

Meeting: International Public Sector Accounting Standards Board

Meeting Location: Lisbon, Portugal

Meeting Date: September 24–27, 2019

Agenda Item 11

For:

Approval

Discussion

Information

HERITAGE

Project summary	Provide requirements and guidance on accounting for heritage.	
Meeting objectives	Topic	Agenda Item
Project management	Heritage: Project Roadmap	11.1.1
	Heritage: Instructions up to Previous Meeting	11.1.2
	Heritage: Decisions up to Previous Meeting	11.1.3
Decisions required at this meeting	Plan (includes issues to address)	11.2.1
	Ownership/ Stewardship/ Held in Trust	11.2.2
	Heritage Use/ Non-Heritage Use	11.2.3
	Subsequent Expenditure	11.2.4
	Useful lives/ Depreciation/ Impairment	11.2.5
Other supporting items	Appendix A – Issues linked to Responses	11.3.1

HERITAGE: PROJECT ROADMAP¹

Meeting	Completed Actions or Discussions / Planned Actions or Discussions:
June 2020	<ol style="list-style-type: none"> 1. Review ED text that reflects IPSASB instructions from March 2020 meeting. 2. Approve ED on financial reporting for heritage.
March 2020	<ol style="list-style-type: none"> 1. Consider two heritage financial reporting issues (as per the plan). 2. Consider issues raised by transition and first time adoption. 3. Review ED text that reflects IPSASB instructions on the issues considered at the December 2019 meeting.
December 2019	<ol style="list-style-type: none"> 1. Consider three heritage financial reporting issues (as per the plan). 2. Review ED text that reflects IPSASB instructions from September meeting. 3. Consider draft ED text to address generic issue of heritage asset recognition.
September 2019	<ol style="list-style-type: none"> 1. Review plan to address heritage financial reporting issues. 2. Consider four issues (as per the plan).
June 2019	<ol style="list-style-type: none"> 1. Explored the operational/non-operational distinction. 2. Considered issues raised (in CP and responses to the CP) and proposals provided on where each belongs (recognition, measurement, or presentation), using a table format for this classification.
March 2019	<ol style="list-style-type: none"> 1. Overview of project's progress to date, and the relationship between the Heritage project and the Public Sector Measurement project. 2. Provide direction on topics on which the Heritage Task Force should develop recommendations for consideration at subsequent meetings. 3. Comments on recognition of heritage assets (as input to Task Force development of recommendations for June)
December 2017	<ol style="list-style-type: none"> 1. Review of responses to the CP, <i>Financial Reporting for Heritage</i>. 2. Discussion (during the work plan discussion) of the relationship between the Heritage and the Public Sector Measurement projects.
Earlier meetings	<ol style="list-style-type: none"> 1. The IPSASB approved the Consultation Paper (CP), <i>Financial Reporting for Heritage</i>, at its March 2017 meeting. 2. The IPSASB's first project discussion was in September 2015. At subsequent IPSASB meetings the IPSASB discussed issues raised by financial reporting for heritage; identified its preliminary views on such issues and specific matters for comment on which to request constituents' views; and reviewed draft consultation paper chapters.

¹ Amended after June 2019 meeting to reflect IPSASB decisions at that meeting and subsequent discussions with IPSASB Chair and Heritage Task Force Chair. Note that December 2019 number of issues for discussion is tentative. (For further information see Agenda Paper 11.2.1.

INSTRUCTIONS UP TO PREVIOUS MEETING

Meeting	Instruction	Actioned
June 2019	<ol style="list-style-type: none"> <li data-bbox="467 384 922 751">1. Consolidate analysis of stakeholder responses under generic headings presented at the IPSASB meeting; analyze them according to recognition, measurement and presentation; and consider whether additions or amendments will be required to guidance and which IPSAS/ED Measurement will be impacted. <li data-bbox="467 762 922 867">2. Provide plan with order and timing for delivery of guidance/solution on the issues. <li data-bbox="467 877 922 953">3. Provide first issues for discussion in September. 	<p data-bbox="954 384 1084 405">1 Actioned</p> <p data-bbox="954 772 1084 793">2. Actioned</p> <p data-bbox="954 898 1084 919">3. Actioned</p>

