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Mr John Stanford
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Re: Response to Consultation Paper *Financial Reporting for Heritage in the Public Sector*

Dear Mr Stanford,

The French Public Sector Accounting Standards Council (CNoCP) welcomes the opportunity to comment on the Consultation Paper *Financial Reporting for Heritage in the Public Sector* published in April 2017.

The CNoCP supports the description provided for heritage items in Chapter 2 of the Consultation Paper. It is wide enough to encompass the vast majority of heritage-related instances. However, based on experience in our jurisdiction, and for practical and cost/benefit reasons, we express the need to rely upon national regulation that provides lists of those outstanding elements that should be retained as heritage items. Such lists ensure that only those elements that are relevant to the users of financial statements are recognised. From the viewpoint of the provision of high quality information, our constituents are concerned that too many elements might be recognised that would unduly gross up the total assets.

Therefore, with the need for practicability in mind, we would favour an approach that would **combine** the “description and asset definition” approach with that of existing lists of striking items resulting from national regulation¹.

On this very subject, from discussions with European Union Member States as part of the EPSAS² project, we understand that lists of heritage items are considered practical means for supporting the implementation of a principles-based approach.

With respect to measurement, we would support initial measurement at one currency unit for very specific heritage assets, for lack of a better way to convey the heritage significance of those heritage assets. Even more important is the fact that keeping track of those assets allows for recognition of subsequent expenditures. Also, setting up national regulation well reflects the sovereign power’s decision to put emphasis on the specific features of those outstanding assets, on the fact that some assets cannot be sold and belong to the public domain. In our opinion, addressing measurement for those very specific heritage assets would justify by itself the need for standalone requirements; otherwise, we would fail to see the need to develop a standard. To the extent that users’ needs are met, we would advocate that there is no hierarchy in terms of quality of information provided between recognising a heritage asset at one currency unit and disclosing relevant information only in the notes to the accounts on the basis that the asset cannot be reliably measured. In addition, applying complex measurement methods to some very remarkable assets would outweigh by far the cost/benefit ratio. Eventually, increased complexity in measurement methods could lead to inconsistent measures for assets that would convey similar heritage significance.

Lastly, the provision of information in the form of meaningful and significant disclosures is a strong concern of ours, especially in view of a smooth and sensible implementation.

We expand upon these points in the Appendix to this letter, which provides responses to the questions posed in the Consultation Paper.

Yours sincerely,

Michel Prada

¹ In France, the lists are established by decrees.

² EPSAS: European Public Sector Accounting Standards.

APPENDIX 1

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.

The CNoCP broadly agrees with the characteristics of heritage items and the potential consequences for financial reporting as stated in paragraphs 1.7 and 1.8 of the Consultation Paper.

One consequence we would suggest focusing on is that it is critical that the significance constraint should be taken into account for assets recognition purposes. As far as heritage items are concerned, understandability is a key qualitative characteristic to be met.

At a more detailed level, we would call into question the direct relation made in subparagraph 1.8(b) between irrelevant monetary values assigned to heritage items and the provision of non-financial information outside the financial statements. Indeed, incapacity to provide a relevant value does not prevent an item from meeting the definition of a heritage asset. While such an asset may not meet the recognition criterion, it would still be subject to disclosures within the notes to the financial statements. Should paragraph 1.8 be included in a standard, we would not focus on the location of information; therefore we would suggest that “*reported outside the financial statements*”³ should be deleted.

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.

³ See Consultation Paper, subparagraph 1.8(b) *Value*.

The CNoCP agrees with the proposed description; it seems conceptually sound. We note that the description includes the words “*intended to be held indefinitely*”. We assume that this means that a standard would require **evidence** of the intention to hold the item indefinitely. In that line of thoughts, one could question how a change in intention might affect the accounting treatment; further guidance might then be helpful to preparers.

We also observe that the description includes a wider range of items than just cultural heritage items in that it also refers to natural heritage items. Therefore, the description is flexible enough to include most situations met in jurisdictions with various approaches to heritage items, providing that they are considered outstanding in accordance with national regulation.

