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Mr. John Stanford

Technical Director

International Public Sector Accounting Standards Board

International Federation of Accountants

277 Wellington Street West

Toronto, Ontario, Canada M5V 3H2

Comments on “*Financial Reporting for Heritage in the Public Sector*”

Dear Mr. Stanford,

The Japanese Institute of Certified Public Accountants (JICPA) is pleased to comment on Consultation Paper “Financial Reporting for Heritage in the Public Sector” as follows.

I Comments related to Chapter 1 of this CP

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.

We 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.

However, we would like you to add “(therefore, oftentimes) that accompanies obligation of special maintenance” or some statement to this effect to the sentence of “They are often irreplaceable;”

In relation to the areas of consequences for financial reporting (a) to (e) in paragraph 1.8, we find it inappropriate to explain three benefits of (b) Value, (d) Restrictions on use and (e) Benefits to others on the same level of (a) and (c) when considering the basis of “Conceptual Framework of General Purpose Financial Reporting by Public Sector Entities” (hereinafter referred to as “Conceptual Framework”). We would like you to examine the following suggestions for when similar statements are to be placed on exposure draft as well:

- (b) Value should be explained as part of measurement of (a).
- Considering the point of the issue as to if (d) Restrictions on use and (e) Benefits to others meet the element of control from the definition of assets, we believe that the title should be “Components,” and that the point of explanation should be changed to that of fulfillment of relevant elements.

II Comments related to Chapter 2 of this CP

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.

We agree with the IPSASB’s Preliminary View.

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.

We disagree with the IPSASB's Preliminary View.

It is inappropriate to completely exclude living plants and organisms from heritage items, as stated in this chapter. This should be determined according to the requirements of assets, as indicated in Chapter 3. In this case, living organisms that cross the border may be subjected to maintenance when they should not be recognized as heritage assets, because an entity cannot control them. According to our viewpoint, some countries are more likely to book similar natural heritage assets than others. However, it is not reasonable to exclude recognizable assets intentionally. We believe that when the recognition criteria for the assets of Chapter 3 are not met, then they should be excluded on these grounds.

According to the above idea, entities are obliged to maintain, for instance, the whole species, depending on the aspects of living organisms. If they are under the control of entities and are capable of generating economic benefits or service potential, they may be recognized as assets since the recognition criteria of assets in the following chapters are met.

As indicated in paragraph 2.12, individual living plants and organisms alone cannot be preserved for present and future generations, and do not meet the definition of heritage items. On the other hand, scenery and ecosystems consisted of the population of each individual may be preserved for present and future generations. Therefore, we think that they are likely to be classified as heritage items.

In this case, instead of accounting for each item individually, each group may instead be accounted for as one unit. We would like you to check if this preliminary view prevents heritage item from being treated as complete units, such as scenery and ecosystems.

III Comments related to Chapter 3 of this CP

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.

We agree with the IPSASB's Preliminary View that the special characteristics of heritage items, per se, do not prevent them from being considered as assets for the purposes of financial reporting.

However, we presume that some assets may not meet the definition of assets in the Conceptual Framework, even when they meet explanation of heritage items in Chapter 2. We recommend the IPSASB to examine the concept of control and service potential carefully.

For instance, the CP states that preservers holding of heritage items indefinitely are cited as an example of service potential. We suggest that the idea of whether such a case has service potential should be discussed more carefully.

We also believe that the IPSASB should consider whether entities can control some natural assets.

For instance, the *Yaku Cedar* that grows in the World Heritage Site in Yakushima Island are living plants that are difficult to move. The possibility of plants meeting control requirements should be discussed separately from that of animals.

We assume that knowledge-in-action is generally conceived of as uncontrollable. In some cases, however, there could be knowledge-in-action that is controllable. For example, traditional Japanese ceremonial court music that has been handed down through the ages as a government ceremony can be considered as such. In that case, instead of excluding it completely, as per paragraph 3.8, individual cases should be examined to see the definition of assets are met. Therefore, we would like you to verify again if controllable knowledge-in-action does not exist, depending on the conditions of each country.

IV Comments related to Chapter 4 of this CP

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.

We support initially recognizing all the heritage assets at a nominal cost of one currency where historical cost is zero.

We think that entities should be allowed to initially recognize heritage assets at a nominal cost of one currency according to characteristics of heritage assets, in the cases where historical cost is zero, and only when it is difficult or inappropriate to assign an objective value.

For instance, according to Japanese government accounting, the treasures of *Shoso -in*, or the ancient treasure warehouse controlled by the Imperial Household Agency, are items of the 8th-century imperial family and are prized treasures and documents for Japan. They are controlled physically but are not recognized or measured as assets since they are incompatible with financial valuation.

The government controls such treasures and documents. If they were to be evaluated financially, it would be more appropriate to be recognized in the statement of financial position. However, if they are assigned a monetary value, either such a monetary value would understate the heritage assets' value in terms of service potential, or would incorrectly imply that heritage significance can be represented with a monetary value.

Therefore, we believe that one currency unit as a symbolic value should not be treated within "historical cost" in the Conceptual Framework. We also believe that some of the heritage assets should be excluded from measurement and another means of disclosure should be considered.

Considering the conditions in Japan noted above, currency units should be assigned as symbolic values (even if historical value is nonzero) only when it is difficult or inappropriate to assign objective value.

As symbolic value is an exception to the Conceptual Framework, we believe that the case where symbolic value is relevant should be limited in the draft standard (Conceptual Framework paragraph BC7.41).

