

Agenda Item 7: Heritage

Gwenda Jensen

IPSASB Consultative Advisory Group Meeting

Toronto, Canada

June 17, 2019

Heritage Session

Overview of Heritage Project

1. Operational/non-operational distinction for heritage assets
2. Symbolic value to measure heritage assets

Overview of Heritage Project

1. Project objective: To address financial reporting for heritage
2. Progress made - The IPSASB:
 - Issued a consultation paper (CP), in March 2017 (Reached preliminary views (PVs) on key issues for the CP.)
 - Reviewed responses to the CP, in December 2017 (Decided to defer project until after progress on Public Sector Measurement Project)
 - Discussed project in March 2019: Decided to focus on financial statements
3. *Next steps*: Develop guidance on recognition, measurement and presentation of heritage assets

1. Operational and Non-Operational Heritage Assets

Consider whether operational/non-operational distinction is useful when developing guidance on financial reporting for heritage assets

1. Meaning of operational/non-operational
2. Possible financial reporting implications
3. Constituents' views and Heritage Task Force discussions

1. Operational/ Non-Operational (1) Meaning

Operational heritage assets:

- Heritage assets that the entity uses for other (non-heritage) activities or to provide other services. (e.g. an historic building used as an office building)

Non-operational heritage assets:

- Heritage assets that the entity holds primarily to pursue its objectives in relation to the maintenance/preservation of the heritage. (e.g. a collection of heritage paintings in an art gallery)



1. Operational/ Non-Operational (2) Financial reporting implications?

- Recognition?
 - *Approach*: Recognize operational heritage assets. Do not recognize non-operational.
- Measurement?
 - *Approach*: Same measurement requirements applied to operational heritage assets as those for other non-heritage assets. Extra guidance (or special measurement requirements) developed for measurement of non-operational heritage assets
 - *Replacement cost* – Replace the “operational” usage or replace with similar heritage asset?
 - *Depreciation* – Whether heritage asset is used “operationally” could affect useful life and basis for depreciation (e.g. shorter useful life where asset used operationally)

1. Operational/ Non-Operational (3) IPSAS, Constituents and Task Force

- IPSAS does not use this distinction. Conceptual Framework considers:
 - *Assets*: Whether a resource exists (service potential and/or future economic benefits)
 - *Measurement*: Refers to “operational capacity,” which is contrasted with financial capacity. Assets that the entity uses to provide services contribute to operational capacity
- *Heritage Consultation Paper*: Included one reference as part of the introduction, but no question for respondents. Several respondents referred to it.
- *Task Force members’ views*:
 - *Recognition* - Distinction not relevant for recognition.
 - *Measurement* – Relevant, yes. However, latest Task Force discussions show support for a focus on *entity’s usage* of the heritage asset

Extra: Focus on Reporting Entity's Use of the Heritage Asset

- Develop measurement guidance linked to entity's usage of its heritage asset
 - Allows entity to consider its actual use(s) of the heritage asset to achieve its objectives
 - Actual usage would drive entity's thinking about depreciation (useful life), replacement cost, and capitalization/expensing of subsequent expenditure
- Problems with operational/non-operational:
 - Simple, black/white category that will drive measurement guidance
 - Criteria for classification developed by an external party (i.e. the standard setter)
 - Confusion between “operational heritage assets” and “heritage assets that contribute to operational capacity”

Question to CAG Members

- Do CAG members agree that classifying heritage assets as either operational or non-operational is useful when developing guidance on financial reporting for heritage assets?

2. Symbolic value to measure heritage assets

Consider whether there is a public interest case for using symbolic value to measure heritage assets:

1. Meaning of “symbolic value”
2. Two views on relevance of symbolic value for reporting heritage assets
3. Issues to consider when assessing the two views
4. Background to the debate

2. Symbolic value: (1) Meaning

- Symbolic value measures a heritage asset at one unit of the presentation currency (1 CU) (e.g. the Mona Lisa measured at 1 Euro)
- Some national jurisdictions propose symbolic value to measure:
 - All heritage assets, on the basis that normal measurement cannot convey their heritage value; or
 - A subset of heritage assets (e.g. heritage assets with outstanding heritage significance or those that are unmeasurable using other measurement bases)

2. Symbolic value: (2) Two Views on its Relevance

View 1—Recognize and manage: Heritage assets are better managed when recognized in the statement of financial position (use symbolic value to recognize)

- Stewardship comes from recognition

View 2—Record and disclose: Symbolic value is for record-keeping purposes

- Heritage assets at 1 CU should not be recognized
- Measurement at 1 CU is useful for (a) a basis for disclosures, and (b) tracking of heritage assets for better stewardship/management

2. Symbolic value: (3) Issues when assessing the two Views

1. Can claimed benefits be achieved without symbolic value?
2. In what circumstances would symbolic value be used?
3. Does symbolic value provide information that users of the financial statements need for accountability and decision making?

Staff view/comments:

1. Yes, benefits can be achieved without use of symbolic value
2. If a more acceptable measurement basis is available, why use symbolic value?
3. IPSASB past considerations of symbolic value have concluded “no” (measurement generally)

2. Symbolic value: (4) Background to the Debate

- IPSASB views on symbolic value:
 - Conceptual Framework: Does not meet measurement objective
 - Consultation Paper (CP), *Measurement*: Not included as a possible measurement basis for asset measurement
- CP, *Heritage*, asked about recognizing heritage assets at 1 CU, when historical cost is zero:
 - Most respondents disagreed; 23 of 40 responses (58%)
 - 11 (28%) agreed and three (7%) partially agreed.)
 - See Appendix B for a selection of responses

Symbolic value: Question to CAG Members

- What are your views on whether there is a public interest case for using symbolic value to measure heritage assets?