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John Stanford
Technical Director
International Public Sector Accounting Standards Board
International Federation of Accountants
277 Wellington Street, 4th Floor
Toronto, ONTARIO
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Dear Mr. Stanford:

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

Thank you for the opportunity to comment on the Consultation Paper: *Financial Reporting for Heritage in the Public Sector* issued in April 2017.

The Government of Canada bases its accounting policies on the accounting standards issued by the Public Sector Accounting Board (PSAB) of the Chartered Professional Accountants of Canada (CPA Canada). Although the Government of Canada is not required to follow the International Public Sector Accounting Standards (IPSAS), IPSAS are regarded as an important secondary source of generally accepted accounting principles.

Our comments with respect to the preliminary views and specific matters for comment in the Consultation Paper (CP) are included in the attached appendix.

We thank you again for providing the opportunity to comment on this Consultation Paper. If you require further information, please do not hesitate to contact diane.peressini@tbs-sct.gc.ca (613-369-3107).

Canada

Yours sincerely,



Diane Peressini
Executive Director,
Government Accounting Policy and
Reporting

c.c.: Bill Matthews, Comptroller General of Canada

APPENDIX

Responses to Preliminary Views and Specific Matters for Comment

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 characteristics of heritage items and their consequences for financial reporting have been captured in paragraphs 1.7 and 1.8.

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 this definition of heritage assets.

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 agree that living plants and organisms should be excluded from natural heritage for the reasons identified in the 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.

Overall, we agree with the view that, in many cases, heritage items meet the definition of an asset. However, we believe that individual heritage items or collections of heritage items held by an entity should be analysed against the definition of an asset so as to indicate that the service potential or future economic benefits embodied in the item are controlled by the entity, and that the entity has the ability to obtain the service potential, given any restrictions on the use, sale or transfer of the items. Given the unique nature of heritage assets, we do not believe that a blanket principle is appropriate.

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 the use of nominal cost as a proxy for historical cost when heritage assets are inherited (through sovereign rights or otherwise), transferred at no consideration (i.e. donated) or would have a historical cost approximating zero on initial application of the requirement. This allows the recognition of the heritage asset at a carrying amount that approximately reflects the resources given up to obtain the heritage item, as if it had been accounted for at historical cost when initially acquired, developed or otherwise obtained. Also, please see our response to SMC 4.2 on measurement.

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 recognizing heritage assets that meet the asset recognition criteria.

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.

- (a) In our opinion, it is often not possible to assign a relevant and verifiable value*

that reflects the innate “heritage” value of the asset in today’s economic terms, given that, by definition, heritage items are unique and irreplaceable. As noted in our response below to PV 4.2, we believe that the only relevant measurement basis for heritage assets is historical cost, which may be approximated by a nominal cost when the item was inherited, acquired through a donation or prior to record keeping.

- (b) Cost-benefit constraints may be significant on initial adoption of a heritage standard that requires measurement at market value or replacement cost, but is not likely to be a significant concern subsequent to initial adoption. Measurement at initial adoption under the above-mentioned measurement bases may be particularly onerous and costly for museums that hold vast collections of art and historical treasures, or for entities that hold inherited land, given the necessity to engage valuation experts.

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.

When an item meets both the definition of a heritage item and the definition of an asset, it is intended to be held and preserved by the entity in a stewardship role, whereby the entity derives service potential by fulfilling its mandate. The cost of services in relation to the heritage asset is not the cost of the item itself, rather it represents the costs associated with holding and preserving the item. The cost of the item also does not relate to the entity’s operational capacity (the capacity of the entity to support the provision of services in future periods), as heritage items are not consumed in providing services unless they are also used in operations (e.g. a heritage building also used as office space). As well, financial capacity is not increased by a heritage item that is to be held and preserved indefinitely, particularly in circumstances where the entity is prevented from selling or transferring the item. Based on this premise, our analysis of the proposed measurement bases is as follows:

Historical cost

We believe that this is the only relevant measurement basis to measure a heritage asset in the entity’s financial statements, representing an entry value which indicates the resources given up to acquire the item, if any. When an asset is inherited by a jurisdiction through its sovereign rights (or similar), is donated or acquired at no consideration, or is a historical treasure acquired prior to record keeping, we believe that its historical cost would be approximately zero, or a nominal cost. Many old/ancient heritage items would have a historical cost close to zero in today’s economic terms, and would have long since been “depreciated” if recognized when constructed or acquired for their intended use.

We disagree with the statement in the CP that “where historical cost information is available but the asset is so old that it may not provide relevant information for achievement of the measurement objective, another measurement basis may be more appropriate”. There is no reason to assume that a current cost is more relevant than an entry cost for a heritage asset as, by definition, the item is being held and preserved indefinitely. As well, it would add confusion to the financial statements to have some old/ancient heritage assets measured at market value or replacement cost and others at historical cost.

