30 June 2006

Chairman
International Public Sector Accounting Standards Board,
International Federation of Accountants
545 Fifth Avenue, 14th Floor
New York, New York 10017
UNITED STATES OF AMERICA

Dear Sir

Re: Heritage Assets: Can Accounting do better?

Thank you for the opportunity to comment on the above paper. We consider that it is useful, but we have some further comments:

1. **Definition.**
   We disagree with the proposed definition. We consider that the definition is too narrow and should not attempt to limit the scope to assets held principally for the contribution to culture and that this purpose is central to the entity’s objectives. By implication this limits the paper’s guidance to the public sector and seems to be an attempt to avoid examining and addressing all of the issues of heritage assets. We believe that the definition should be neutral to assist with the consistent treatment of all heritage assets. We prefer and strongly support as a definition the broader words of preface introduction paragraph 4 excluding the phrase “and this purpose is central to the entity holding them”.

2. **Attributes of a Heritage asset**
   We consider that many heritage assets have more than one attribute or component and that in many cases heritage assets are really intangible assets with some physical form. For example, a cup might be evidence of metallurgical and artistic techniques developed in a particular culture in a particular epoch. A gallery may wish to hold a painting not so much for other values but as evidence of an artist's development at a certain period of their career. This evidence that heritage assets often have intangible attributes indicates that they should not just be classed as part of property, plant and equipment. Other heritage assets may have both attributes that are typically considered iconic or heritage and attributes that are typical of a service asset. An example might be a former palace that was the scene of momentous events in a country’s history (and is frequently visited as such), but is also used as offices. Both components have value and they should be separately considered if significant. While we have exampled three types of attributes there may well be more to be identified.
This discussion has implications for valuation bases and methodologies. If much of a heritage asset’s value is intangible and can be retained without the asset then it should be recognised and measured in accordance with the intangible asset standard. If no historical cost exists there is little scope for revaluation. If the intangible attribute can be replicated by scanning and digitising, then the cost to be recognised is arguably only the cost for that process.

In addressing valuation approaches, consideration also needs to be given as to whether any heritage asset can or would be successfully replaced or replicated by a facsimile, such as a replacement building duplicating the materials and measurements as closely as is possible. What are the implications if the facsimile looks the same but the materials are different? Does the facsimile really meet the attributes of the original asset for the intended use? Only if so is depreciated replacement cost a valid valuation basis. But if a facsimile does satisfy the heritage asset attributes it is hard to support any value higher than the cost of a facsimile.

3. Purpose of a financial report
A further issue that has implications particularly for heritage assets but that also applies to many of the components of a financial report is the question of what is the purpose of a financial report. What does stewardship or accountability mean? This is an issue that we believe merits more consideration, and not just in the context of heritage assets. The purpose for readers of the report significantly affects how assets and liabilities should be recognised and measured. For example, the IASB has recently concluded that the purpose of financial statements in their framework is to assist with the forecasting of future cash flows. In this context the only purpose in either recognising or otherwise disclosing any assets that would not or could not be replaced is to assist with judging future demands for maintenance, security or insurance costs because any need to make future cash outflows in the event of loss would be obviated. As such the information about the asset would not necessarily need to be current.

If on the other hand the financial reports are also used to judge stewardship or accountability then there would be some value in disclosure about these assets. If meaningful valuations can be prepared in a consistent, reliable and cost effective way then balance sheet recognition would enhance the disclosure. However, for purposes of stewardship we consider that requirements could be relaxed and less frequent and onerous valuations are acceptable. We support extended intervals and the use of internal valuations and indices based on reference guides or auction catalogues.

It is also important that changes in value of heritage assets do not distort financial performance. Consequently we strongly support separate statement disclosure and summary proposal 6.
Given the above discussion we believe that there would be advantages in placing the requirements for heritage assets in a separate standard.

We hope these comments are of assistance. Any queries should be addressed to the undersigned.

Yours sincerely

Peter Batten
Assistant Director
Accounting Policy

cc Professor David Boymal, Chairman, Australian Accounting Standards Board