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EPSAS issue paper on the accounting treatment of heritage assets

Paper by Ernst & Young on behalf of Eurostat
- for discussion

**Accounting treatment of heritage assets
with a view to financial reporting
requirements under the future European
Public Sector Accounting Standards
(EPSAS)**

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1. Objectives of the Issue Paper

The aim of this paper is to illustrate the different approaches possible to account for heritage assets under the future EPSAS.

This paper takes into account:

- ▶ All publicly available information on the IPSASB's current heritage project;
- ▶ The existing approaches under the following international financial reporting frameworks, i.e. IPSAS, European Union Accounting Rules, IFRS and SNA 2008/GFSM 2014/ESA 2010; and
- ▶ The approaches taken at the accounting standard level in two Member States and the State of Hessen.

The issue paper will address the following issues:

- ▶ What are the most important categories of heritage assets?
- ▶ For which of these categories do problematic points/issues arise with regards to definition, recognition and measurement?
- ▶ What are the advantages and disadvantages of the existing approaches to recognition and measurement?
- ▶ Which categories of heritage assets should be treated by future EPSAS standards, or guidance taking into account materiality and comparability considerations?
- ▶ What are the consequences for a possible convergence between IPSAS and ESA?

The issue paper concludes with a suggestion for an approach that could be followed to organize future discussion on heritage items with the EPSAS stakeholders.

2. Background

Heritage assets, as outlined in the 2014 PwC report, are significant for public sector accounting, not only because of their cultural value but also because of their high volumes in some jurisdictions.¹ In addition, it cannot be taken for granted that governments will always have sufficient resources to preserve all heritage assets. Rather governments' expenditure on heritage preservation is in competition with other priorities (e.g. social benefits). Information on cost of heritage preservation and their relevance as resources are necessary for decision-making in the public sector. One of the aims of accounting for heritage therefore is to provide the information that supports decisions on preservation and maintenance of heritage. In addition, providing information on heritage assets in the financial statements can help to prevent destruction, theft and neglect of heritage.

Compared to other types of assets, the conceptual accounting treatment of heritage assets faces many challenges. For example, the true value of heritage assets in cultural, environmental, educational, and/or historical terms is unlikely to be fully reflected in a financial value based purely on market prices. Unlike other assets, heritage assets are often irreplaceable and their value may increase over time, even if their physical condition deteriorates. In addition, legal and/or statutory obligations may impose prohibitions or severe restrictions on its disposal. Finally, in most cases people expect that heritage assets should be preserved and maintained for future generations.

There are also a range of practical difficulties in relation to the management and accounting for heritage assets (e.g. use of appropriate measurement bases, estimation of their useful lives). The Commission Staff Working Document recognized in this regard that the recognition and measurement of heritage assets might require a substantial amount of work, depending on the extent to which an entity already has information available.² In this context it has been argued that, as long as cultural heritage assets are not used in production processes, or are not purchased for resale, they should possibly not be recognised and valued in the accounts of public sector entities.

According to the Commission Staff Working Document, some currently applicable IPSAS standards are viewed as incomplete concerning the recognition, measurement and disclosure of specific items such as heritage assets.³ This raises the question of whether the options allowed in IPSAS 17 and 31 should be narrowed down or whether separate guidance due to the specific nature of heritage assets is needed with regard to their accounting treatment.

Similarly to the Commission Staff Working Document, the 2014 PwC Report concluded that additional guidance on heritage assets is desirable for the development of the EPSAS. However, the PwC Report adds that this should not be seen as a "blocking factor" and that pragmatic approaches to heritage asset valuation can be developed within the existing limited IPSAS guidance included in IPSAS 17 and 31.⁴

As regards the current status of discussions at international level, the IPSASB has launched a project on heritage to possibly develop specific accounting requirements and guidance for heritage. In the first stage of the project the IPSASB investigates whether the specificities of heritage justify issuing a standard, or whether simply application guidance in addition to the existing standards would be sufficient. Given the close relationship between the IPSASB's project and the objectives of this issue paper, the IPSASB's current discussions on heritage have been used as inputs for the development of this issue paper.

1 See PwC, Collection of information related to the potential impact, including costs, of implementing accrual accounting in the public sector and technical analysis of the suitability of individual IPSAS standards, 2013/S 107-182395, 1 August 2014, page 136.