DECISIONS UP TO PREVIOUS MEETING

Meeting	Decision	BC Reference
June 2019	Tentative: <ol style="list-style-type: none">1. No separate heritage standard2. No definition of heritage assets3. Operational/non-operational approach not to be taken forward, but “heritage purposes” and “non-heritage purposes” approach should be further explored4. Heritage issues are concerned with measurement and not recognition.	Awaits further decisions.
March 2019	<ol style="list-style-type: none">1. Focus on information in the financial statements; recognition and measurement specific to heritage assets.	Awaits further decisions

Plan to Address Heritage-Related Financial Reporting Issues**Question**

1. Does the IPSASB agree with the proposed plan to address heritage-related financial reporting issues?

Detail

2. In June 2019 the IPSASB directed the Heritage Task Force and staff to provide a plan for the delivery timing of guidance/solutions to address the heritage-related financial reporting issues identified at the IPSASB's June meeting. The proposed plan (on the following page) gives effect to the IPSASB's June instructions and subsequent instructions from the Heritage Task Force Chair, the IPSASB Chair, and Technical Director, who agreed this plan for submission to the IPSASB. The Heritage Project Roadmap (see agenda item 11.1.1) reflects this proposed plan. The number of issues for December 2019 is tentative, because this depends on the IPSASB's September discussion and developments with respect to the Measurement Project.
3. The plan classifies issues in terms of whether they are:
 - (a) *Major or minor*, which reflects an estimate of the amount of staff analysis and IPSASB discussion time for each issue, with both being significant issues to address.
 - (b) *Heritage specific (or not)*, which assesses whether the issue is raised only for heritage assets or affects other types of assets such as, for example, infrastructure assets.
 - (c) *Generic measurement (or not)*, which indicates whether the issue is a measurement one or relates instead mainly to recognition and/or presentation.
4. As discussed and agreed with the Heritage Task Force Chair, the IPSASB Chair, and Technical Director, the broad approach to each issue paper is to:
 - (a) Apply a working assumption that heritage assets can be treated as generic assets;
 - (b) Use a standard form for heritage-specific issues, which addresses consequences for recognition, measurement and then presentation (display and disclosure);
 - (c) Include a recommendation on broadly what type of exposure draft (ED) text would address the issue (e.g. a revision to an IPSAS's main text; addition of application guidance; and/or text to include in ED, *Measurement*); and
 - (d) Show the linkage between the issue addressed and the detailed table of issues (from the June 2019 meeting), without reproducing that level of detail.
5. Issue papers 11.2.2–11.2.5 illustrate the broad approach above for discussing each issue, while also reflecting the plan's proposals for specific issues to discuss at this IPSASB meeting.

Staff recommendation

6. Staff recommends that the IPSASB approve the proposed plan.

Decisions required

7. Does the IPSASB agree with the recommendation to approve the plan?

Plan to Address Heritage Issues²: Issues, Classification, and IPSASB Meeting

#	Issue (1)	Major / Minor	Heritage Specific	Generic Measurement	Timeline/ Meeting
1	Ownership/stewardship/held in trust	Minor	Yes	No	September
2	Heritage use/ non-heritage use	Minor	Yes	No	
3	Subsequent expenditure	Minor	No	Maintenance vs. investment	
4	Useful lives/ depreciation/ impairment	Major	No	Historic Cost/Impairment	
5	Relevance/ Measurement basis	Major	No	No	December
6	Natural heritage—coverage	Minor	Yes	Deemed cost/ fair value	
7	Techniques (and sources)	Major	No	Valuation methodology, sources of Information	
8	Reliability/ measurability	Major	No	Qualitative characteristics in measurement	March 2020
9	Presentation: Information to Display and Disclose	Minor	No	No	

- (1) The issue descriptions (#1 - #9) do not refer to IPSAS revisions that will be needed to remove reporting entities' present ability to not recognize assets that are heritage items. Those revisions are the context underpinning each issue description and are, in effect, relevant to all the issues.
- (2) *Text for ED:* The Heritage Project Roadmap, in 11.1.1, schedules an IPSASB review of draft ED text at the IPSASB meeting immediately following an issue discussion. (For example, after the IPSASB discusses and provides instructions on issues (1) through (4) in September the IPSASB will then review ED text for those issues in December.)
- (3) *Transition and first-time adoption:* The Heritage project's roadmap has an IPSASB discussion of transitional issues and first time adoption issues scheduled for March 2020.

