Consultation Paper Financial Reporting for Heritage in the Public Sector (IPSASB)
Presentation of the Italian Ministry of Economy and Finance position

This contribution is the result of work coordinated by the Ministry of Economy and Finance, with the collaboration of the Ministry of Cultural Heritage and Tourism, the Ministry of the Environment, Land and Sea, the State Property Office, Italy's Court of Auditors, the National Institute of Statistics and the Academics of the Accrual accounting Working Group (established within the MEF).

FOREWORD

We are pleased to offer our input as a result of the issues raised by the IPSAS Board with the Consultation Paper "*Financial Reporting for Heritage in the Public Sector*". In particular, we take a favourable view of the efforts made in trying to systematise the financial reports of cultural and natural heritage assets, essential elements for individual and collective well-being.

The on-going work within the IPSAS Board represents an ambitious research effort, which we view as strongly associated with the work produced in Italy by the Ministry of Cultural Heritage, which has recently completed the census of all cultural assets[1], and by the Ministry of the Environment, with the establishment of the Natural Resources Committee in 2016[2].

It is worth mentioning in particular that as concerns accounting standards in relation to cultural heritage, within the framework of financial accounting applied to Territorial Bodies (Annex 4/3 to Legislative Decree 118/2011), Principle 6.1.2, on tangible fixed assets, and Principle 6.3 on net equity, have been drawn up in Italy.

> **Principle 6.1.2 – Tangible Fixed Assets**
> *All assets, movable and immovable, qualified as "cultural heritage", pursuant to art 2 of Legislative Decree no 42/2004 - Code of Cultural and Landscape Heritage, are not subject to amortization.*
> *Among the bibliographic heritage evaluation criteria: "bibliographic heritage qualified as "cultural heritage", pursuant to art 2 of Legislative Decree no 42/2004, are included in the balance sheet under "Other state assets" and are not subject to amortization.*
>
> **Principle 6.3 - Net equity**
> *"Non-disposable reserves for inalienable state property and heritage assets" have been established among the net equity reserves, as a guarantee of the state property and*

[1] Legislative Decree no 42 dated 22 January 2004 (Code of Cultural Heritage and Landscape, pursuant to Article 10 Law No 137 of 6 July 2002).
[2] Its establishment is provided for by Art 67 of Law no 221 dated 28 December 2015 (Environment-connected Provision). The Committee includes ten Ministers, the main public research institutions, and is complemented by a group of national experts. The First Report on Natural Heritage in Italy, sent to the Presidency of the Council and to the Ministry of Economy and Finance at the end of February 2017, emphasised, among other things, the methodological specifications required for the physical and economic accounting of natural assets in Italy and provided the first estimates on this matter.

heritage assets, for an amount equal to the value of the state property and heritage assets registered in the asset side of the financial position (balance sheet), which may vary as a result of amortization and of the acquisition of new assets. Non-disposable state and financial assets are defined by the Civil Code, Article 822 et seq. Assets, movable and immovable, qualified as "cultural heritage", pursuant to art 2 of Legislative Decree no 42/2004 - Code of Cultural and Landscape Heritage, are also non-disposable assets, which, if owned by the operating bodies of territorial entities, are not classified as state property and non-available property. These reserves are used in case of sale of the assets, carried out in accordance with the constraints provided for by law. As regards state and non-available property subject to amortization, the unavailable reserve fund is reduced annually in the adjusting entries by an amount equal to the amortization pertaining to the period, through a correcting entry equal to the cost generated by the amortization.

As regards the Natural Heritage, it is deemed necessary to make further study in depth about their evaluation criteria and their inclusion in the financial reports coherently with international views.

This contribution does not have the ambition to provide a unique and definitive answer to a particularly complex topic, such as the one in question, but simply intends to outline a first constructive approach, certainly not exhaustive, open to further and new in-depth analyses which will be carried out in the future.

Among the various topics covered by the Consultation Paper, particular attention will therefore be paid to points ***4. Recognition and Initial Measurement of Heritage Assets*** and ***5. Subsequent Measurement***.

Comments on individual aspects of the Consultation Paper

Specific Matters for Comment - Chapter 1

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.