2 See Commission Staff Working Document, Brussels, 6 March 2013, Annex 6.

3 See Commission Staff Working Document, Brussels, 6 March 2013, page 106.

4 See PwC, Collection of information ... (see footnote 1), page 128.

3. Description of accounting guidance available

The following paragraphs provide an overview of the existing accounting guidance with respect to accounting for heritage assets.

3.1 IPSAS

The IPSASB considered heritage assets during the development of IPSAS 17 “Property, plant and equipment” and IPSAS 31 “Intangible assets”. Several options are provided in these standards such as the option not to recognize heritage assets and the option to choose the measurement base.

No standard within the suite of IPSAS, so far explicitly mentions obligations linked to heritage assets. This implies that for the obligations linked to heritage assets the general requirements in the following standards may apply:

- ▶ IPSAS 19 “Provisions, Contingent Liabilities and Contingent Assets”;
- ▶ IPSAS 28 “Financial instruments: Presentation”;
- ▶ IPSAS 29 “Financial instruments: Recognition and Measurement”; and
- ▶ IPSAS 30 “Financial instruments: Disclosures”.

In June 2015, the IPSASB approved its heritage project. This project aims to provide more detailed requirements and guidance for the accounting and disclosure of heritage assets. The key questions raised on recognition and measurement are to be analysed in this project starting from the principles embedded in the Conceptual Framework. Therefore, this issue paper starts with a description of the current guidance in IPSAS 17 and 31 and then summarizes the IPSASB’s Conceptual Framework. Each heritage asset can have an obligation linked to it. The IPSASB Consultation Paper will include a chapter on heritage items and related obligations. Whether specific guidance would be needed or whether the current IPSAS standards mentioned above could be applied without any modifications is subject to the IPSASB’s deliberations.

3.1.1 IPSAS 17 “Property, plant and equipment” and IPSAS 31 “Intangible assets”

Definition of heritage (intangible) assets

The current IPSAS guidance does not define heritage (intangible) assets but provides a description⁵:

IPSAS 17 “Property, plant and equipment”	IPSAS 31 “Intangible assets”
<i>Some assets are described as heritage assets because of their cultural, environmental, or historical significance. Examples of heritage assets include historical buildings and monuments, archaeological sites, conservation areas and nature reserves, and works of art.</i>	<i>Some intangible assets are described as intangible heritage assets because of their cultural, environmental, or historical significance. Examples of intangible heritage assets include recordings of significant historical events and rights to use the likeness of a significant public person on, for example, postage stamps or collectible coins.</i>
IPSAS 17 “Property, plant and equipment”	IPSAS 31 “Intangible assets”
<i>Certain characteristics, including the following, are often displayed by heritage assets (although these characteristics are not exclusive to such assets):</i>	<i>Certain characteristics, including the following, are often displayed by intangible heritage assets (although these characteristics are not exclusive to such assets):</i>
▶ <i>Their value in cultural, environmental, educational, and historical terms is unlikely to be fully reflected</i>	▶ <i>Their value in cultural, environmental, and historical terms is unlikely to be fully reflected in a financial value based purely on a market price;</i>

⁵

IPSAS 17 “Property, plant and equipment”, para. 10 and IPSAS 31 “Intangible assets”, para. 12.

<p><i>in a financial value based purely on a market price;</i></p> <ul style="list-style-type: none"> ▶ <i>Legal and/or statutory obligations may impose prohibitions or severe restrictions on disposal by sale;</i> ▶ <i>They are often irreplaceable and their value may increase over time, even if their physical condition deteriorates; and</i> ▶ <i>It may be difficult to estimate their useful lives, which in some cases could be several hundred years.”</i> 	<ul style="list-style-type: none"> ▶ <i>Legal and/or statutory obligations may impose prohibitions or severe restrictions on disposal by sale;</i> ▶ <i>Their value may increase over time; and</i> ▶ <i>It may be difficult to estimate their useful lives, which in some cases could be several hundred years.”</i>
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No explicit categorization is mentioned in the current standards, each standard does however describe two types⁶ of heritage assets. The standards outline that the type of heritage assets has certain implications for recognition and measurement:

IPSAS 17 “Property, plant and equipment”	IPSAS 31 “Intangible assets”
<p>Type 1:</p> <p><i>Heritage assets that have future economic benefits or service potential other than their heritage value, for example, an historic building being used for office accommodation. In these cases, they may be recognized and measured on the same basis as other items of property, plant and equipment.</i></p>	<p>Type 1:</p> <p><i>Intangible heritage assets that have future economic benefits or service potential other than their heritage value, for example, royalties paid to the entity for use of an historical recording. In these cases, an intangible heritage asset may be recognized and measured on the same basis as other items of cash-generating intangible assets.</i></p>
<p>Type 2:</p> <p><i>Heritage assets of which the future economic or service potential is limited to their heritage characteristics, for example, monuments and ruins. The existence of both future economic benefits and service potential can affect the choice of measurement base.</i></p>	<p>Type 2:</p> <p><i>Intangible heritage assets with future economic benefits or service potential limited to their heritage characteristics. The existence of both future economic benefits and service potential can affect the choice of measurement base.</i></p>

Recognition

The current IPSAS guidance⁷ foresees that recognition of heritage assets is not required. The recognition or non-recognition of heritage assets is therefore left at the discretion of the preparers of general purpose financial reporting.

Measurement

If heritage assets are recognized⁸, the application of the measurement requirements of IPSAS 17 or IPSAS 31 is not mandatory. The preparers of general purpose financial statements are free to apply other measurement bases.

⁶ IPSAS 17 “Property, plant and equipment”, para. 11 and IPSAS 31 “Intangible assets”, para. 14.

⁷ IPSAS 17 “Property, plant and equipment”, para. 3 and IPSAS 31 “Intangible assets”, para. 3.

⁸ IPSAS 17 “Property, plant and equipment”, para. 9 and IPSAS 31 “Intangible assets”, para 11.

Disclosures

In case heritage assets are recognized, the disclosure requirements⁹ of the respective standard need to be fulfilled. These require disclosure of matters such as:

- ▶ The measurement basis used;
- ▶ The depreciation/amortization method used, if any;
- ▶ The gross carrying amount;
- ▶ The accumulated depreciation/amortization at the end of the period, if any; and
- ▶ A reconciliation of the carrying amount at the beginning and end of the period showing certain components thereof.

3.1.2 Conceptual Framework

The definitions, recognition criteria and measurement bases embedded in the Conceptual Framework are being used in the development of the draft Consultation Paper on heritage.

Definition of an asset and a liability ¹⁰	An asset is a resource presently controlled by the entity as a result of a past event. A liability is a present obligation of the entity for an outflow of resources that results from a past event.
Recognition criteria ¹¹	An item must satisfy the definition of an asset or a liability and must be measurable in a way that achieves the qualitative characteristics and takes account of constraints on information in general purpose financial reports.
Measurement bases ¹²	The Conceptual Framework foresees the following measurement bases for the measurement of assets: historical cost, market value, replacement cost, net selling price and value in use.

3.2 European Union Accounting Rules

The European Union Accounting Rules do not focus on the accounting for heritage assets and therefore no separate standard exists. While accounting rule 7 “Property, plant and equipment” does not focus on heritage assets, accounting rule 6 “Intangibles assets” excludes heritage assets from its scope.

3.3 IFRS

Heritage assets are not treated in the IFRS standards since this is a specific public sector matter. It can occur that companies hold items such as paintings, which might have a heritage value. However, these are accounted for applying the same principles as those applied to the other assets held by the company. Depending on the type of asset, the guidance under IAS 16 “Property, plant and equipment” or IAS 38 “Intangible assets” will be applied.

3.4 National accounts/statistical reporting

For the national accounts the general rule with regard to heritage items is that where the statistical reporting guidelines refer to items that are examples of heritage assets, those items can be expected to be recognized and valued at current prices.¹³

⁹ IPSAS 17 “Property, plant and equipment”, para. 12 and IPSAS 31 “Intangible assets”, para. 15.
¹⁰ Conceptual Framework, Chapter 5, para. 6 and 14.
¹¹ Conceptual Framework, Chapter 6, para. 2.
¹² Conceptual Framework, Chapter 7, para. 6.