² *Transition:* This set of issues does not address recognition, measurement or presentation (display and disclosures) requirements and guidance when an entity is transitioning towards recognition of its heritage assets. Transition needs will be developed in line with the IPSASB's decisions on the appropriate endpoint of such a transition, i.e. decisions on the reporting of heritage assets going forward.

Ownership/ Stewardship/ Held in Trust

Question

1. Does the IPSASB agree that where heritage assets are held in some type of stewardship or trust arrangement the recommendations in paragraph 11 should apply for their recognition, measurement, and presentation?

Detail

Description of Issue:

2. Control over heritage items is sometimes related to stewardship in the name of the general public or a specific donor. This stewardship character can be emphasized by creating a trust structure to legally restrict access to the heritage item(s). The Conceptual Framework states that asset existence requires that a resource be presently controlled by the entity as the result of a past event. Indicators of control include:
 - (a) Legal ownership;
 - (b) Access to the resource or the ability to restrict access to it;
 - (c) Means to ensure the resource is used to achieve its objectives; and
 - (d) Existence of an enforceable right either to service potential or the ability to generate future economic benefit.
3. Stewardship and trusts can impose certain procedures or ways to use an item. For example, common conditions of stewardship include that:
 - (a) The process to transfer or sell items may be restricted, including limited circumstances in which this is permitted and a requirement to gain the Trustee's agreement first;
 - (b) Lending/leasing of the heritage item could be possible only with the Trustee's approval;
 - (c) Special reporting requirements to the Trustee; and
 - (d) Revenue from use of the heritage items (or sales if permitted) must be reinvested in the heritage items that remain or new acquisitions to maintain the overall resource.
4. These procedures or ways of usage do not generally prevent access or use. They regulate it.
5. [Appendix A](#) shows the link between this issue and the June 2019 detailed table of issues.

Consequences for Recognition:

6. Stewardship and trusts do not prevent heritage items being recognized as assets by the entity, so long as the heritage items are used by the entity to achieve its objectives. The entity has access to the items, can restrict others having access to them (e.g. opening hours at the museum), and, can ensure usage to achieve its objectives (e.g. preserving and presenting the heritage items to future generations). The stewardship agreement is enforceable on both sides.
7. *Example:* Indigenous heritage items are handed over to a museum to preserve them and grant access for future generations. The stewardship agreement doesn't allow the museum to sell the heritage items. If the heritage items are destroyed during the stewardship of the museum the expectation is that they will be replaced (if possible).

Consequences for Measurement:

8. Where the sale of the items is not allowed, exit prices are not a possible measurement basis. Some items of the stewardship agreement might be replaceable (general clothing, weaponry, tools, music instruments, etc.), special items might not be (e.g. the weapon of an important leader of the indigenous group). Those that are replaceable could be measured with replacement cost.

Consequences for Presentation (Display and Disclosure)

9. If material then a separate line item (e.g. for heritage art work) could be displayed on the face of the statement of financial position, applying IPSAS 1, *Presentation of Financial Statements*. The nature and content of stewardship should be disclosed to give an idea of the entity's rights and obligations attached to those assets. Heritage items that are significant but not able to be measured reliably should be disclosed (in groups if possible).

Application Guidance/Amendments

10. New note disclosure requirements, as per paragraph 9 above, which would be addressed through revisions to the main text in one or more IPSASs.

Staff recommendation

11. Staff recommends that the IPSASB agree that where heritage assets are held in some type of stewardship or trust arrangement, while still being a resource to the reporting entity, the following financial reporting should apply:
 - (a) *Recognition*: The heritage items should be recognized as assets by the entity, so long as they are used by the entity to achieve its objectives and can be measured reliably.
 - (b) *Measurement*: Where heritage assets:
 - (i) Are not allowed to be sold, exit prices are not a suitable measurement basis.
 - (ii) Can be replaced, replacement cost could apply to derive a current value.
 - (iii) Have to be maintained, reconstruction cost could apply to derive a current value.
 - (iv) Are used to generate income (earmarked for the Trust's purposes), an income approach is deemed to be suitable.
 - (c) *Presentation (Display and Disclosure)*: If material then an entity could
 - (i) Display a separate line item on the face of the statement of financial position, applying IPSAS 1.
 - (ii) Disclose the nature and content of heritage assets held in trust or for stewardship in the notes, to convey rights and obligations attached to those assets.
 - (iii) Disclose the extent of significant heritage items that cannot be measured reliably (in groups if possible).