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.

The CNoCP would suggest that a future standard should remain flexible as to whether living plants and organisms should be included or not in the scope of natural heritage. There might be circumstances under which such items would be considered natural heritage. For instance, 400 year-old striking trees could be depicted as heritage items, especially when compared to human scale. The CNoCP would therefore question the use of the term “held indefinitely” in the description of heritage items. As a matter of fact, “indefinitely” is not commensurate with human lifespan. We believe that this might come up as an issue where plants on land owned by a public sector entity outlive those who planted them. Furthermore, when heritage items would also meet the definition of biological assets as set out in *IPSAS 27 Agriculture*, we believe that the articulation between that standard and *IPSAS 27* should be clearly explained, should a future standard on heritage assets be issued. Conversely, we are of the view that guidance as to a reasonable assessment of “indefinitely” would be useful. In that line of thoughts, the notion of “preservation for future generations” set out in the description of heritage items could be further explored.

All in all, we think that introducing some flexibility around “indefinitely” would only expand the scope to a limited number of items. This is because, where natural features or areas are concerned, those items need to be controlled to meet the definition of assets which is not the case, for instance, for wild living animals or for naturally occurring rock formations.

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.

The CNoCP agrees with the proposed preliminary view.

However, while we agree with the proposal to rely on a description of heritage items to scope in such items and on the conceptual definition of assets for recognition purposes, we would like to share our experience in France⁴: adding the use of a list of outstanding items established by national regulation to the “recognition of assets” approach. In other words, we would favour a dual approach that would mix reliance upon a description and a conceptual definition on the one hand, and the use of a set list of outstanding items enshrined in national regulation on the other hand.

From a practical standpoint, such an approach actually prevents from too wide recognition of such assets as it ensures that the cost/benefit constraint is well taken into account. As such, heritage items are shown on the statement of financial position with the assurance that their recognition is relevant to the public interest.

Additionally, from our specific experience in our jurisdiction, lists developed in accordance with national regulation are based on very thorough expertise and up-to-date information (i.e. lists are actually being developed using the other sources mentioned in paragraph 2.9). Heritage items that would not be listed would be deemed to not meet users’ needs for information. In that line of thoughts, we think that it is not to the standard-setter to call into question the quality of the lists.

Lastly, we wish to seize that opportunity to welcome the analysis in paragraph 3.8. The assertions that such items as knowledge-in-action “cannot be controlled by a single entity” and that they’re “owned” by a whole community” resonate well with us. This is because they relate to our analysis of those rights and obligations that are those of the sovereign power (in other words of the Nation) rather than those attributed to a public sector entity. Public sector entities are usually designed by law or regulation to manage or regulate solely the consequences that derive from those rights and obligations on an annual basis.

Because we understand the need for users to get information on those rights and obligations that cannot be reflected in the financial statements of the public sector entities that manage them on a day-to-day basis, we believe that it could be relevant for the Board to reflect on the

⁴ See Standard 17 *Heritage Assets* for the French Central Government.

nature, location and scope of such information. We are fully aware that this goes beyond the Heritage project, but we would like to bring it to the Board's attention as we believe this is the next big challenge that financial public sector information will face.

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.

The CNoCP does support the use of a nominal cost of one currency unit for the initial measurement of very specific and remarkable heritage items. We would like to make clear though, that most heritage items in our jurisdiction are measured at cost or at market value whenever possible. Those very specific few items are initially measured at a symbolic value for instance upon establishing an opening balance sheet or upon discovery of very old artefacts (archaeological remains, caves, etc.) for which it would be irrelevant to try and assign a monetary value. As commented on earlier, this is also the reason why we believe that a specific standalone standard might be needed.