3.4.1 GFSM 2014

In the GFSM 2014, the relevant categories with regard to heritage are:

- ▶ Heritage assets; and
- ▶ Valuables.

Heritage assets

The IMF's Government Finance Statistics Manual defines heritage assets as assets that a government intends to preserve indefinitely because they have unique historic, cultural, educational, artistic, or architectural significance¹⁴. Apart from this definition, no information is provided in the GFSM with regard to recognition and valuation of heritage assets.

Valuables

The GFSM defines valuables as produced assets of considerable value that are not used primarily for purposes of production or consumption but are held as stores of value over time. The manual adds that valuables are expected to appreciate, or at least not to decline, in real value, and they do not deteriorate over time under normal conditions.¹⁵

13 Information taken from the agenda paper on heritage for the June 2016 IPSASB meeting.

14 IMF (2014) Government Finance Statistics Manual – GFSM 2014, para. 7.11.

15 IMF (2014) Government Finance Statistics Manual – GFSM 2014, para. 7.8.

The following items are included in valuables¹⁶:

- ▶ Non-monetary gold and other precious stones and metals that are not intended to be used as materials and supplies in the processes of production;
- ▶ Paintings, sculptures, and other objects recognized as works of art or antiques held primarily as stores of value over time; and
- ▶ Jewellery of significant value fashioned out of precious stones and metals, collections, and miscellaneous other valuables.

Items fitting the description of a valuable that are owned by general government units and are used in production, such as by being displayed in government museums, will be classified according to the GFSM as machinery and equipment.

With regard to valuation, the GFSM indicates that valuables should be valued at current market prices, including any costs of ownership transfer such as agents' fees or commissions, to the extent that well-organized markets for these valuables exist. Otherwise, the amounts for which they are insured against fire, theft, and other risks may be appropriate.

3.4.2 SNA 2008

The SNA does not use the term 'heritage' as such. However, it includes the following two categories of assets:

- ▶ Public monuments; and
- ▶ Valuables.

Both categories might include heritage items.

Public monuments

As explained in chapter 10 of the SNA, public monuments are identifiable because of their particular historical, national, regional, local, religious or symbolic significance. They are accessible to the general public, and visitors are often charged for admission to the monuments or their vicinity. Their owners, who may be government units, but also non-profit institutions (NPIs), corporations or households, typically use public monuments to produce cultural or entertainment-type services.

With regard to recognition and valuation of public monuments in the accounts, chapter 10 mentions that the construction of new public monuments constitutes gross fixed capital formation and similarly, major improvements to existing public monuments are also included in gross fixed capital formation¹⁷. Depreciation on new monuments, or on major improvements to existing monuments, should be calculated on the assumption of appropriately long service lives.

¹⁶ IMF (2014) Government Finance Statistics Manual – GFSM 2014, para. 7.88.

¹⁷ UN (2008) System of National Accounts – SNA 2008, para. 6.214 and 10.78.

Valuables

Valuables, such as works of arts and others, should be recognized in the SNA. They are defined¹⁸ as being expensive durable goods acquired primarily as stores of value and which are not used up in production and do not deteriorate physically over time. They consist mainly of works of art, precious stones and metals and jewellery fashioned out of such stones and metals. Valuables are held in the expectation that their prices, relative to those of other goods and services, will tend to increase over time, or at least not decline. Although the owners of valuables may derive satisfaction from possessing them, they are not used up in the way that consumption goods, including consumer durables, are used up over time¹⁹.

With regard to valuation, the SNA specifies that, given their primary role as stores of value, it is especially important to value valuables at current prices²⁰. To the extent that well-organized markets exist for these items, they should be valued at the actual or estimated prices that would be paid for them on such markets. Finally, paragraph 13.43 mentions that, in the absence of organized markets, a suitable approach would be to value these items based on the values at which they are insured against fire, theft, etc., to the extent that information is available.

