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Mr. John Stanford
International Public Sector Accounting
Standards Board
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submitted electronically through the IPSASB website

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**Re.: Consultation Paper: Proposed International Public Sector Accounting
Standard: Financial Reporting for Heritage in the Public Sector**

Dear Mr. Stanford,

The IDW would like to thank you for the opportunity to provide the International Public Sector Accounting Standards Board (IPSASB) with our comments on the Consultation Paper: Proposed International Public Sector Accounting Standard: Financial Reporting for Heritage in the Public Sector (hereinafter referred to as “the Consultation Paper”).

This letter includes general comments. We respond to the Specific Matters for Comment (SMCs) and the Preliminary Views (PV) in the appendix.

General comments

We support the IPSASB’s decision to consult on financial reporting for heritage, since heritage is a public sector specific issue and there is currently little in the way of standards and guidance available to drive consistent reporting internationally in this area.

In our opinion, the principles that are generally applicable to financial reporting for public sector entities apply equally to heritage, and so we believe that specific guidance on certain heritage-specific aspects of financial reporting may

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be needed in some areas. Irrespective of whether public sector entities may – dependent on various factors, including but not limited to the significance of heritage in their jurisdiction – choose to prepare separate reports on heritage, heritage items are an integral part of the public sector and should also be reported in the financial statements, in order to meet users’ needs.

In responding to the SMCs and commenting on IPSASB’s PVs, we explain in more detail why we believe the IPSASB will need to provide guidance on the following specific matters:

Qualitative Materiality Considerations Specific to Heritage Items

In our view, there may be circumstances in which it may be appropriate for heritage items to be considered material because of their heritage nature – irrespective of the magnitude of the amounts involved. We suggest the IPSASB provide specific guidance in this regard, in particular as to the impact on recognition decisions.

Classification of Heritage Items Used for Non-Heritage Purposes

Some heritage items are held solely in order that they can be preserved for future generations and thus generate neither tangible service potential nor other economic benefits. Others (or part thereof) may be used for a variety of non-heritage purposes – e.g., as office accommodation, or to attract visitors for an entrance fee. We suggest the IPSASB address how such different-use items might be classified for presentation purposes (we refer to our comments on Preliminary View—Chapter 2.1). Specifically, should a heritage item (or part thereof) used for a non-heritage purpose be classified solely as heritage, solely as non-heritage, or partly as heritage and partly non-heritage?

Besides presentation, there are a variety of related issues that need clarification. For example is depreciation only relevant to the use (i.e., non-heritage use, or assets that attract entrance fees)? Does a heritage item used for a non-heritage purpose possess an additional (intangible) value i.e., “heritage value” beyond its value in use to the entity? If so, can this be recognised?

Consideration of Living Organisms

Whilst acknowledging the IPSASB’s PV, we believe that there may be an argument for assessing whether living organisms can form an integral part of a heritage site, provided the entity fulfils the criterion of control. For example a specific site devoid of moveable assets, including an animal population or specific flora and fauna (viewed as a species rather than individual organisms), may essentially cease to have heritage character.

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Appropriateness of Measurement Bases

In our opinion, the selection of the measurement basis for a heritage item most suitable for providing users with the relevant information for accountability or decision-making purposes will depend on individual circumstances. For heritage items assets held solely for posterity, but not otherwise used to derive service potential or other economic benefits, measurement based on historical cost may be most appropriate (accountability for use of public monies). In contrast, for a heritage asset that attracts visitors who pay an entrance fee or similar, measurement based on market value that reflects expected future flows of resources may provide suitable information for decision-making purposes. We doubt that replacement cost will generally be an appropriate measurement basis because, by its very nature, heritage is normally considered irreplaceable.

We refer to the appendix for further details regarding these comments.

If you have any questions relating to our comments in this letter, we should be pleased to discuss matters further with you.

Yours truly,

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Executive Director

Gillian G. Waldbauer
Head of International Affairs

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Appendix

Specific Matters for Comment and Preliminary Views

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.

We agree that IPSASB has listed the key characteristics and, apart from the issues discussed below, the consequential financial reporting issues associated with heritage.

In our view, besides the issues already noted in paragraph 1.8, clarification of the materiality considerations that may impact financial reporting for heritage and their implications for presentation and disclosure would be useful.

Specifically, qualitative factors may mean that heritage items may be material from a qualitative perspective because of the significance of heritage to users, even when the monetary values assigned to heritage items would mean they may not be material to the financial statements as a whole from a quantitative perspective (see Conceptual Framework, paragraphs 3.32-3.34 and also our response to Specific Matters for Comment—Chapter 4.1 in this appendix).

