



ACT
Government

Chief Minister, Treasury and
Economic Development

Mr Ian Carruthers
Chair
International Public Sector Accounting Standards Board
International Federation of Accountants
529 Fifth Avenue, 6th Floor
New York, NY 10017 United States of America

Dear Mr Carruthers

Consultation Paper *Financial Reporting for Heritage in the Public Sector*

The Heads of Treasuries Accounting and Reporting Advisory Committee (HoTARAC) welcomes the opportunity to provide comments to the International Public Sector Accounting Standards Board (IPSASB) on their consultation paper *Financial Reporting for Heritage in the Public Sector*.

HoTARAC is an intergovernmental committee that advises Australian Heads of Treasuries on accounting and reporting issues. The Committee comprises the senior accounting policy representatives from all Australian States, Territories and the Australian Government.

HoTARAC supports the development of guidance on heritage assets.

HoTARAC agrees that reliability and cost should be considered in whether to recognise an asset and further recommends considering relevance through tailoring the valuation method to the use of the asset.

HoTARAC's response to the specific matters for comment is attached to this letter. If you have any queries regarding our comments, please contact Peter Gibson from the Australian Department of Finance on +61 02 6215 3551 or email peter.gibson@finance.gov.au.

Yours sincerely

David Nicol
Chair

Heads of Treasuries Accounting and Reporting Advisory Committee

3 October 2017

HoTARAC Response

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.

HoTARAC generally agrees. However, according to paragraph 1.7(c), one characteristic of heritage assets is: 'They are expected to have a long, possibly indefinite, useful life due to increasing rarity and/or significance.'

HoTARAC suggests removing the word 'increasing' from paragraph 1.7(c).

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.

HoTARAC broadly agrees. However, HoTARAC recommends the IPSASB review UK Accounting Standards Board 2006 paper: *Heritage Assets: Can Accounting Do Better?* (Refer: <https://www.iasplus.com/en/binary/uk/0601heritage.pdf>). In HoTARAC's view paragraph 1.9, page 15 of this paper provides a more comprehensive list of practical examples of heritage assets than the brief listing provided in paragraph 2.4 of this CP. This assists in clarifying the types of assets that would be expected to be treated as heritage assets when held by public sector entities.

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.

HoTARAC does not agree, as the definition is ambiguous and difficult to apply in practice. For example, a coral reef is a living organism, but there is no reason why it cannot be indefinitely preserved. It is also an area/feature. HoTARAC suggests that the IPSASB focus on whether natural heritage meets the definition of an asset and is measurable, rather than attempting to redefine what constitutes natural heritage.

Additionally, from the perspective of natural heritage areas, there are many sites that are heritage listed based on the presence of individual living species. This could result in IPSASB recognising a national park as requiring valuation, but not being able to provide a value because the preliminary view excludes the asset for which the park is being valued.

Preliminary View—Chapter 2.2 - Continued

Examples include migratory bird areas. The definition would also exclude the inclusion of important scientific locations such as botanical gardens whose principal asset comprises living species.

HoTARAC also recommends that the definition explicitly exclude scientific specimens. Although the definition refers to living individuals, all scientific collections comprise large numbers of preserved, and in some cases, living specimens (as in seed banks, botanical and zoological gardens etc) and this could be confusing.

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.

HoTARAC agrees for man-made heritage items. HoTARAC questions whether natural heritage items can give rise to economic benefits or service potential that can be reliably measured.

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.

HoTARAC agrees that where historical cost is an allowable valuation method, then there is practical merit in using a nominal value for recognition. However, HoTARAC notes that assigning a value of one unit would mean there would be no visibility of these assets in financial terms.

HoTARAC recommends, consistent with other assets, the IPSASB determine a valuation base. HoTARAC considers there to be only very limited circumstances where historical cost provides relevant information to users of financial statements.

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.

HoTARAC agrees.

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.

HoTARAC agrees that there are situations where a heritage asset cannot be reliably measured and where the expense of providing a measurement is not justified by the benefits. In the Australian public sector, a number of irreplaceable collections of scientific and historical value are not reliably measurable in monetary terms (refer <https://www.csiro.au/en/About/Our-impact/Reporting-our-impact/Annual-reports/15-16-annual-report/Part4>, 6.3 Collection, p 134).

In HoTARAC's view, natural heritage either does not meet the definition of an asset (refer HoTARAC response to Specific Matter – Chapter 3) or does not provide measurable benefits.

HoTARAC also notes that some types of heritage assets, such as art, may have an established market price or a market price that can be derived from the sale of similar artworks. By contrast some heritage assets may be invaluable for financial statement purposes. For example, no realistic or reliable monetary value could be assigned to the Pantheon or the Great Wall of China.

There are significant costs for the entity to value the heritage items in the public sector and maintain this data at current fair values, particularly where expertise in the subject area is rare and commands a premium. HoTARAC recommends the IPSASB consider circumstances where the resulting valuation is of little benefit to users of financial statements, particularly where relevance is questionable.

It may be possible to arrive at a depreciated replacement cost for many heritage assets, but this is of little use to users where an asset is not held for its service potential. For example, it would be possible to reproduce many heritage assets, and replicas of many of famous monuments exist in countries around the world. However, the cost of these reproductions would not represent the value of the original (for example, the Eiffel tower replica in Paris, Texas would not be comparable to the original in Paris, France) and engaging an expert to arrive at a reproduction cost would be of no benefit to financial statement users.

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.