Decisions required

12. Does the IPSASB agree with the recommendation in paragraph 11 above with respect to recognition, measurement and presentation of heritage assets held in trust or for stewardship?

Heritage Use/ Non-Heritage Use

Question

1. Does the IPSASB agree that no special, heritage-specific guidance in IPSAS is needed to address recognition, measurement and presentation for different uses of heritage assets?

Detail

Description of Issue:

2. How a reporting entity uses the heritage assets that it controls is an important consideration for their measurement. Asset usage can impact on both applicable measurement bases and heritage assets' useful lives. However IPSAS considers the impact of asset usage in its guidance.
3. The Conceptual Framework's discussion of measurement basis selection includes consideration of whether assets are held to contribute to an entity's operational capacity or to its financial capacity. The IPSASB's Consultation Paper (CP), *Measurement*, considers the purpose for which an entity holds an asset in its discussion of measurement basis selection. In IPSAS the usage of an asset affects the applicable measurement requirements. For example, a building may be accounted for differently depending on whether the reporting entity holds it to deliver services, for investment, or as inventory, which impact on whether the building falls within the scope of IPSAS 12, *Inventories*, IPSAS 16, *Investment Properties*, or IPSAS 17, *Property, Plant and Equipment*.
4. Reporting entities use the heritage assets that they hold in different ways. Heritage assets may be held to provide services or to generate cashflows. They may be held long term, short term or for sale. One type of heritage asset (e.g. a building) may be held for a range of different usages:
 - (a) Purely to provide heritage services to the public without charge. (For example, a national art gallery that is open to the public and does not charge for admission.)
 - (b) To provide heritage services and generate cash flows. (For example, an historic house that has rooms to rent for private dinners and corporate events.)
 - (c) To provide non-heritage services, for example to:
 - (i) To the public at no or subsidized cost (e.g. a heritage building that is a hospital within the national health service); or
 - (ii) To generate profit (e.g. a heritage train station that is part of a privately-held commercial enterprise or historic building that is rented out).
5. [Appendix A](#) shows the link between this issue and the June 2019 detailed table of issues.

Consequences for Recognition:

6. Heritage asset usage does not impact on recognition, so long as the heritage asset remains a resource from the reporting entity's perspective (i.e. continues to provide services and/or generate future economic benefits).

Consequences for Measurement:

7. Usage of a heritage asset should be taken into account when deciding on the applicable IPSAS and the reporting entity will need to consider usage when it estimates useful life.

Consequences for Presentation (Display and Disclosure)

8. None.

Application Guidance/Amendments

9. None.
10. The staff view is that no ED text is needed to address this issue, either in terms of a revision to an IPSAS's main text or the addition of application guidance in an appendix. However, a paper could be posted on the IPSASB website to address frequently asked questions about financial reporting for heritage (i.e. guidance outside of an IPSASB pronouncement. The same point applies to agenda items 11.2.4 and 11.2.5 where the staff view is also that no ED text is needed to address those two issues, but guidance outside of an IPSASB pronouncement could be provided as support for preparers.

Staff recommendation

11. Staff recommends that the IPSASB:
 - (a) Note that how a reporting entity uses its heritage assets will be an important consideration for entities' when choosing appropriate measurement bases and useful lives; and
 - (b) Agree that no heritage-specific guidance is needed to address recognition, measurement and presentation for different uses of heritage assets.

Decisions required

12. Does the IPSASB agree with the recommendation that no heritage-specific guidance is needed in IPSAS to address recognition, measurement and presentation for different uses of heritage assets?

Subsequent Expenditure**Question**

1. Does the IPSASB agree that no heritage-specific guidance is needed in IPSAS to address the treatment of subsequent expenditure on heritage assets?

