has control over the collection (legal ownership and ability to restrict access through (for example) its decisions on museum opening hours). The past event, which gave control, was the purchase of the collection. Therefore the collection is an asset.

Measurement and Recognition of Heritage Assets in the Financial Statements

4. Chapter 4 of the draft CP discusses whether heritage assets can be measured and should, therefore be recognized in the financial statements. The *Chapter 4 Preliminary Views* are that:
 - 4.1. Heritage assets should be recognized in the statement of financial position if they meet the recognition criteria.
 - 4.2. Historical cost, market value and replacement cost (where replacement cost includes restoration cost) are appropriate measurement bases for heritage assets, dependent on circumstances.
 - 4.3. There are no special issues related to the subsequent measurement of heritage assets.

CAG Views Requested

5. CAG members are asked to provide their views on:
 - (a) Whether heritage items can be assets for financial reporting purposes and, where they meet the recognition criteria, should be recognized in the statement of financial position;
 - (b) Appropriate measurement of heritage assets; and
 - (c) If heritage items are not recognized as assets, what information should be presented about them (i) in the financial statements, or (ii) in other reports?

Topic 3, Obligations Related to Heritage

Question

1. What are the CAG's views on whether heritage items raise special issues for obligations and liabilities?

Summary of Relevant Consultation Paper Coverage

Obligations related to Heritage

2. Future resource outflows to preserve heritage items are often large. Because heritage items do not usually earn revenue, some commentators have argued that heritage items are liabilities rather than assets. Others have said that users of GPFRs need information about:
 - (a) The condition of heritage items, including any damage or maintenance problems;
 - (b) Deferred maintenance, which was planned and not addressed; and/or
 - (c) Foreseeable, future heritage maintenance needs.
3. From this perspective, future resources outflows to preserve heritage items could indicate the existence of a specific type of heritage-related liability.
4. The Conceptual Framework defines a liability as "a present obligation of the entity for an outflow of resources that results from a past event". Chapter 5 of the draft CP applies this definition to different types of obligations related to heritage items. Entities may have "moral obligations" to preserve heritage items for present and future generations, but do such obligations indicate the existence of a liability for financial reporting purposes?
5. The Chapter 5 *Preliminary View* states that: "The special characteristics of heritage items do not, of themselves, give rise to liabilities."

CAG Views Requested

6. CAG members are asked to provide their views on:
 - (a) Whether there are obligations that are specific to heritage items, and which should be recognized as liabilities in the statement of financial position?
 - (b) Information that users of GPFRs need for accountability and decision making related to entities' responsibilities (or moral obligations) to preserve the heritage items they hold.

HERITAGE PROJECT²: PROGRESS TO DATE AND ROADMAP

IPSASB Decisions—September 2016 meeting and earlier

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

² Further information on the Heritage Project is available from IPSASB website at: <http://www.ipsasb.org/projects/heritage>

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	2015		2016			
Chapter, Issue	September	December	March	June	September	December
Structure			✓	✓	✓	
Chapter 1, Introduction			Chapter 1 ✓	Chapter 1 ✓	Chapter 1	Chapter 1
Chapter 2, Heritage Items & Categories	✓ ³	✓	✓	Chapter 2 ✓	Chapter 2 ✓	Chapter 2 ✓
Chapter 3, Assets	✓	✓	✓	Chapter 3 ✓	Chapter 3 ✓	Chapter 3 ✓
Chapter 4, Recognition & Measurement	✓		✓	Chapter 4 ✓	Chapter 4 ✓	Chapter 4 ✓
Subsequent Measurement					(Chapter 4) ✓	(Chapter 4) ✓
Chapter 5, Obligations, Liabilities		✓			Chapter 5 ✓	Chapter 5 ✓
Chapter 6, Presentation of Information					Chapter 6 ✓	Chapter 6 ✓
Heritage responsibilities		✓	✓		(Chapter 6)	(Chapter 6)
Information & GPFRs		✓	✓		(Chapter 6)	(Chapter 6)

³ A "✓" shows when the IPSASB discussed an issue. (E.g. Issues for Chapter 2 were discussed from September 2015 onwards.)

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HERITAGE PROJECT ROADMAP

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