**Characteristics of Heritage Items*
1.7 Characteristics of heritage items include that:

- *a) They are often irreplaceable;*
- *b) There are often ethical, legal and/or statutory restrictions or prohibitions that restrict or prevent sale, transfer or destruction by the holder or owner; and*
- *c) They are expected to have a long, possibly indefinite, useful life due to increasing rarity and/or significance.*

1.8 These characteristics of heritage items may have consequences for financial reporting for heritage in the following areas:

- *a) Measurement: Is it possible to measure heritage items in a way that reflects their service potential or their ability to generate economic benefits?*
- *b) Value: If assignment of monetary values does not convey the heritage significance of heritage items or their future claims on public resources, would users of GPFRs benefit more from non- financial information about heritage items, reported outside the financial statements?*
- *c) Preservation: If an entity's responsibility is to preserve heritage items rather than to generate cash flows from them, are heritage items resources or obligations from the entity's perspective?*
- *d) Restrictions on use: Given restrictions on entities' ability to use, transfer or sell heritage items, should heritage items be shown as assets in the financial statements?*
- *e) Benefits to others: Can a reporting entity be said to control a heritage item for financial reporting purposes, when it is held for the benefit of current and future generations?*

Comments

We agree with the features listed in paragraph **1.7.** Accordingly, it is therefore considered that Heritage Items should be considered "assets[3]" for accounting purposes.

With reference to paragraph **1.8**, a number of points are set out below:

a) Although aware of the fact that any estimation process can only provide a partial view of the cultural/social value of the asset, it is still necessary to identify measurement methods for some Heritage Items, in order to approximate their economic–monetary value.

[3] The "*Conceptual Framework for General Purpose Financial Reporting by Public Sector Entities"* defines an "*asset*" as "a resource presently controlled by the entity as a result of a past event".

b) It being understood that they are considered "assets" and therefore must be included in the financial statements, we consider it useful that such assets, together with an economic and monetary value recorded in the financial statements, should always have an additional *disclosure* of a non-financial nature available, in order to attempt to capture that part of the cultural and natural value which is unlikely to be provided by any numerical estimate.

c) Within the perspective of the entity preparing the financial report, heritage items are at the same time resources and obligations.

d) We agree with the position according to which heritage items should be included as assets in the financial statement but with the added proviso that, given the legal limits weighing on cultural heritage, such as its non-transferability, an unavailable reserve should be recognised in the net equity, equal to the amount of the unavailable HIs recorded in the assets.

e) Yes, as these assets generate incoming and outgoing financial flows which have an impact on performance and on the asset.

Preliminary View – Chapter 2.1

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 archaeological, 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.

Comments

We believe that the definition of "Heritage Item" provided in the CP is in line with what is recognised internationally and is therefore shared.

According to Italian MEF, the description of cultural heritage assets contained under point 2.1 of the CP is consistent with the provisions of the Code of Cultural and Landscape Heritage (L. Decree No 42/2004 and subsequent amendments to, or revisions) as regards tangible cultural heritage assets.

Preliminary View – Chapter 2.2

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?

Should you not agree, please tell us the reasons.

Comments

Considering that the purposes of this CP relate to the inclusion of Heritage assets in financial reporting, although from a classification point of view it is fair to include in the Natural Heritage, that is a part of the Heritage, also the living plants and organisms.
Anyway, given the difficulty in identifying appropriate measurement criteria of natural assets suitable for such purposes, we consider it necessary to carry out further in-depth analyses as concerns their inclusion in financial reports.

Preliminary View—Chapter 3

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.

Heritage Items as Assets

3.10. From the discussion in this chapter it appears that, drawing on the Conceptual Framework, the special characteristics of heritage items do not prevent them being:
(a) Resources;
(b) Presently controlled by an entity;
(c) As a result of a past event.

Comments

TANGIBLE ASSETS

We agree with the preliminary view by the IPSASB Board, "heritage items" can be considered as "heritage assets" (HA) in an accounting context.