HoTARAC considers historic cost to be a relevant basis for measuring heritage asset in only limited circumstances, as relatively new structures for which such a measurement base would be relevant are unlikely to be classified as heritage. HoTARAC acknowledges that historical cost may be reasonable valuation base on initial recognition.

Preliminary View-Chapter 4.2 - Continued

HoTARAC agrees that replacement value and market value are appropriate measurement bases for heritage assets. In determining which measurement base to apply, HoTARAC recommends the IPSASB consider the use of an asset. Where an asset is used for its service potential, for example a Parliamentary building, it should be held at replacement cost. Where it is purely for heritage value, such as a painting or statue, market value is appropriate.

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?

As noted above (Preliminary View—Chapter 4.2) HoTARAC considers historical cost only relevant in limited circumstances. HoTARAC recommends that the choice between replacement cost and market value is based on whether the asset is held for its service potential.

HoTARAC agrees that the IPSASB should develop guidance on the measurement bases to be applied to heritage assets. HoTARAC acknowledges that this will be a large task due to the range of items that can be classified as heritage assets.

HoTARAC members' experience is that there are difficulties in valuers and auditors developing a single repeatable methodology towards even individual items in successive audits. Individual objects may be assessed as being "priceless" (without market value) in one assessment and then as having a market value in the next assessment. While there is common acceptance that scientific specimens can be valued at "replacement value", there is difficulty in reaching agreement on what this reasonably comprises.

HoTARAC recommends specific guidance is provided on determining whether a heritage asset can be reliably measured.

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.

- (a) HoTARAC agrees that the IPSASB consider subsequent changes in heritage asset values.
- (b) HoTARAC recommends the IPSASB address circumstances where depreciation of a heritage asset is not necessary. For example, where a building is hundreds of years old and there is a preservation policy in place, it may be reasonable not to apply a depreciation charge to the asset.

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.

HoTARAC recommends the IPSASB consider large heritage collections measured in the millions of items. Most organisations holding such collections have records more in the nature of catalogues rather than collection asset registers. These catalogues are unlikely to contain financial data such as acquisition cost (if relevant), depreciation rates, useful lives, written down value or revaluation data. When collections are measured in millions of items valuations are generally undertaken using a combination of techniques including sampling. For very large collections, there may be additional issues such as a need to utilise statisticians as well as valuers and collections may be very diverse, requiring the use of a range of different expert valuers.

A missing characteristic is that heritage items are often held in collections, which include a large number of items with an interrelationship with the individual items. The significance of a collection may be more than the sum of its individual parts. The following are examples of such collections:

- Collections associated with a famous person derive their significance through relationships, such as:
 - A world leading composer's personal collection of published music scores means little as isolated objects, but together they reveal information about the composers influence. If they are kept in the order the composer kept them in, then this becomes even more valuable to researchers.
 - Holding the complete papers of an important person they are more useful than a subset of their papers. From a printed collection, an institution might hold the complete works of an author. Noting that their earlier publications may have had very limited print runs so these publications are generally not available to the public. The complete collection is likely to be more valuable both from a financial perspective and a service potential perspective.
- Trade catalogue collections, such as an annual department store catalogue is not worth anything individually, but a collection that includes one a year for 100 years is a valuable resource.
- Collections of election ephemera are valuable because they contain information about all the candidates.

HoTARAC acknowledges, however, that for most other asset classes valuations are performed on a standalone basis (e.g. equities are valued with no regard to whether or not they are large enough to be a controlling interest).

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.

HoTARAC agrees. HoTARAC would not view this as different to other policy positions to provide future benefits, for example social benefits, that do not give rise to a present obligation.

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.

HoTARAC agrees. However, HoTARAC notes that the difficulties raised around reliable measurement of heritage assets using fair value may become more pronounced if IPSAS adopt IFRS 13 *Fair Value Measurement*.

IFRS 13, if rigorously applied, creates issues for unique assets such as heritage items because the principles it adopts are based on a market approach. The extent to which these issues might apply will depend on the type of heritage and cultural asset being valued. Specifically, HoTARAC foresees difficulty in applying the concepts of highest and best use, most advantageous market and the price a knowledgeable buyer and seller would arrive at for heritage assets.

As noted above, some heritage collections may be more valuable than the sum of their individual parts and this holistic approach may not be permissible under IFRS 13. HoTARAC also notes the limits on the approaches available for valuing assets under IFRS 13, such as componentisation, to heritage assets.

Adoption may also increase the disclosure burden if the IPSASB adopt the extensive disclosure requirements of IFRS 13, particularly in respect to the fair value hierarchy.

Other HoTARAC Comments

Public museums are not-for-profit public agencies or charities and the scale of many collections can number in the tens of millions of objects. The exponential cost of applying valuation methodologies to large non-commercial collections with a public good intent is at the limit or beyond what most institutions can afford to do in a cost effective or reliable manner.

Other HoTARAC Comments - Continued

The cost of implementing valuation methodologies in not-for-profit or publicly-funded institutions where the primary management intent is preservation of heritage assets for future generations can be prohibitive. For most institutions of this type, valuation represents a major tactical opportunity cost to financial operations with no strategic advantage to the operational effectiveness of the institution.

HoTARAC notes that the difficulties raised are likely to affect developing countries even more so, where there may be a lack of resources and/or expertise to adopt a full valuation approach to heritage assets. HoTARAC recommends that the IPSASB consider developing guidance on sampling methods (which, as noted above, are already utilised for very large collections), value estimates or other approaches that may be more reasonable for developing countries to undertake.