We note the statement in 1.7(c), whereby heritage items are expected to have a long, possibly indefinite useful life due to increasing rarity and significance. The IPSASB's Preliminary View on the description of heritage (below) also refers to the intention for heritage items to be held indefinitely. We agree that anticipated longevity is a distinguishing feature of heritage items, since it is not expected that such items would be willfully destroyed, scrapped, or otherwise cease to be upon the expiration of a certain period of time. This contrasts directly with non-heritage items that can be considered to have a finite useful life. However, issues such as non-heritage usage, changes over time in general perceptions as to what shall be considered as heritage would possibly need to be anticipated and so we suggest that the term "indefinite" may need to be revisited. Such clarification also has an impact on any decisions concerning depreciation or amortization.

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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 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 refer to our comment above concerning the use of the term “indefinite”. We otherwise broadly agree with the PV. However, depending on any decision IPSASB may come to as to the need for preparers to differentiate presentation of information on heritage items, it may be necessary to develop the PV’s description into a firm definition, so to enable clear delineation with other phenomena for financial reporting purposes.

The PV refers to distinguishing heritage items from other phenomena for the purposes of financial reporting.

In our jurisdiction there are many heritage buildings in use today for purposes other than to reflect heritage significance. For example, many historic town hall buildings are used as office accommodation by the public sector entity or are leased out to a third party, iconic buildings such as the newly built Elbphilharmonie in Hamburg are often used for a variety of purposes, and we believe the situation is likely to be similar in many other jurisdictions. We believe that the IPSASB should explore the related presentation issues, because presentation of such items in the statement of financial position as heritage cannot depict their usage; similarly their presentation as office accommodation or as leasing assets cannot reflect their heritage nature. The situation may be further complicated where, for example, only a part of a heritage item is so used. In our view, decisions as to their presentation or disclosure might need to acknowledge both “classifications” in some way.

Differentiation may also be relevant to the classification of expense related to such items, for example, where explicit reconstruction obligations (e.g., terms of a preservation order) mean that repair and maintenance of a heritage building used for office accommodation will vastly exceed repair costs for comparable “normal” office accommodation, it may serve user needs if the expense were apportioned between a repair expense and a heritage preservation expense.

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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? If not, please provide your reasons.

We understand the IPSASB's concerns behind its PV that living plants and organisms should be excluded due to their transitory nature, but believe that the IPSASB will need to revisit this PV. Whatever the IPSASB decides in this regard, we suggest the IPSASB provide specific guidance to explain its decisions on this issue.

Whilst animals may not remain in one place permanently and any stock of animals and plants is naturally subject to change over time, a heritage site is often not entirely separable from the living plants and organisms that generally inhabit that site. Specifically, a forest or national park etc. includes the trees and vegetation (present and in future to the extent that, in the absence of deliberate human destruction, forests are generally expected to repopulate themselves over time). Indeed, in some cases wildlife or flora and fauna may be the "real" heritage characteristic that attracts paying visitors to a location, in whose absence the ability of that site to generate economic benefits would vanish or be severely impaired. We suggest that provided the reporting entity fulfils the criterion of control individual organisms might be regarded as a moveable asset, similarly to many other moveable assets. For example, the removal or significant modification of stones would significantly impact the heritage status of a site such as Stonehenge; the removal of wildlife may have a similar impact in other cases. We believe the IPSASB will need to consider whether guidance may be needed on such issues, amongst other things in regard to the application of a measurement approach based on cash-generating potential. Similarly an entity may have a preservation responsibility in relation to a particular species, which at the reporting date will be towards individual animals. This could give rise to day-to-day non exchange expenditure or heritage preservation or alternatively it might be of a capital nature and thus more appropriately capitalized as heritage. On this basis, we believe that in certain cases living organisms associated with a heritage site may exhibit the characteristics of a heritage item as in Preliminary View—Chapter 2.1.

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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.

We agree with the IPSASB that the special characteristics of heritage items do not prevent them being recognized as assets for financial reporting purposes. In our view, heritage items will have service potential, such that even if the service deliverable is not tangible in nature and does not generate net cash inflows the definition of a resource is met in line with paragraph 5.8 of the Conceptual Framework.

An issue may also arise as to the timing of recognition of such assets as heritage items. For example, a building originally built as a town hall may only come to be viewed as heritage over time, although it may well continue in its original use as office accommodation. In other cases the construction of an iconic building may be regarded as heritage from the start. We have also noted the propensity for changes over time in general perceptions as to what shall be considered as heritage in our response to Specific Matters for Comment—Chapter 1, since what may be considered as heritage today will not necessarily be regarded as such far into the future. Clarification as to how a change in an asset's classification from non-heritage to heritage might impact financial reporting decisions on presentation and disclosure may be helpful.