More generally, it is believed that such assets are worthy of autonomous assessment as:

- they are or were the subject of a significant investment flow, i.e., of costs with a useful life deferred over time;
- they are the source of further economic benefits (in a broad sense, that is also social, cultural etc.), i.e. which are incremental and measurable;
- depending on the jurisdictions and the assets, they are transferable, including only potentially, through normative acts (release from public ownership), i.e. they can be transferred to third parties sometimes in conjunction with other, tangible or intangible, assets or as "collective" assets.

According to the IPSAS Board, the heritage asset may be included in the entity's balance sheet if the entity possesses one or more of one of the features listed in paragraph 3.10: *(a) Resources; (b) Presently controlled by an entity; (c) As a result of a past event.* Perplexity is expressed concerning the expression "one or more" since all three features must be present, as private property may not be included in the public financial reports, even if subject to restrictions and constraints on use.

INTANGIBLE ASSETS

Further considerations are deemed necessary in relation to the possible inclusion of the "intangible" cultural heritage as defined by UNESCO (crafts, languages, performing arts, etc.) in the financial statements, given the extreme difficulty in establishing the exact limits of intangible cultural heritage and in reaching a monetary valuation. Moreover, given the way such intangible assets are defined, they have, compared with tangible assets, a different definition of the stock to be taken into consideration within the financial position (balance sheet). That is, in order to maintain the value of a tangible asset belonging to the cultural heritage, it is necessary to carry out maintenance to preserve its features, while in the case of such intangible assets there is an inherent difficulty in assessing what is stock and what should be done to preserve it, considering that it is actually on the basis of how they are defined that they may change evolving over time.

Specific Matters for Comment—Chapter 4.1

Do you support initially recognizing heritage assets at a nominal cost of one currency unit where historical cost is zero, such as when an asset was fully depreciated before being categorized as a heritage asset and transferred to the entity, or an entity obtains a natural heritage asset without consideration?

Should you agree, please tell us the reasons.

Comments

We do not agree the position of the IPSAS Board, as assigning 0 or a symbolic value of € 1 is equivalent to not attributing any value to the asset. We consider it appropriate to highlight, even from an accounting point of view, the worth of cultural heritage, including in cases of assets of inestimable value (e.g. Colosseum), whose evaluation is only approximate and underestimated.

Additionally, the possible assignment of a symbolic value of € 1 would cause severe distortions in the accounting of the State property (some assets would be valued at € 1, others at market price or at historical cost or with other criteria..) making comparison of the data of multiple public financial statements with one another difficult.

It is believed that the symbolic evaluation criterion of one currency unit should not be applied to what has not yet been evaluated at a certain date or to that which cannot be evaluated, even where there are objective assessment difficulties. Information concerning such assets will in any case have to be included in a supplementary note in order to provide a comprehensive view of the heritage assets.

Preliminary View—Chapter 4.1

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?

Should you not agree, please tell us the reasons.

Comments

The detection criteria indicated in the CP (paragraph 4.2 page 19) are:

a) that the entry in question should satisfy the definition of "item" of the financial statements. Financial statement items are understood as being the macro-classes listed in the balance sheet or financial performance report, therefore they are fundamentally "assets", "liabilities", revenues, expenses;
b) that such an "element" may be evaluated in such a way as to respect the qualitative features (such as relevance and faithful representation, clarity, timeliness, comparability and verifiability) and the constraints (materiality, cost-benefit analysis) envisaged by the Framework.

On point (b), it is recommended that such qualitative features should be understood in a less restrictive sense for this category, aware of the fact that the monetary value can only be an approximation of the cultural/social value.
In fact, the peculiarities of cultural heritage assets, which differ from other assets because of some fundamental features (irreplaceability, indefinite life time, etc.), make the recognition criteria given in the conceptual framework not always adequate and comprehensive.

Specific Matters for Comment—Chapter 4.2

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.

Comments

Referring to the concerns expressed concerning the use of a nominal evaluation (1 €), we feel it would be preferable to make every possible effort to undertake an evaluation of all cultural heritage assets, even with different criteria than those provided by the Conceptual Framework and given in the CP.

In general, it is believed that the benefits of the evaluation process (in terms of a more comprehensive representation of the wealth and potential of a country) can only exceed the costs (essentially technical-administrative ones).

Preliminary View—Chapter 4.2

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?

Should you not agree, please tell us the reasons.