3.4.3 ESA 2010

The only direct mention of heritage assets in the ESA 2010 is made in chapter 20 on “The government accounts”. The ESA explains that some assets are more specific to government such as *heritage assets*, like historic monuments, infrastructure assets, etc.²¹

In chapter 7, ESA 2010 explains that public monuments are identifiable because of particular historical, national, regional, local, religious or symbolic significance. They are described as public because they are accessible to the general public, not due to public sector ownership²². Historic monuments are defined as structures or sites with special archaeological, historical or cultural significance.²³

According to the asset categories of ESA 2010, public monuments are included within the subcategory “Other structures (AN.1122)”, which is itself included in the category “Fixed assets (AN.11)”²⁴. This means that there is no separate presentation of heritage items under ESA. Therefore, any heritage item included within public monuments follows the same valuation rules as fixed assets in general, i.e. valuation at current market prices.

The category of “valuables” identified above in the other statistical frameworks also exists in the ESA 2010. Moreover, the definition of valuables of ESA 2010 is consistent with the ones of the GFSM and SNA²⁵. As shown in Annex 7.1 of ESA 2010, “valuables (AN.13)” is a separate subcategory of “Produced non-financial assets (AN.1)”. This means that, unlike public monuments, valuables are separately presented in ESA statistical reporting.

18 UN (2008) System of National Accounts – SNA 2008, para. 6.214 and 9.57.

19 UN (2008) System of National Accounts – SNA 2008, para. 6.214 and 9.57.

20 UN (2008) System of National Accounts – SNA 2008, para. 6.214 and 9.57.

21 Eurostat (2010) European System of Accounts – ESA 2010, para. 20.144.

22 Eurostat (2010) European System of Accounts – ESA 2010, Annex 7.1.

23 Eurostat (2010) European System of Accounts – ESA 2010, para. 6.06.

24 Eurostat (2010) European System of Accounts – ESA 2010, Annex 7.1.

25 See Annex 7.1 of ESA 2010.

Under ESA, valuables are further subcategorized as follows²⁶ :

- ▶ Precious metals and stones (AN.131): precious metals and stones that are not held by enterprises for use as inputs to processes of production;
- ▶ Antiques and other art objects (AN.132): paintings, sculptures, etc., recognized as works of art and antiques;
- ▶ Other valuables (AN.133): valuables not elsewhere classified include such as collections and jewellery of significant value fashioned out of precious stones and metals.

With regard to their valuation in the accounts, paragraph 7.49 states that valuables, such as works of art, antiques, jewellery, precious stones, non-monetary gold and other metals, are valued at current prices. If organised markets exist for these assets, they should be valued at the actual or estimated prices they would fetch, excluding any agents' fees or commissions, if sold on the market on the date to which the balance sheet relates. Otherwise, they should be valued at acquisition prices, revalued to the current price level.²⁷

3.5 National public sector accounting frameworks

This chapter describes the approaches used to account for heritage assets in Member States with a high accounting maturity. The Member States France and Lithuania were selected for further analysis. This was supplemented by an analysis of the State of Hessen, which is a federal state in the Federal Republic of Germany. For each of the States, EY consulted their country subject matters experts. The results of this analysis are detailed below. Next to that a summary of the approaches between the two Member States and the State of Hessen is provided in Annex 2A.

3.5.1 France

The accounting treatment of heritage assets is defined in the Central Government Accounting Standard (CGAS) 17 "Heritage assets", approved and applicable from 1 January 2013. The recent Public Establishments Accounting Standards Manual published in July 2015 contains a standard on heritage assets too, applicable from 1 January 2016.

Definition of heritage assets²⁸

The introduction in standard 17 in the recent Public Establishments Accounting Standards Manual states that it is difficult to provide a definition of heritage assets both because of the lack of source information in reporting frameworks such as IPSAS and because the scope of heritage assets is vast and vague and any definition of it necessarily subjective. Some characteristics of heritage assets can be identified, however these alone do not provide sufficient criteria for defining the scope of immovable and movable heritage assets. Consequently, the standard defines heritage assets by reference to the laws and regulations that determine the specific legal status of heritage assets and define them objectively by classification and registration procedures. In this way, the scope of heritage assets is determined by listing the property in question. This listing of property is summarized in Annex 2B.

Recognition

Recognition is based on whether an item belongs to a list established by law, therefore the CGAS does not specify any recognition criteria from an accounting principle perspective. All assets identified based on the principles stated above are recognized in the financial statements.

²⁶ Eurostat (2010) European System of Accounts – ESA 2010, para. 7.49.

²⁷ Eurostat (2010) European System of Accounts – ESA 2010, para. 7.49.