We agree with the IPSASB's conclusion in paragraph 3.8 that intangible cultural heritage items (knowledge in action) will not generally satisfy the criteria of "control" for recognition as an asset.

We acknowledge that the determination of control in regard to a heritage asset in line with the IPSASB's Conceptual Framework may be challenging in some cases. For example, the use of a particular heritage asset may be strictly limited or precluded e.g., when governed by statute, such that the public sector entity may be unable to derive any tangible service potential in achieving its service delivery objectives. In such cases any benefit associated with the heritage item would need to relate to either the achievement of that entity's service delivery or its "other" objectives (ref. paragraph 5.11 of the IPSASB's Conceptual Framework) for it to fulfil this criterion for recognition as an asset. For example, intangible service delivery could result from both "holding heritage items indefinitely in a custodial capacity" and "preserving heritage items to benefit the whole community", which are identified as possible objectives in paragraph 3.3 of the Consultation Paper. We believe that it could reasonably be argued that in such cases the particular public sector entity's "control" of the item for this

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purpose is implicit even when not explicit. In our view, heritage-specific guidance in this area would be useful.

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? If so, please provide your reasons.

Some jurisdictions may have significant heritage legacies, such that heritage may be material by its nature, including the financial impact of any preservation responsibilities, if not in quantitative terms. Under the IPSASB's Conceptual Framework, we believe recognition using nominal values is not justified. However, we are aware that some entities currently use nominal values e.g., in cases where measurement would be overly onerous, whereas adherence to the Conceptual Framework would result in such items not being recognized as assets.

However, the reason for holding (where applicable, including its use) the heritage item needs to be taken into account in decisions concerning the recognition of, and the most appropriate measurement basis for, heritage items that have been transferred at a fully depreciated amount or otherwise donated.

Whilst a non-heritage asset that has been fully depreciated might often be no longer relevant from a financial or operating perspective, we believe it is the unique objective of holding heritage items for posterity, i.e., their "heritage value" that may lend heritage items a different qualitative perception of value for many users of financial statements. Where such assets are used for service provision or to generate economic benefits, the item's value may in some cases equate to market value. Such assets may be material from a purely qualitative viewpoint, and there may also be additional informative value attaching to the assets where preservation expenses are involved.

As we explain elsewhere in this letter, historical cost information might address accountability; market values that reflect e.g., expected flows would provide information relevant to decisions on cost of services, operational capacity and financial capacity.

When the historical cost for an *ancient* item has to be estimated because no details of original cost are available, such estimation may often lead to the same

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or not significantly different result as the application of a nominal amount. Where such a heritage item does not generate service potential or other tangible economic benefits, its value to the entity may also need to reflect its being (required to be) held for posterity. Thus even if estimated historical cost is low (i.e., equivalent to nominal), the “informational value” (accountability) of holding an item for posterity is most likely associated with the need for the entity to incur expense related to its preservation.

However, this is likely not the case for *less ancient* heritage items where historical cost estimations would often be expected to exceed a nominal value. In such cases the use of a nominal amount would not be appropriate – instead, a reasonable estimate of cost would be appropriate.

Materiality considerations are likely to be relevant in this regard. We believe that whilst an estimated value assigned to a heritage item may not capture the perceived “worth” of the item in terms of its heritage significance to society, in some cases (as this would include an intangible component), it may do so as far as the public sector entity’s cost of services, operational capacity and financial capacity is concerned. In conclusion, we believe that the use of nominal values should be rare and that they should not be used as a substitute for historical cost or other measurement bases where these would be more relevant.

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? If not, please provide your reasons.

We agree that heritage assets should be recognized in the statement of financial position if they meet the recognition criteria set forth in the IPSASB’s Conceptual Framework.

Specifically, accountability would be addressed by information on historical cost. Market values that reflect e.g., expected cash flows provide information relevant to decisions on cost of services, operational capacity and financial capacity. Specific guidance on presentation and disclosure decisions relating to heritage assets would be helpful.

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:

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- (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.

We refer to our comments on nominal values in responding to Specific Matters for Comment—Chapter 4.1 in respect of the question of whether there are heritage related situations in which it is not possible to assign a verifiable monetary amount.

From an audit perspective we note that many accounting estimates are subject to measurement uncertainty and thus are not verifiable to the same degree of precision as is the case for certain other accounting phenomena. Auditing standards require an auditor to form a conclusion in relation to the reasonableness or otherwise of accounting estimates in order to and express an opinion with reasonable assurance on the financial statements as a whole.