Comments

It is believed that the preliminary view of the IPSAS Board may be open to some corrective actions, as, given the object and purpose of this paper, the proposed evaluation criteria of a financial nature have some limitations for the following reasons:

1) They are difficult to apply to the entire cultural heritage which is essentially non-substitutable as it is chiefly the result of a historical outcome.
   In fact, it is believed that the historical cost (the value is equal to the investments incurred) could be applied to a newly built museum or to a work of art just purchased by the State after a specific assessment; the market value for a "market" work of art, or a painting by a contemporary artist; the replacement cost by assessing the costs of rebuilding a destroyed cultural asset ("school" hypothesis);
2) They do not properly consider the use of the asset and the related flows that they will generate in the future;
3) Non-monetary values (non-use values) related to the management of cultural assets of extreme importance are not taken into account, given that we are talking about assets managed for public purposes and therefore destined for public enjoyment.

An alternative hypothesis to define the value of Heritage assets therefore emerges, it being specified, as explained below, that in order to simplify accounting procedures for this category of assets, constant and perpetual values will often be substituted by the determination of the amounts at the time t = 0, that is, of the year in which the asset is evaluated.

The concept of value linked to "Heritage assets" has been and still is the subject of extensive economic literature. The central element of the reasons put forward is the non-coincidence between the value of a heritage asset and its price. This gap between the two elements arises from the complexity and specificity of the heritage asset market, which over time has led to constructing numerous *ad hoc* economic models, and in particular from the difficulty of a market price to incorporate the positive externalities that a heritage asset possesses intrinsically. In fact, these externalities represent the related effects which are produced for the benefit of not only those who enjoy fruition of the asset, but also for society as a whole. The concept that the price may represent "*an indicator of the value but not necessarily its direct measure (...), price theory elaborates on, but is not a replacement, of the theory of value in economics*" (Throsby, 2001) has spread in literature.

A heritage asset represents an investment made in the public interest. Let us therefore consider in this framework that the value of heritage assets is given by the <u>value of use</u> (the value that the asset has because it is seen, visited, enjoyed), which may be measured based on the financial flows generated by its

use, and by a non-use value (the value that people attribute to the cultural asset even without using it) which may be measured with complicated *ad hoc* techniques (e.g. contingency evaluation).
In summary:

1) $$HAV = useV + nonuseV$$

Where
HAV = Heritage Asset Value
useV = is the value of use of the heritage asset
nonuseV = is the value of the heritage asset that people acknowledge, even though they do not enjoy it

We hypothesise that the value of use of a heritage asset is equal to the discounted future financial flows deriving from the use of the asset.
If we hypothesise that the asset has an infinite life, and therefore an ability to generate flows endlessly in future years, the value of use can be calculated as the ratio between Ff (as the constant or "perpetual" financial flow for the years to come) and the rate used.

In summary:

2) $$useV = \sum_{t=0}^{+\infty} \frac{Ff_t}{(1+i)^t} = \frac{Ff}{i}$$

Where
t = 0 is the time when the evaluation takes place
Fft = financial flow generated by the asset in year t
i = appropriate discounting rate
Ff = "constant" financial flow

When it comes to financial flows related to the use of the asset, the following are taken into consideration:

- all the revenue related to the use of the asset (net of the expenses to generate this), such as income from entrance tickets, additional services, etc.
- all the revenue connected to the economy generated thanks to the heritage asset (tourism economy) in terms of higher revenue for the owner (State - entity) related to the expenditure for goods and services (mainly tourist), which would not have taken place in the absence of the heritage asset (taxes received by the State-entity following the development of the tourism economy).

In summary, the above-mentioned financial flows generated by the asset in year t (indicated as the numerator of the sum in formula 2), derive from the sum of the direct financial flows ($Ffdir_t$) and the indirect financial flows ($Ffind_t$).