²⁸ Public Establishments Accounting Standards Manual (July 2015) Standard 17, pages 169 and 172.

Initial measurement²⁹

The net value of the assets that were already recognized at 1 January 2013 became their new symbolic value at 1 January 2013. If the assets were controlled before 1 January 2013 but never recognized, a symbolic value of 1 Euro was allocated.

For the assets acquired or obtained after 1 January 2013 two initial measurement approaches may apply:

- ▶ Acquisition cost: applied for assets acquired in an exchange transaction; and
- ▶ Valuer's estimation: applied for assets obtained in a non-exchange transaction.

Subsequent measurement³⁰

At the reporting date, heritage assets are measured at the same amount as on initial recognition. They are not revalued, depreciated or impaired at the reporting date.

Maintenance done on heritage asset is treated separately from the main (underlying) asset. Heritage assets generally undergo restoration or renovation. It is necessary to determine whether the work is reconstruction, major repairs or routine maintenance:

- ▶ Reconstruction work: recognized as a tangible asset separately from the main (underlying) asset;
- ▶ Major repairs: separately identifiable expenditure relating to the main (underlying) asset may be recognized either as a provision for major maintenance or as a secondary component separate from the main (underlying) asset, where the entity adopts this accounting policy;
- ▶ Routine maintenance: recognized as an expense when it occurs.

Capitalised subsequent expenditure relating to heritage assets has its own depreciation schedule, in contrast to the underlying heritage asset, which is not depreciable. Depreciation is done over the capitalised subsequent expenditure's useful life and is recognized as an expense at the reporting date in accordance with the depreciation schedule.

Disclosures³¹

The following disclosures are provided:

- ▶ Accounting policy;
- ▶ A table showing additions and disposals for tangible assets, including a separate a line for heritage assets. The main movements in this heritage assets' line item are explained;
- ▶ Voluntarily, a valuation different to that presented on the face of the balance sheet (for example, market value if it is known or insurance value, etc.) may be disclosed including the date of valuation;
- ▶ If a heritage asset suffers significant partial deterioration, the entity makes an appropriate disclosure in the notes;
- ▶ Qualitative disclosures for heritage assets recognized at a symbolic value; and
- ▶ Information on heritage assets for sale.

²⁹ CGAS 17 para. 2.1.

³⁰ Public Establishments Accounting Standards Manual, July 2015, standard 17 page 174 and 175.

³¹ CGAS 17 para. 5.1 and 5.2 and Public Establishments Accounting Standards Manual (July 2015) standard 17, p. 176.

3.5.2 The State of Hesse

Next to the general accounting policies for assets, Annex 11 of the accounting policy handbook of the State of Hesse (“Kontierungshandbuch des Landes Hessen”) describes the accounting for heritage in the State of Hesse.³²

Definition of heritage assets

Account group 06 “Infrastructure assets, nature and heritage assets” contains under sub-account group 062 “Heritage assets, monuments, collections” the following categories of heritage assets:

0620: Heritage items and heritage collections

0621: Heritage monuments

0622: Art and scientific collections and libraries

For the differentiation between heritage assets as non-depreciable fixed assets under the balance sheet item “Infrastructure assets, nature and heritage assets” and other depreciable equipment the general accounting rules apply.³³ Heritage items that are stored in museums have always to be classified in the balance sheet item “Infrastructure assets, nature and heritage assets”. Heritage items on loan to other public authorities of the State of Hesse should be shown under the balance sheet item “Infrastructure assets, nature and heritage assets” only when they are used mainly for representational purposes. All other heritage assets need to be qualified as other equipment (account group 8).

For measurement and registration purposes heritage assets are further divided into works of art and collectibles as well as archive materials.

Recognition

In general the State of Hesse applies a full recognition approach of heritage assets. All works of art and collections are recognized. However, not all archive materials are recognized. In order to determine which ones should or should not be recognized, the archive materials are subdivided into the following two categories:

- ▶ Sub-category 1 – Conventional archive materials: In case they are obtained by an exchange transaction then they are recognized; if obtained through a non-exchange transaction, the archive materials are not recognized;
- ▶ Sub-category 2 – Treasures (“Zimelien”): typically they need to be recognized.

