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Chairman
IPSASB
IFAC

Submitted via website

Brussels, 2 October 2017

Subject: IPSASB Consultation Paper: Financial Reporting for Heritage in the Public Sector

Dear Sir or Madam,

Accountancy Europe is pleased to respond to the IPSASB's public consultation on Financial Reporting for Heritage in the Public Sector.

We encourage the development of high quality financial reporting standards which are designed to address the specificities of the public sector environment.

The holding of heritage items is significant in the public sector environment, but currently we observe nevertheless an important diversity in heritage reporting based upon the current guidance stipulated in *IPSAS 17 Property, Plant and Equipment* and *IPSAS 31 Intangible assets*. We recognize that the *Financial Reporting for Heritage in the Public Sector* is a challenging, but much needed project.

We believe that the Preliminary Views and Specific Matters for Comment, outlined in this Consultation Paper, could contribute to the improvement of heritage reporting in the public sector. More robust heritage reporting principles would improve the comparability of heritage-related reporting while providing useful information that users need for accountability and decision-making purposes.

Characteristics of heritage items and scope

We would agree with the Preliminary View of the IPSASB on the description of the special characteristics of heritage items except for the use of the notion 'indefinitely'. We would suggest removing this notion from the special characteristics' description.

Accountancy Europe has difficulties with the preliminary scope of natural heritage, i.e. the exclusion of the living plants and organisms from the scope. We understand that the recognition and measurement of living plants and organisms might be challenging and would consequently necessitate both a pragmatic 'recognition and measurement' approach, and detailed implementation guidance.

Initial recognition and measurement

We would not recommend recognizing heritage assets at a nominal cost of one currency unit as a general principle with respect to the situations referred to in question 5 (i.e. transfer at no consideration or donation). We believe that the one currency unit approach is not useful for decision-making and accountability purposes among other things.

We understand that, in certain cases, it might be difficult to reliably measure heritage assets (e.g. land under a monument) or the cost-benefit constraint would be applicable. In the aforementioned, specific situations, we would however suggest recognising those items at one currency unit value in the statement of financial position instead of not recognizing at all. We believe that the recognition at one currency unit value would facilitate asset management and would allow the potential capitalization of subsequent expenditure (considering that all related recognition and measurement criteria are met), among other things.

We also would like to refer to the UK accounting guidance, concerning the measurement of heritage assets, which makes a distinction between operational and non-operational heritage assets.

Subsequent measurement

Heritage assets of a tangible nature might also have an indefinite or indeterminable useful life (e.g. crown jewelry). *IPSAS 17 Property, Plant, and Equipment* currently does not provide subsequent measurement guidance with respect to tangible assets with an indefinite useful life.

In certain circumstances (e.g. assets held for their heritage significance), it might be challenging to determine the useful life of a heritage asset. It could be helpful to provide some principles to assist entities in estimating the useful life of such assets.

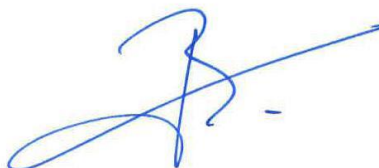
Recognition of related liabilities

We concur with the view that the special characteristics of heritage items do not themselves give rise to present obligations that would result in the recognition of a liability. Having said that, we believe that based on the facts and circumstances the potential existence of a legal or non-legally binding obligation (i.e. constructive obligation) should be carefully assessed. The existence of a present obligation might result in the recognition of a liability.

Sincerely,



Edelfried Schneider
President



Olivier Boutellis-Taft
Chief Executive

ABOUT ACCOUNTANCY EUROPE

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Accountancy Europe is in the EU Transparency Register (No 4713568401-18).

ANNEX 1 – DETAILED RESPONSE

- (1) We are pleased to present below our responses to the Preliminary Views and Specific Matters for Comment.

Question 1: 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.

- (2) Accountancy Europe believes that the most important characteristics of heritage assets and the related potential consequences for financial reporting are adequately captured in paragraphs 1.7 and 1.8 of the Consultation paper.