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.

We agree with the IPSASB's Preliminary View.

Since recognition criteria include materiality and cost-benefit as constraints, recognition of heritage assets is limited to a certain extent. As a result of this limitation, the remaining assets should be of greater materiality and their benefits should exceed their cost. Thus, they are legitimately booked as assets.

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.

This is also related to “Specific Matters for Comment - Chapter 4.1.” Even if there are the above heritage-related situations (or factors), the transaction of not recognizing heritage assets is inappropriate, and heritage assets should be measured at a nominal cost. We support measurement at a nominal cost for the following two reasons: 1.

Recognizing them as assets can display the fact of control by means of statement of financial position; and 2. Unless monetary value is assigned, preservation of such assets may be postponed in some countries. If register for heritage assets is enhanced and monetary value is assigned to them, their physical control may be promoted and certain effects on preservation of such assets are to be expected.

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.

We believe that historical cost and market value are appropriate measurement bases. Regarding this point, we agree with the IPSASB's Preliminary View.

However, we think that some heritage assets can be measured at a nominal cost as an exception to the historical costs and others defined as measurement bases in the Conceptual Framework as we stated in "Specific Matters for Comment—Chapter 4.1."

This CP states that restoration cost is included in replacement cost. We note that the IPSASB should consistently discuss restoration cost and maintenance cost of infrastructure assets, because both costs have similarities. We think that the IPSASB should provide guidance on the estimation of restoration cost upon initial measurements, which shows what extent future cash outflow (for how many years, for instance) should be included in the estimation.

This CP only explain value in use regarding non-cash-generating assets in paragraph 4.25. We think that value in use may also be reasonable measurement basis for cash-generating heritage assets. This CP refers to economic benefits in Chapter 3 as well. As Chapter 4 only focuses on service potential, economic benefits should also be discussed.

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?

When the nominal cost of one currency unit is adopted, its scope of application should be limited. We would like you to present guidelines for the scope of application, including the case of adopting nominal cost as symbolic value.

We believe that a base applied for initial and subsequent measurements should differ depending on whether an entity controls service potential or economic benefits. For instance, we think that following table is useful for entities to choose measurement bases. We also think it useful for the IPSASB to consider guidance on selecting measurement bases.

Resources controlled by an entity	Initial measurement	Subsequent measurement	Case
Service potential (Generally entry value is suitable)	Cost of acquisition	Impairment/Revaluation (Depreciation is rarely applicable.)	<ul style="list-style-type: none"> Newly acquired assets
	1 yen (one currency unit as symbolic value)	—	<ul style="list-style-type: none"> Imperial family's treasures and documents <i>Yaku Cedar</i> (natural heritage inhabited in native bush)
	Replacement cost or cost of restoration	Impairment/Revaluation (Depreciation is rarely applicable.)	<ul style="list-style-type: none"> Assets used for executive branch Art objects as heritage
Future economic benefits (Generally exit value is suitable)	Market value	Impairment/Revaluation	<ul style="list-style-type: none"> Buildings in Landscape District
	Value in use	Impairment/Revaluation	<ul style="list-style-type: none"> Not assumed as heritage

V Comments related to Chapter 5 of this CP

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.

According to IPSAS 17, "Property, Plant and Equipment", either the historical cost model or revaluation model should be selected for subsequent measurements, and should be applied to all types of tangible fixed assets.

We believe that the IPSASB should carefully consider the applicability of the revaluation model for heritage assets, because for heritage assets expected to be held indefinitely, we cannot find any theoretical rationale for revaluation based on exit value measurement basis. We also afraid that revaluation based on legal request can be permitted in the draft standard. If the IPSASB prescribes revaluation models in the draft standard and allow heritage assets to be revalued, we think that the IPSASB should develop techniques for measuring increases/decreases in service potential as increases/decreases in monetary value.

With regards to the situation where the service potential of heritage assets is measured, an increase/decrease in value, we can provide 2 examples; (1) The degree of building use, changes in conditions of citizen's access to art objects and (2) The educational value of materials associated with other historical discoveries.

When entities evaluate the book value after revaluation of those heritage assets in the above conditions, they may evaluate by value in use (indicated in IPSAS 21, "Impairment of Non-Cash-Generating Assets"). According to the Japanese accounting standards for Incorporated Administrative Agencies, the method of defining as value (an assets' book value multiplied by the percentage of such assets not expected to be used) is used in order to calculate value in use. We would also like you to refer to this for additional information.

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.

We assume that measurement bases of subsequent measurements differ according to the initial measurement base. For instance, depending on whether a resource controlled by an entity is of service potential or economic benefit, the measurement base to be applied at the time of initial measurement and subsequent measurement differs. See our chart indicated in “Specific Matters for Comment —Chapter 4-3.”

VI Comments related to Chapter 6 of this CP

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.

We agree with the IPSASB’s Preliminary View.

VII Comments related to Chapter 7 of this CP

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.

We agree with the IPSASB's Preliminary View.

When entity choose to displaying heritage assets in the statement of financial position we believe that breakdown of heritage assets (land, buildings, and other fixed assets) should be noted to express relationship with the statement of financial position (in which land, buildings, and others are independently indicated) indicated by the application guideline of IPSAS 1, "Presentation of Financial Statement."

We think that in relation to heritage, an explanation of sovereign power, which does not need to focus on heritage, can be useful.

We think that the draft standard should prescribe disclosure requirements which explain heritage assets are not held for sale.

Yours sincerely,

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