For example, public archival materials of local or regional authorities/institutions that are preserved by the state and municipal archives (such as contemporary documents or files) are not considered as assets (unless they were acquired at cost). However, valuable documents such as medieval handwritings, ancient maps etc. (treasures) were classified and recognised as heritage assets.

Initial measurement

In general the separate valuation principle applies for the measurement of heritage assets.³⁴ Each item of heritage assets has to be measured separately. However there are certain exemptions, for example a group valuation of assets or a measurement on fixed amounts. According to the Kontierungshandbuch all assets have to be primarily measured at cost.³⁵ Only in the case where historical or acquisition/production costs are not available, alternatively, an estimated fair value might be used.

³² See Kontierungshandbuch des Landes Hessen, Edition 8.1, Status: December 2015.

³³ See Kontierungshandbuch des Landes Hessen (2015), p. 33.

³⁴ See Kontierungshandbuch des Landes Hessen (2015), p. 12.

³⁵ See Kontierungshandbuch des Landes Hessen (2015), p. 12.

Annex 11 of the Kontierungshandbuch provides different initial measurement approaches for works of art and collectibles and archive materials:

Category 1 – Works of art and collectibles	Category 2 – Archive materials
<p>Items owned at the opening balance sheet date</p> <ul style="list-style-type: none"> ▶ Items acquired before 1 January 1999 either in an exchange or non-exchange transaction need to be measured with an estimated fair value or with a reminder value depending on the value group. It is differed between three value groups A, B and C. ▶ Items acquired after 1 January 1999 and before the opening balance sheet date in an exchange transaction should be measured at cost (including VAT and incidental costs). <p>Items obtained after the opening balance sheet date</p> <ul style="list-style-type: none"> ▶ For items acquired in an exchange transaction: historical cost (including VAT and incidental cost); ▶ For items acquired in a non-exchange transaction: estimated fair value 	<p>The State of Hesse divides this category into two sub-categories each with its own initial measurement rules.</p> <p>Sub-category 1 - Conventional archive materials</p> <ul style="list-style-type: none"> ▶ When acquired in a non-exchange transaction: No asset should be recognized. ▶ When acquired in an exchange transaction: Historical cost (including VAT and incidental cost). When the cost at acquisition are not known then fair value has to be used. ▶ <p>Sub-category 2 – Treasures</p> <ul style="list-style-type: none"> ▶ When items owned at the opening balance sheet date were acquired in a non-exchange transaction or where the cost of acquisition of those items are not known they should in principle be measured at an estimated market value (fair value) and then classified in one of the value groups A, B or C according to the Kontierungshandbuch Annex 11. Depending on the value group the measurement approach differs (e.g. for value group A a separate measurement of treasures based on fair value is foreseen, whereas for value group B they should be measured according to a group measurement approach based on average fair values). ▶ Items acquired or obtained after the opening balance sheet date: historical cost for exchange transactions and fair value for non-exchange transactions.

Only in cases where no historical cost measurement was possible and estimated fair values had been used as deemed cost. Hesse used a procedure that ensured that there is a reliable and most accurate measurement, while at the same time respecting the economic principle. Therefore, Hesse classified the works of art and collectibles into three categories (value groups): A (most precious assets), B (medium value assets) and C (low value assets). Based on the different value groups of assets, Hesse defined different value thresholds for these categories. For instance, in terms of assets belonging to the area of archaeology there are different value thresholds than for assets belonging to mineral collections etc.

Items in category A were measured based on individual assessments (e.g. by commissioning expert opinions). Items in category B were divided into 6 sub-categories. Here experts from museums, archives etc. classified the assets as belonging to one of these 6 sub-categories. The value of each category is determined based on the

amount of assets multiplied by the average value of the assets in this subgroup. And finally, category C assets are measured with a reminder value (1 Euro). A major case where the 1 Euro measurement was applied were “bundles” of assets (such as a collection of butterflies or small pieces of archaeological objects). A similar approach is used for the measurement of treasures.

Subsequent measurement

For the subsequent measurement the prudence principle applies to heritage assets. Therefore, heritage assets can't be measured at a value higher than the historic cost. On the other side, an impairment of heritage assets need to be recognized. The values determined on or after the opening balance sheet date for works of art and collectibles as well as archive materials are in principle valid on a continuing basis.³⁶ Price variations in the art market have no impact on the valuation of the heritage assets. The same applies for restoration and maintenance investments, unless the restoration would lead to the observation that the initial measurement was incorrect. Impairments are only considered with regard to non-market related factors such as physical and lasting damage.