In our view, the issue of whether there are reasons that heritage items should not be recognized ought – in addition to any cost benefit constraints – to be driven by materiality considerations. We refer to our comments in Specific Matters for Comment—Chapter 1 in which we suggest the IPSASB specifically consider and provide guidance on the issue of materiality in the context of heritage.

In this context, we also note that public perception of “heritage value” or “heritage premium” can differ from an item’s measurement for financial statement purposes. This consideration is relevant for an asset that might be appropriately measured at historical cost in the statement of financial position, but publically be perceived as “priceless” or of a far higher (non-measurable) value, purely because of its heritage nature.

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? If not, please provide your reasons.

We agree with the IPSAB’s Preliminary View.

We discuss the appropriateness of these measurement bases in responding to Specific Matters for Comment—Chapter 4.3 below.

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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?

It would be helpful for the IPSASB to clarify and provide guidance as to the factors relevant to a public sector entity's selection of an appropriate measurement basis.

In many cases selection of the most appropriate basis may be relatively straightforward. Historical cost may be appropriate where accountability for the use of public funds is paramount; market value would likely best reflect the estimated future flows of resources and thus probably provide the most useful information to users where the heritage item's service potential or ability to generate tangible benefits.

However, for some heritage assets ensuring alignment with the most appropriate measurement objective may be more complex. For example, given the fact that by their nature many heritage items are irreplaceable, it will be especially important to provide guidance as to when IPSASB would consider replacement cost as an appropriate measurement basis. Similarly, due to the nature and usage (or non-usage) of heritage assets as well as potential unavailability of market values, the relevance of market value in an inactive market for measuring heritage assets would need clarification.

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 IPSASB's Preliminary View? If not, please provide your reasons.

We agree with part (a) of the IPSASB's Preliminary View. However, we believe that special consideration and clarification needs to be given to the issue of depreciation, as, due to their heritage nature, heritage items are expected to be held indefinitely (or as we suggest one of their specific heritage characteristics is their expected longevity).

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In some cases normal “deterioration” e.g., weathering, may be part of their heritage “charm” – even adding to perceptions of an item’s “heritage worth”. Where a heritage item is held for posterity but not used to generate net cash inflows, its service potential may be intangible in nature (its presence might provide a sense of general wellbeing, national pride etc. or in allowing access to a park could contribute to the fitness of the population etc.). Furthermore, the service potential of such a heritage item does not necessarily diminish over time, as the item itself is not consumed.

For other cases – especially where heritage items are used for heritage or non-heritage purposes, increasing service potential or providing tangible economic benefits, depreciation may be relevant to users’ decisions related to such use (we also refer to our response to Preliminary View—Chapter 2.1).

Therefore in such cases it appears that it is the use of a heritage item rather an item’s “heritage nature” that may determine whether or not an item or part thereof is consumed and whether or not accounting for consumption (depreciation or amortization) provides information in line with the users’ needs.

We agree with part (b) of the IPSASB’s Preliminary View that the issue of subsequent measurement can be approached in broadly the same way as subsequent measurement for other, non-heritage assets. However, we would welcome the IPSASB providing guidance on factors such as change in use or re-classification (items previously not considered heritage come to be so classified over time), which may need to be addressed specifically in the context of heritage.

In our view, for cost: benefit reasons, revaluations of heritage assets that will neither change in use nor be sold, even when they may be expected to have increased in value, should not be undertaken unless relevant to the public sector entity’s financial position. Disclosures as to the potential for the item to have increased in value may be useful in a purely “academic” sense. Users’ needs would need to drive any decision in this regard.

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? 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.

Other than as discussed above, we have not identified any further such issues.

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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 IPSASB's Preliminary View? If not, please provide your reasons.

We agree with the IPSASB's statement in paragraph 6.9 that transactions such as the receipt of funding or services related to heritage would not be treated differently from other items for accounting purposes in recognizing liabilities. We also agree with the IPSASB's Preliminary View.

However, we do not understand the logic behind the statement in 6.4 that legislation in 6.3 (c) will be unlikely to create a binding obligation. In our opinion, the necessary determination would depend on the exact detail of any requirement under the specific legislation.

In the context of heritage associated liabilities, we would encourage the IPSASB to explore the extent to which public sector guidance, equivalent to the approach taken in IFRIC 1 in relation to restoration liabilities might be appropriate.

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? 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.

In our view, the relative significance of heritage in a particular entity's circumstances would impact materiality considerations that, in turn, drive presentation decisions in regard to information on heritage.

In this context, we refer to our responses to Specific Matters for Comment—Chapter 1 and Preliminary View—Chapter 2.1, in which we comment on the need for guidance in regard to qualitative materiality as well as distinguishing heritage from other phenomena for presentation and disclosure purposes.