Detail*Description of Issue:*

2. When a reporting entity incurs subsequent expenditure on a heritage asset that expenditure could either be expensed (as a maintenance expense) or capitalized (as an investment). IPSAS generally requires subsequent expenditure to be added to the carrying amount of an asset when it is probable that future economic benefits or service potential over the total life of the asset, in excess of the most recently assessed standard of performance of the existing asset, will flow to the entity as a result of the subsequent expenditure. The question that arises is whether there are any special heritage-specific considerations or a need for heritage-specific guidance when applying this general approach to heritage assets.
3. *Example:* Subsequent expenditure on a heritage building could involve either maintenance work such as repainting the exterior or an investment such as inserting a technologically advanced, earthquake-proof frame into the original structure.
4. Heritage assets raise two issues when considering accounting for subsequent expenditure:
 - (a) Deciding whether subsequent expenditure will prolong the useful life could be challenging, since the useful life of heritage assets sometimes is hard to estimate.; and
 - (b) Work on a heritage asset could be very expensive compared to “equivalent” work on a similar asset (e.g. higher cost to replace the roof of an historic building, using original materials, compared to replacing an ordinary roof on a non-heritage building).
5. In both cases the general IPSAS approach outlined above applies. In situation (a) the useful life may not be viewed as changing, however the assessed standard of performance would increase, which argues in favor of capitalizing the subsequent expenditure. In situation (b) if the expenditure represents an investment (applying the general approach) then the cost would be capitalized. The resulting higher value, by comparison to an ordinary building, accurately reflects the size of the investment that has occurred.
6. [Appendix A](#) shows the link between this issue and the June 2019 detailed table of issues.

Consequences for Recognition:

7. Subsequent expenditure on a heritage asset will be recognized (i.e. added to the carrying amount of the heritage asset) when it is probable that future economic benefits or service potential over the total life of the asset, in excess of the most recently assessed standard of performance of the existing asset, will flow to the entity as a result of the subsequent expenditure. Otherwise subsequent expenditure should be expensed.

Consequences for Measurement:

8. Subsequent expenditure will be added to the heritage asset's carrying amount (i.e. affect its measurement) when it meets the applicable IPSAS's guidance for capitalization of subsequent expenditure.

Consequences for Presentation (Display and Disclosure)

9. No new consequences for presentation (display and disclosure).

Application Guidance/Amendments

10. None.

Staff recommendation

11. Staff recommends that the IPSASB agree that no heritage-specific guidance is needed to address the treatment of subsequent expenditure on heritage assets.

Decisions required

12. Does the IPSASB agree with the recommendation that no heritage-specific guidance is needed in IPSAS to address the treatment of subsequent expenditure on heritage assets?

Useful lives/ Depreciation/ Impairment**Question**

1. Does the IPSASB agree that no heritage-specific guidance is needed in IPSAS to address reporting entities' approach to depreciation and amortization (including determination of useful lives) and impairment when accounting for heritage assets?

Detail

2. The following information highlights the IPSAS 17, *Property, Plant and Equipment*, guidance that is already available and its applicability to heritage assets. For intangible heritage assets there is similar guidance in IPSAS 31, *Intangible Assets*.
3. IPSAS 17.72 states that if the future economic benefit or service potential embodied in an item of property, plant and equipment is consumed by the entity principally through the use of the asset this will be reflected by depreciating the asset over its useful life. This is deemed to be applicable for heritage assets. If heritage assets are not consumed through their use then they would not be subject to depreciation (e.g. paintings, although they may require maintenance which could be capitalized and depreciated in some circumstances). Impairment would still be applicable, since heritage assets can be damaged through events such as fire, flood, earthquake, and changes in views with respect to heritage items' historical and/or cultural worth.
4. IPSAS 17.72 also lists factors for consideration when determining the useful life of an asset:
 - (a) Expected usage (expected capacity or physical output);
 - (b) Expected physical wear and tear (repair and maintenance program, number of shifts for which used);
 - (c) Technical or commercial obsolescence (changes or improvements of service delivery, change in market demand); and
 - (d) Legal or similar limits on the use of the asset (expiry dates of leases in the case of trusts).
5. The estimate of a useful life is usually based on the experiences of the entity with similar assets. This internal information might be missing where entities have not previously recognized their heritage assets on their statement of financial position. On first time recognition heritage assets might not be depreciated, although they would still be subject to impairment. As information about the useful life becomes available (because it is generated through the entity's experience with its heritage assets) adjustments to useful life estimates would be made, in accordance with IPSAS 3, *Accounting Policies, Changes in Accounting Estimates and Errors*.
6. IPSAS 21, *Impairment of Non-Cash-Generating Assets*, and IPSAS 26, *Impairment of Cash-Generating Assets*, as they seem to be fully applicable to heritage assets, whether they are measured with respect to their service potential or operational capacity (IPSAS 21) or with respect to their financial capacity (IPSAS 26).
7. As is the case with other assets, applying these impairment standards to heritage assets requires the entity to collect information and make plans about the usage, nature and circumstances of the