Question 2: 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.

- (3) We would agree with the Preliminary View of the IPSASB on the description of the special characteristics of heritage items except for the use of the notion 'indefinitely'. We would suggest removing this notion from the special characteristics' description as some might conclude wrongly, based on the current description, that all heritage assets have an indefinite useful life and hence should not be depreciated.

Question 3: 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.

- (4) Accountancy Europe has difficulties with the preliminary scope of natural heritage, i.e. the exclusion of the living plants and organisms from the scope.
- (5) We believe it would be challenging, in certain cases, to distinguish living plants and organisms from the areas and features they occupy. The combination, including living plants and organisms, would probably constitute the most appropriate 'unit of accounting' in those situations (e.g. buying a wood would include the trees). On the other hand, based on facts and circumstances, there could also be cases where living plants and organisms can be distinguished from the related areas and features, and as such be accounted for separately from a financial reporting perspective.
- (6) Additionally, we think that in some cases the combination of areas and features with their unique living plants and organisms result in the specific heritage characteristics (e.g. imagine the Serengeti in Tanzania without the distinctive wildlife).
- (7) We understand that the recognition and measurement of living plants and organisms might be challenging and would consequently necessitate both a pragmatic 'recognition and measurement' approach, and detailed implementation guidance.

- (8) Accountancy Europe also does not encourage the use of other reporting channels (e.g. heritage preservation reporting, etc.) outside the financial statements to account for heritage assets. We believe that a patchwork of reporting is not conducive in the light of enhanced accountability and transparency.

Question 4: 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.

- (9) Heritage items would indeed, in most cases, meet the definition of an asset as stipulated in the Conceptual Framework, i.e. it concerns a resource (item with service potential or ability to generate economic benefits) presently controlled by the entity as a result of a past event.

Question 5: 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.

- (10) We would not recommend recognizing heritage assets at a nominal cost of one currency unit as a general principle with respect to the situations referred to in question 5 (i.e. transfer at no consideration or donation). We believe that the one currency unit approach is not useful for decision-making and accountability purposes among other things. This approach is moreover not consistent with the general goods in-kind measurement approach, i.e. measurement at acquisition date fair value in accordance with *IPSAS 23 Revenue from non-exchange transactions*.
- (11) We however also would like to refer to our response on Question 7 concerning very specific situations (i.e. not a general principle) in which the measurement of heritage assets, at initial recognition, might prove to be challenging.

Question 6: 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.

- (12) Accountancy Europe agrees that a heritage item should be recognised in the statement of financial position as an asset if it meets the recognition criteria as stipulated in the Conceptual Framework, i.e. the item satisfies the definition of an asset and it is possible to assign a monetary value to the item.

Question 7: 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.

- (13) We understand that, in certain cases, it might be difficult to reliably measure heritage assets (e.g. land under a monument) or the cost-benefit constraint would be applicable. In the aforementioned, specific situations, we would however suggest recognising those items at one currency unit value in the statement of financial position instead of not recognizing at all. We believe that the recognition at one currency unit value would facilitate asset management and would allow the potential capitalization of subsequent expenditure (considering that all related recognition and measurement criteria are met), among other things.
- (14) The possibility of capitalization of subsequent expenditure, supposing that all the applicable recognition and measurement criteria are fulfilled, is a major driver for Accountancy Europe to come up with the proposed one currency unit value in the statement of financial position (instead of not recognizing the heritage item at all). Our suggested approach would preclude, to a certain extent, partial recognition of the heritage asset patrimony in the IPSAS accounts. Our suggestion (i.e. recognition at one currency unit value in the statement of financial position) is mainly based on the assumption that initial non-recognition would automatically mean that all the related subsequent expenditure should be expensed as incurred (as opposed to potential capitalization).
- (15) In case the IPSASB would not be convinced to opt for our alternative approach (i.e. one currency unit value in the statement of financial position) concerning these specific cases, we would strongly recommend the IPSASB to request appropriate disclosures around those non-recognised heritage items.