3) $$Ff_t = Ffdir_t + Ffind_t$$

Where

$Ffdir_t$ = (ticket revenue + revenue from sales of goods and services + sponsors + other revenue) minus (management expenses incurred in order to make the asset available, which we will call spending for use[4]) in the year t
$Ffind_t$ = increased revenue for the State-entity generated by tourists' spending "motivated by the heritage asset" in the year t

As regards the non-use values of heritage assets, these can be subdivided (Frey and Pommerehene, 1991, Santagata, 2000, Throsby, 2001) into:

- -"option value" (I attribute a value to a heritage asset because I want to be certain that one day I will be able to use it; through conservation, individuals ensure the possibility of using the asset itself in the future in some form);
- -"existence value" (I acknowledge a value to the asset because I want it to exist for the community);
- -"inheritance value" (I want to pass on the asset to future generations).

Non-use values are completely independent from the individual use of the cultural asset or service and cannot be placed in relation with any financial flow. They may be of an altruistic type, such as the gift value, which derives from knowing that others may use the asset, or the value of existence, which consists in attributing a positive value to the existence of a cultural asset, irrespective of its use by someone.
The weakness of this reflection is, however, in the way these non-use values are measured. Numerous researches on the subject converge on the need for *ad hoc* analyses based, for example, on the analysis of the "Willingness to Pay (WTP)", using contingency evaluation techniques.
In their absence, practice and economic literature have in any case identified the public contribution allocated to the type of cultural asset or services being analysed as the proxy of the option value (and, in general, of the non-use values of cultural heritage), since it is the indirect expression of the collective willingness to support the existence of the heritage asset (regardless of its fruition).
In the case of state heritage assets, for example, this value can be identified as the entirety of the expenses the Ministry incurs in order to safeguard and enhance its assets. This approximation can well represent a value, not a market one, which the community attributes to the existence of said heritage assets.

In summary:

4) $$\text{nonuseV} = \sum_{t=0}^{+\infty} \frac{Fnf_t}{(1+i)^t} = \frac{Fnf}{i}$$

Where
Fnf_t = non-financial flows generated by the assets, equal to the expenses incurred for protecting and enhancing which will be incurred each year for the given cultural asset.

[4] In this case, it is necessary to define the scope of the management costs, isolating all those directly related to the opening and enjoyment of the heritage asset

Fnf = non-financial "constant" flow (theoretically)
t=0 is the time when the evaluation takes place
This value will sum the direct and indirect expenses incurred, both as capital and current expenditure, for protecting and enhancing the assets (which we assume to be equal to the total expenditure by the State-entity for that asset in one year).

Therefore

5) $$\text{HAV} = \text{Ffdir} + \text{Ffind} + \text{Fnf}$$

Hence:
HAV = flow discounting of the following sum: (Direct revenue minus Expenses for use) + (tax revenue from tourism economy) + (costs for protection and enhancement)

That is:

6) $$\text{HAV} = \sum_{t=0}^{+\infty} \frac{((\mathrm{Dr}+STV+Efet)-Sfr)_t}{(1+i)^t}$$

Where
Dr = Direct revenue deriving from the site
STV = expenditure for protection and enhancement
Efet = tax revenue from tourist economy
Sfr = Expenses for use

Where it is hypothesised that the entries listed here may be considered "perpetual", therefore imagining being able to determine constant values of such entries calculated at t = 0 and assuming that this value will be repeated every year, it can then be said that:

7) $$\text{HAV} = \sum_{t=0}^{+\infty} \frac{((\mathrm{Dr}+STV+Efet)-Sfr)_t}{(1+i)^t} = \frac{(\mathrm{Dr}+STV+Efet)-Sfr}{i}$$

Or also

8) $$\text{HAV} = \frac{Ft}{i}$$

Where Ft = Dr + STV + Efet - Sfr

Finally, as previously mentioned, it could be hypothesised that this "perpetual" value is the one recorded at time t = 0, that is, at the moment when the evaluation takes place.

Therefore it could be

9) $$\text{HAV} = \frac{(\mathrm{Dr}_0+STV_0+Efet_0-Sfr_0)}{i}$$

This method would lead to defining the value of the heritage assets, as already argued, based on a logic of discounting future flows, focusing, as mentioned, on the expectations entertained concerning the values that the asset may generate in its future.

On the contrary, we could say that this method completely overlooks the "past", the "history" of the asset, with the limit of potentially placing an ancient heritage asset and a more recent one on the same level.