Replacement/restoration cost

We do not agree that replacement/restoration cost is an appropriate measurement basis on which to estimate the “heritage value” of a heritage asset. The conceptual framework, paragraph 7.43, states that “Replacement cost provides a relevant measure of the cost of provision of services. The cost of consuming an asset is equivalent to the amount of sacrifice of service potential incurred by that use.” However, the service potential of a heritage asset is not sacrificed when it is held and preserved indefinitely. When a heritage asset is held only in a stewardship function, there is no relationship between the cost of providing services to fulfill the entity’s mandate (for example by displaying the item in a museum) and the innate “heritage” value of the item. Therefore, assigning a monetary value to heritage items based on the future services to be provided by the entity in holding, preserving or displaying the items is not reflective of its heritage value and is not likely to be verifiable.

When the entity incurs restoration costs, it would be appropriate to capitalize the cost of restoration if the service potential of the asset is improved.

Market value

As heritage assets are not primarily held for their financial capacity, are usually irreplaceable and are often restricted from sale or disposal, we believe that market value is generally not relevant. As well, the reliability of such valuations for many heritage items would be questionable given that their uniqueness and rarity would likely give rise to highly subjective amounts, and, consequently, would be unlikely to support accountability and decision-making.

When an item with heritage characteristics is held for purposes of resale, then market value would be relevant if there is an open, active and orderly market; however, the item then no longer meets the definition of a heritage item which is to be “held and preserved indefinitely for current and future generations”. Consequently, the relevant IPSASs should be consulted to determine the measurement basis when the item is held for investment purposes, i.e. to increase the entity’s financial capacity. The IPSASB may want to consider expanding the scope of IPSAS 16 *Investment Property*, which is currently limited to land and buildings, to provide the accounting requirements for such items.

Conclusion

Based on the discussion above, we believe that when an asset meets the definition of a heritage item and is therefore held only in a stewardship capacity due to the obligation to hold and preserve the item for current and future generations, it should be recognized at historical cost, which may be reflected as a nominal cost for inherited or donated heritage items and natural resource land. Assets that do not meet the heritage item definition should be accounted for in accordance with the applicable IPSASs. When an entity incurs costs to restore the heritage item, these costs would be capitalized if the asset's service potential is improved.

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?

As noted above, attempting to value a heritage asset based on its service potential will not reflect the innate value of a heritage asset and therefore lacks relevance for the financial position of the entity. However, we believe that the concept of assigning a monetary value to an asset based on service potential needs further study for operationalization in a more general context, and this could be addressed by IPSASB's Measurement Project.

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.

We do not agree that all subsequent measurement issues can be necessarily approached in the same way as for non-heritage assets:

- Heritage assets are not consumed in the provision of services, unless they are also used in operations, therefore it may not be appropriate to amortize them.
- The guidance in IPSAS 21 *Impairment of Non-Cash Generating Assets* relies on estimation of the value in use of the asset or fair value less cost to sell. As noted earlier, in our opinion, the measurement of the service potential of a heritage asset would not reflect its innate value, and market value is not relevant when the item meets the definition of a heritage item that is held and preserved. If impairment arises because the heritage asset has lost its heritage significance, it is no longer a heritage asset and should be accounted for under the relevant IPSAS.

- In addition, we question the application of the revaluation model for heritage assets given the relevance of market value to assets which are held and preserved and cannot be sold or transferred. Engaging experts to revalue heritage assets will lead to highly subjective amounts in the statement of financial position that are not likely to provide useful information for decision-making.

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.

Please see our response to PV 5 above.

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 that it is necessary to determine whether the recognition criteria for a liability must be met in order to assess whether there is a present obligation that can be measured in a way that satisfies the qualitative characteristics. In general, we would expect that there is no present obligation that would result in an outflow of resources, although this should be assessed for individual heritage items that the entity has an obligation to preserve and restore.

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 that information about heritage should be presented in line with the IPSASB’s existing pronouncements, including RPG 1, *Reporting on the Long-Term Sustainability of an Entity’s Finances*, RPG 2, *Financial Statement Discussion and Analysis*, and RPG 3, *Reporting Service Performance Information*.

In our opinion, financial statements are not the most appropriate reports to provide heritage information that is most useful to those concerned with assessing

management's stewardship over the item or collection of items. Many jurisdictions prepare reports on the extent and current condition of their heritage items, and plans for their restoration. As well, long-term sustainability reports which indicate the entity's future obligations to hold and preserve heritage assets would be useful for accountability and decision-making.