

June 23, 2017

John Stanford

Technical Director

International Public Sector Accounting Standards Board

International Federation of Accountants

277 Wellington Street West

Toronto, ON M5V 3H2 Canada

Re: The comments of KIPF on the Consultation Paper, Heritage

Dear Mr. Stanford,

The Korea Institute of Public Finance (hereinafter referred to as “KIPF”) welcomes the opportunity to comment on the Consultation Paper (hereinafter referred to as “CP”) issued by the International Public Sector Accounting Standards Board (hereinafter referred to as “IPSASB”), regarding “Heritage.” KIPF truly appreciates IPSASB’s efforts to enhance the quality, consistency, and transparency of public sector financial reporting.

The response was prepared by the Government Accounting and Finance Statistics Center (hereinafter referred to as the “GAFSC”) in the KIPF, a national think tank in Korea that has played a critical role in the development of tax and fiscal policy. In particular, the GAFSC is a standard-setter who not only conducts researches on the accounting system of central government/public sectors, but also compiles Government Financial Statistics (GFS) and Public Sector Debt Statistics (PSDS). For further information, please visit our website here. <http://gafsc.kipf.re.kr/eng/Main.aspx>.

Please do not hesitate to contact us if you have any questions regarding our comments. You may direct your inquiries to the technical staffs of GAFSC, Stella Sunjae Kim

(sjkim@kipf.re.kr) and Jung-Hyuk Yim (junghyim@kipf.re.kr).

Faithfully,



Do-Jin Jung

Executive Director
GAFSC, KIPF

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.

[Our comments] We disagree. In general, the values of heritage items increase over time, and such characteristic of heritage needs to be considered together with other characteristics. Yet, there is no reliable way to measure an increase in values.

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.

[Our comments] We disagree with this view. The definition of heritage items under the CP seems too comprehensive for entities to make distinctions between heritage items and non-heritage items with reliability and objectivity. For example, in case of historical records, judgement made by entities can be influenced by changes in political situations. However, making out a list of heritage items in law also violates a principle-based nature of IPSASs. Accordingly, the Board may consider providing more detailed criteria on identification of heritage items in the Recommended Practice Guidance, etc.

In Korea, the definition of heritage items is very similar to the one in the CP. However, we provide guidelines to classify heritage items based on law and regulations in practical interpretations in order to help entities make more reliable judgments (the practical interpretations are not accounting standards).

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.

[Our comments] We disagree with this view because living plants and organisms meet the definition and characteristics of heritage items under the CP. In spite of the intention to preserve indefinitely, the inability of preserving living plants and organisms permanently is the same for heritage items other than them.

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.

[Our comments] We agree. However, since it can be seen that collecting admission fee or renting out office space only meet the ancillary purposes of holding and preserving heritage items, additional cases which realize the main purposes need to be considered.

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.

[Our comments] We disagree. In this case, because the monetary values as well as the symbolic values of heritage items are not reflected properly, it is likely that inappropriate information can be provided to users. Rather, provision of non-financial information in footnotes, etc. seems more appropriate.

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.

[Our comments] We agree.

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.

[Our comments] Due to the nature that trading heritage items is very limited, it is difficult to assign verifiable monetary value to them in a real world situation. Also, the cost of hiring experts to appreciate the values of heritage items is very high. For these reasons, we expense the subsequent expenditures rather than capitalize them.

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.

[Our comments] We disagree. We believe an assignment of verifiable monetary value is difficult for most of entities, especially when they have to satisfy cost constraints at the same time. The three measurement bases seem the most appropriate among the five, but are still not sufficient to measure heritage items.

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?

[Our comments] None.

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.

[Our comments] We disagree with this view for the following reasons:

- (a) Since the subsequent expenditures are made for recoveries or repairs in most cases, it is difficult to view that the values of heritage items will increase.
- (b) Heritage items normally have permanent useful lives. Therefore, there is no reasonable method to allocate the subsequent expenditures, if they are to be capitalized.

For these reasons, Korea currently views subsequent expenditures as the current year's costs, and expenses them immediately. Therefore, we recommend a different approach in the measurement of subsequent expenditures.

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.

[Our comments] None.

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.

[Our comments] We disagree with this view because there are some cases where the outflow of resources cannot be avoided due to the legal obligations imposed to preserve and recover

heritage items. In this case, such legal obligations result in a present obligation. Instead, even if an entity has little or no realistic alternative to avoid an outflow of resources, the entity may not be able to recognize liabilities because it is uncertain to determine the amount of resource outflows in an objective manner. We also encourage the IPSASB to review whether it is useful to provide the non-financial information about heritage items.

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.

[Our comments] We agree.

We hope our comments would be useful for IPSASB's important steps to determine appropriate reporting for heritage. Please feel free to contact sjkim@kipf.re.kr and junghyim@kipf.re.kr for further inquiries.

Thank you.