What therefore seems most appropriate for our purposes is a mixed solution, which - in a balanced way – should consider both historical values and future flows.
A technique that in synthesis leads us to define HAV as:
10) $HAV = (HAV_f \cdot p) + (HAV_s \cdot q)$

Where
HAV = Heritage Asset Value
HAV_{f} = Heritage Asset Value, calculated based on the flow discounting method
HAV_s = Heritage Asset Value, calculated using the "historical" method (see below)
p, q = weighting factors such that p + q = 1

The considerations made at the beginning of this document apply for the purposes of determining the historical value. Namely, the matter consists in understanding how to attribute a "financial" type value, capable of adding value to the investments made during the course of history on that particular heritage asset.

Let's set that, then
11) $HAV_s = IV + \sum_{t=m}^{0} Inv_t$

Where,
IV = initial value of the asset, equal to the costs for its construction
m = number of capitalisation periods of the asset, that is, a value that begins the moment the asset is created and where the index t decreases to 0, the year in which the evaluation takes place.
Inv = investment costs incurred on the asset (restoration, maintenance, works, construction, etc.)

Now, as is argued and as is obviously intuitive, reconstructing the IV and Inv values is a very complex operation due to a lack of data and information.
To overcome this gap, but wishing to propose a method in any case, it is believed that a significant proxy is represented by all the expenses incurred on that asset for protection and enhancement, net of the costs incurred for its management (those which we previously called expenses for use/enjoyment).

In summary:

12) $$HAV_s = IV + \sum_{t=m}^{0}(STV_t - Cfr_t)(1+j)^t$$

Where,
j = is the capitalisation rate

Now, let's assume for simplicity that

- the value of STV and Sfr is constant over time, and equal to the value of STV and Sfr at the time t = 0, that is when the evaluation takes place
- $IV = (STV_0 - Sfr_0)$

13) $$HAV_s = (STV_0 - Sfr_0) + \sum_{t=m}^{0}(STV_0 - Sfr_o)(1+j)^t$$

Considering though, that it is necessary to bring the value of the investments (which, as seen, are equal to the value of the investments made at time t = 0) from the nominal values to the real values, we could assume, in order to simplify, that the capitalisation rate "*j*" is the rate to be used for the currency devaluation.

Therefore, according to this hypothetical assumption, the formula would thus be simplified to:

14) $$HAV_s = (STV_0 - Sfr_0) + \sum_{t=m}^{0}(STV_0 - Sfr_o)$$

Considering a life of the asset from its birth to year 0 as equal to m, where m is the number of periods (years, centuries, etc.), we would obtain:

15) $$HAV_s = (STV_0 - Sfr_0) \cdot m$$

Returning to the overall assessment, i.e., based on the use of the two criteria outlined above, we have:

16) $$HAV = (HAV_f \cdot p) + (HAV_s \cdot q)$$

Therefore:

17) $$HAV = \left[\frac{(\mathrm{Dr}_0 + STV_0 + Efet_0 - Sfr_0)}{i} \cdot \mathrm{p}\right] + [(STV_0 - Sfr_0) \cdot \mathrm{m} \cdot \mathrm{q}]$$

However there are still further specific and complex issues which must be analysed. Take for example how to calculate the financial flows without an entrance ticket to the cultural sites concerned. In this case it could be decided not to consider any financial flow. However, if the ticket were to be considered as a "tariff" for the use of a public service, thus capturing the measure of that surplus value attributed by the users of the cultural site, maybe considering an average figure would be better. An option could be that of not taking into consideration the price of the ticket for free sites (when calculating use values), considering that this lower value is offset by the calculation of the non-financial flows (which will be higher, considering that the ticket revenue will not be subtracted from the total costs of protection and enhancement).

A broad debate could then be triggered by the discussion concerning both the discount rate to be used for the discounting (i), and the interest rate for the capitalisation (j).

In conclusion, as anticipated in the preamble of this contribution, the position taken as concerns financial reporting for heritage is only a first attempt which well may be revised by means of further developments and in-depth studies. In short, it consists in finding the right balance between the concrete need to measure the phenomenon in question by means of a numerical expression and the necessary rigour of the assessment method, which must, in that sense, rely on as few hypotheses and assumptions as possible.