For those heritage assets that are very old, owing to the incomparable nature of those assets (mainly properties), it is a fact that conventional valuation techniques lack reliability. For instance, because they are irreplaceable, measurement for those assets should not be based on replacement cost. In that, we agree with the last sentence of paragraph 4.21 “[...] *a replacement cost will not be available for some heritage assets, because they are irreplaceable*”. We would have appreciated that the specific case referred to in that sentence be addressed and fully explored separately, be it to assert that the only appropriate reporting solution is disclosures in the notes to the accounts.

All the same, in our jurisdiction, those properties have great symbolic importance for the Nation on behalf of which they are maintained. This is the reason why the French Central Government standard 17 on heritage assets requires recognition of those assets rather than mere disclosures, even though they cannot be attributed a reliable value. Recognition is at one currency unit for lack of a better way to convey the heritage significance of those heritage assets.

In addition, it is critical for completeness of inventory, internal control needs as well as asset recognition of subsequent expenditures to provide information on the existence of those assets

for which assignment of a monetary value does not adequately reflect the heritage importance, in the form of one currency unit on the face of the statement of financial position.

We would also argue, in our specific context, that information is of higher quality and better meets the needs of users if regrouped on the face of the statement of financial position, rather than scattered between the statement of financial position and the notes, only because some of those assets cannot be attributed a value. Because a list established in accordance with national regulation of heritage assets exists, internal consistency in the financial statements is better assured by regrouping, in one same statement, information deriving from such a list.

Finally, the use of one currency unit prevents from adding to the total gross carrying amount of heritage assets and more globally to the amount of total assets.

Because the CNoCP believes that the use of one currency unit might be useful in those specific heritage-related situations, the CNoCP decided to retain it in its own conceptual framework⁵. This decision also reflects the need to abide by the qualitative characteristic of “understandability” that prevails in those specific instances over other characteristics. From a practical standpoint, however, we are of the view that the information, be it provided through the notes or through recognition in the statement of financial position, is broadly of the same quality and usefulness to users.

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.

The CNoCP agrees with the proposed preliminary view.

⁵ See paragraph [176] of the Conceptual Framework for public accounts.

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.

Other than the heritage-related situations detailed in our response to the Specific Matters for Comment - Chapter 4.1, we cannot think of any other instances where heritage assets would raise recognition and/or measurement issues.

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.

The CNoCP believes that if all heritage assets could be assigned a monetary value using only the measurement bases that meet the Conceptual Framework's measurement objectives, then there would be no need for standalone requirements.

The CNoCP would also express doubts and concerns as to the use of replacement cost with respect to those heritage items that are by nature irreplaceable. We regret that this issue was not specifically addressed as it relates to a large number of elements in some jurisdictions. We would also be cautious over the use of the market value for some heritage assets, namely for those that cannot be sold. We would like to underline once more that the cost/benefit ratio is a critical factor in the choice of the measurement method.

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?

Please refer to our response to the questionnaire for the project Measurement sent early May 2017.

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.

With respect to subsequent expenditures, the CNoCP would be concerned that, because underlying heritage assets that cannot be assigned a monetary value are not recognised on the face of the statement of financial position, some subsequent expenditures may not be recognised, even though they meet the definition and recognition criteria of assets. This is one rationale for the use of the nominal cost of one currency unit that we have developed in our responses to the related previous questions.

The CNoCP agrees with the Board’s position described in paragraph 5.10. The fact that some heritage items may have indefinite useful lives is a key feature of those items hence they should not be depreciated. In substance, heritage items cannot be replaced; therefore applying a depreciation charge would be irrelevant and would impair their heritage significance. In addition, we note that in accordance with our standard 17, no impairment losses should be recognised for outstanding heritage assets; however, that standard requires that information about impairment should be disclosed in the notes to the accounts.

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.

In line with our response to the previous Preliminary View, applying judgement as to what “indefinite useful life” means might need to be further addressed through additional guidance. Such guidance could make, for instance, good use of the requirements set out in IPSAS 31 *Intangible Assets*.

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.

The CNoCP agrees with the proposed preliminary view.

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.

The CNoCP agrees with the proposed preliminary view.