Question 8: 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.

- (16) We would like to refer to the UK accounting guidance in this respect which makes a distinction between operational and non-operational heritage assets. Non-operational heritage assets are those assets that are intended to be preserved in trust for future generations because of their cultural, environmental or historical associations. Operational heritage assets are those that, in addition to being held for their characteristics as part of the nation's heritage, are also used by the reporting entity for other activities or to provide other services (the most common example being buildings).
- (17) We agree that historical cost, market value, and replacement cost are appropriate measurement bases concerning operational heritage assets (see definition in paragraph 16). The appropriate measurement basis (i.e. historical cost, market value, and replacement cost) should be selected for those operational heritage assets based on the underlying facts and circumstances. We would like to highlight that many heritage assets have very specific characteristics, which reduces the availability of market values.
- (18) The UK accounting guidance provides a specific approach for non-operational heritage assets (see definition in paragraph 16): Where the cost or market value is not available, and cannot be obtained at a cost commensurate with the benefits to users of the financial statements, the non-operational heritage assets are not recognised in the statement of financial position but are disclosed in the notes. We support an alternative approach to non-operational heritage assets, in these specific circumstances, but we would rather recognise those assets at one currency unit value in the statement of financial position instead of non-recognition (consistent with our position concerning Question 7). We believe that the recognition at one currency unit value would facilitate asset management and the potential capitalization of subsequent capital expenditure, among other things.

- (19) If the IPSASB would welcome the idea of a distinction between operational and non-operational heritage assets for accounting purposes, it would be important to clearly define the 'operational' and 'non-operational' heritage assets' concepts. Moreover, accounting principles dealing with the potential transfer of a heritage item between both categories (similar to the guidance related to the transfer of an item between PP&E and Investment Property) should be developed in the Standard, amongst potential other considerations.

Question 9: 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?

- (20) We believe the following additional measurement guidance concerning heritage assets would be helpful in the context of the Public Sector Measurement Project:
- Decision tree to help choosing the most appropriate measurement base (i.e. historical cost, market value, replacement cost, and one currency unit value) in different circumstances
 - How to determine market value when there is no or an inactive market
 - How to measure living plants and organisms (see also question 3)
 - How restrictions on assets (e.g. asset can only be used for a specific purpose, asset cannot be sold, etc.) impact their measurement.

Question 10: 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.

- (21) We agree in principle that a similar subsequent measurement treatment should be applied to heritage assets as for non-heritage assets if deemed possible based upon the specific facts and circumstances. We however would like to refer to the specific heritage types listed under question 11.

Question 11: 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.

- (22) Heritage assets of a tangible nature might also have an indefinite or indeterminable useful life (e.g. crown jewelry). *IPSAS 17 Property, Plant, and Equipment* currently does not provide subsequent measurement guidance with respect to tangible assets with an indefinite useful life. It might be helpful to include such guidance in the future IPSAS Standard on heritage reporting, e.g. to perform an impairment test annually and whenever there is an indication that the tangible asset may be impaired.
- (23) In certain circumstances (e.g. assets held for their heritage significance), it might be challenging to determine the useful life of a heritage asset. It could be helpful to provide some principles to assist entities in estimating the useful life of such assets.

Question 12: 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.

- (24) We concur with the view that the special characteristics of heritage items do not themselves give rise to present obligations that would result in the recognition of a liability. Having said that, we believe that based on the facts and circumstances the potential existence of a legal or non-legally binding obligation (i.e. constructive obligation) should be carefully assessed. The existence of a present obligation might result in the recognition of a liability.

Question 13: 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.

- (25) Accountancy Europe agrees that information about heritage should be presented in line with existing IPSASB pronouncements to help users understand the wider impact of these holdings on the reporting entity (e.g. cost of services, custodial responsibilities, etc.).