Specific Matters for Comment—Chapter 4.3

What additional guidance should the IPSASB provide through its Public Sector Measurement Project to enable these measurement bases to be applied to heritage assets?

Comments

We suggest to consider the new evaluation criteria set out in the remarks made concerning the Preliminary View - Chapter 4.2 within the "Public Sector Measurement Project".

Preliminary View—Chapter 5

Subsequent measurement of heritage assets:

(a) Will need to address changes in heritage asset values that arise from subsequent expenditure, depreciation or amortization, 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 preliminary view of the IPSAS Board?
Should you not agree, please tell us the reasons.

Comments

On the one hand, we agree on the possibility of periodically evaluating Heritage assets (it being specified that, since these consist of assets with an unlimited life, whose value does not diminish over time) and one possibility might be that of using the methods applied to "non-heritage" assets, with the adoption of appropriate corrective actions.

On the other hand, because of the distinctive features of Heritage assets, it may be improper for such expenses to increase the asset's financial value, as is the case for other non-Heritage assets. Should criteria other than the classic ones be used to evaluate the asset (e.g. if direct and indirect cash flows are taken into consideration), the increase in the value of the asset after a restoration may be much greater than the expenditure sustained for the restoration itself.

Consequently, unlike what normally occurs for other assets, such expenses for heritage assets could be accounted for separately, capitalised and amortised, as they possess a life and a duration which can be estimated with objective criteria.

Carrying out further in-depth studies on the subject is therefore considered necessary.

Specific Matters for Comment—Chapter 5

Are there any types of heritage assets or heritage-related factors that raise special issues for the subsequent measurement of heritage assets?

Should there be any, please identify these typologies and / or factors, describe their particular issues, and specify which guidelines he IPSAS Board should provide in order to address them.

Comments

No other types of assets were found.

Preliminary View—Chapter 6

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 preliminary view of the IPSAS Board?
Should you not agree, please tell us the reasons.

Comments

Taking into account the special features of Heritage assets, including the intention to preserve such assets for current and future generations, these, *de facto*, translate into current obligations because of which, at an undefined time, outbound flows of resources may occur.

In the case of our Country, it is simply a moral duty and a fundamental principle enshrined in our Constitution, whose art. 9 states "The Republic promotes the development of culture and scientific and technical research. It protects the environment and the historical and artistic heritage of the Nation".

This provision is not laid down in the laws of many States, but there are supranational rules (e.g. UNESCO) which identify similar obligations.

However, perplexities exist concerning the direct correspondence between the moral obligation and the liability to be included in the balance sheet, as well as in measuring such liability.

Preliminary View—Chapter 7

Information about heritage should be presented in line with existing IPSASB pronouncements.
Do you agree with the IPSASB's Preliminary View?

Should you not agree, please tell us the reasons and describe which additional information should be provided.

Comments

The Consultation Paper states, in paragraph 7.3, some premises such as

- *a) Heritage assets should be recognized in the statement of financial position if they meet the recognition criteria in the Conceptual Framework;*
- *b) In many cases it will be possible to assign a monetary value to heritage assets and historical cost, market value and replacement cost are appropriate measurement bases for heritage assets, dependent on circumstances; and*
- *c) 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 and should therefore recognize a liability.*

As regards point a), reference is made to the perplexities expressed in the remarks to Chapters 4.1 and 4.2.
As regards point b), concerns are expressed and reference is made to the contents of Chapters 4.1 and 4.2.
As regards point c), concerns are expressed and reference is made to the contents of Chapter 6.

With reference to paragraph 7.7 (page 34)
" *Information on recognized heritage assets might include:*
- *a) The main types of heritage assets;*
- *b) How heritage assets are measured, including impairment or other changes in measurement; and*
- c) *Resource outflows and inflows as a result of holding, acquiring and disposing of heritage assets (for example through transfer or sale)*"

We agree with the view of the IPSAS Board. However, it is necessary to define clear and shared criteria concerning the possibility of carrying out write-downs (for depletion, damage, calamitous events,...) and revaluations (for restoration and recovery operations).
In principle, we agree with the view that Heritage assets should not be subject to amortization.

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