Agenda Item 11.2.5

heritage assets. For example, the entity will need to collect information on the heritage asset(s)' expected condition, usage, number of visits/attendance, and (where applicable) expected revenue.

8. [Appendix A](#) shows the link between this issue and the June 2019 detailed table of issues.

Consequences for Recognition:

9. None.

Consequences for Measurement:

10. Depreciation and impairment of heritage assets will involve application of applicable IPSAS guidance on depreciation (or amortization) and impairment.

Consequences for Presentation (Display and Disclosure)

11. No new consequences for presentation (display and disclosure).

Application Guidance/Amendments

12. None.

Staff recommendation

13. Staff recommends that the IPSASB agree that no heritage-specific guidance is needed to address reporting entities' approach to depreciation (or amortization) and impairment when accounting for heritage assets.

Decisions required

14. Does the IPSASB agree with the recommendation that no heritage-specific guidance is needed in IPSAS to address reporting entities' approach to depreciation (including determination of useful lives) and impairment when accounting for heritage assets?

Appendix A**Links Between Issues and June 2019 Table of Respondents' Issues***11.2.2 Ownership/ Stewardship/ Held in Trust*

Some respondents to the Heritage Consultation Paper (CP respondents) stated that the IPSASB should consider concepts involving stewardship, custodianship, ownership, and duties of care, as these relate to control. Heritage assets may be held in trust rather than owned. Control could be indicated either by purchase or through long term/indefinite loans from another party. Address situations where the entity has custody but not ownership and may not have control. Guidance should clarify that, in assessing the entity's ability to access or deny or restrict access, the entity should assess whether it can decide how, and by whom the resource can be used. This demonstrates the entity's ability to direct the future economic benefits or service potential associated with the resource. One respondent stated that the IPSASB should amend the Conceptual Framework to include stewardship in the measurement objective, because heritage assets don't fit easily into operational and financial capacity.

Some CP respondents stated that control over heritage assets is difficult to satisfy, since entities manage heritage items from a stewardship/custodial perspective. Where there are restrictions heritage assets should not be recognized. Instead a separate statement should be presented. Additional guidance should be provided for disclosures on unrecognized stewardship heritage assets.

11.2.3 Heritage Use/ Non-Heritage Use

Some CP respondents stated that only heritage assets used for non-heritage purposes (i.e. operational heritage assets) or those used for financial capacity should be measured at something other than symbolic value. Non-operational heritage assets should only be disclosed in the notes. Guidance should be developed for heritage assets with a dual purpose, clarifying that the asset should only be recognized when an insignificant portion is held for use in the production or supply of goods or services or for administrative purposes. Non-operational heritage assets should not be depreciated.

11.2.4 Subsequent Expenditure

Some CP respondents stated that there is a need for guidance on: (a) when subsequent expenditure should be capitalized and when expensed; (b) heritage assets that must be restored on a regular basis, which could be similar to major maintenance or periodic inspections, as per IPSAS 17, *Property, Plant and Equipment*; and (c) subsequent expenditure for off balance sheet items when assets are fair valued. Some CP respondents stated that all subsequent expenditure on heritage assets should be expensed.

11.2.5 Useful Lives/ Depreciation/ Impairment

Useful lives and depreciation: Some CP respondents stated that guidance is needed on: (a) determination of heritage assets' useful lives; (b) types of heritage assets that should be depreciated; (c) whether some or all heritage assets should be treated as having an indefinite useful life; and (d) depreciation/amortization when the asset's value is increasing.

Impairment: Some CP respondents stated that guidance is needed on: (a) impairment indicators; and (b) impairment when the value of heritage assets is increasing, even as their physical condition deteriorates. Some CP respondents stated that impairment losses should not be recognized for heritage assets and instead impairments should be disclosed in the notes.