Disclosures and presentation

No specific disclosure requirements are mentioned for heritage assets. The heritage assets are presented in the statement of financial position as a separate line item.

3.5.3 Lithuania

Similar to current IPSASs, the guidance on heritage assets is embedded in the standards applicable to property, plant and equipment (standard 12) and intangible assets (standard 13).

Definition of heritage assets

Standard 12 defines three categories of tangible heritage assets:

- ▶ Movable cultural objects;
- ▶ Immovable cultural objects; and
- ▶ Other valuables.

A rules-based approach is used for the first two categories and each object is registered with the Register of Cultural Objects of the Republic of Lithuania. However, for the last category a principles-based approach is used. An indication of the objects included in each category is provided in Annex 2B.

Standard 13 does not retain the concept of intangible heritage assets. The regular definition of intangible assets is to be applied to heritage items.

³⁶

See Kontierungshandbuch des Landes Hessen (2015), Annex 11, p. 281.

Recognition

The heritage assets registered are recognized. The heritage assets not registered would need to meet the definition of a tangible or intangible asset together with the asset recognition criteria before they can be recognized. Liabilities related to the maintenance of heritage assets do not need to be recognized currently. There are plans to amend the national accounting standards in the future in order to consider this aspect.

Initial measurement

Also for measurement of heritage assets, Lithuania follows the IPSAS accounting requirements. Tangible heritage assets are therefore measured as follows:

- ▶ Historical cost if acquired through an exchange transaction;
- ▶ Amount that was included in the accounts of the entity transferring the asset if the asset was obtained in a non-exchange transaction from another public sector entity;
- ▶ Fair value if the item was obtained from a non-public sector entity in a non-exchange transaction; or
- ▶ Symbolic 1 Euro value if it is not possible to determine the fair value.

The intangible heritage assets are measured at cost except when obtained in a non-exchange transaction. In this situation, they are accounted for at the acquisition date fair value or if this is impossible to determine at the symbolic value of 1 Euro.

The State Audit Office in Lithuania provided the recommendation that a symbolic value of 1 Euro is not considered to be of relevance and recommended to apply a more suitable measurement basis at least for the heritage assets from the main funds.

Subsequent measurement

The tangible heritage assets are subsequently measured at fair value. This fair value can be based on the insurance value if they are insured. Heritage assets are not depreciated and are only impaired if they are damaged. The fair value is reassessed periodically, in practice on a yearly basis. Subsequent expenditure related to cultural objects is expensed even if it contributes to a substantial asset improvement.

The intangible heritage assets with a finite useful life are amortized. The assets with an indefinite useful life are tested for impairment. Subsequent costs are expensed as incurred unless if the entity can reliably determine that such costs will result in a significant improvement of the intangible asset used and generate higher economic benefits in the future and if these can be reliably measured and attributed to a specific asset.

Disclosures

The following disclosures are required for tangible heritage assets:

- ▶ Immovable and movable cultural objects are presented as a separate line item. The other valuables are included under the other tangible assets;
- ▶ The latest fair value estimation date;
- ▶ Carrying amount of movable and immovable cultural objects for which the fair value was based on the insurance value; and
- ▶ The total value of movable and immovable cultural objects accounted for at the symbolic value of 1 Euro.

No specific disclosure requirements are specified for the intangible heritage assets. These will be embedded in the disclosures for the other intangible heritage assets.

4. Discussion of matters relevant for a European harmonization

The fact that governments and other public sector entities hold heritage assets that contribute to the historical and cultural character of a nation or region and that they have a responsibility to preserve and maintain them for current and future generations implies that they are accountable for those items. Citizens need to know whether heritage assets are being cared for and whether resources applied are adequate to ensure heritage assets' security, preservation and maintenance. The question whether general purpose financial statements are the best instrument to meet these accountability requirements, is still under discussion.

Based on the ongoing discussions on accounting and financial reporting for heritage assets the issue paper first discusses the pros and cons of accounting for heritage assets. The paper then takes the following approach:

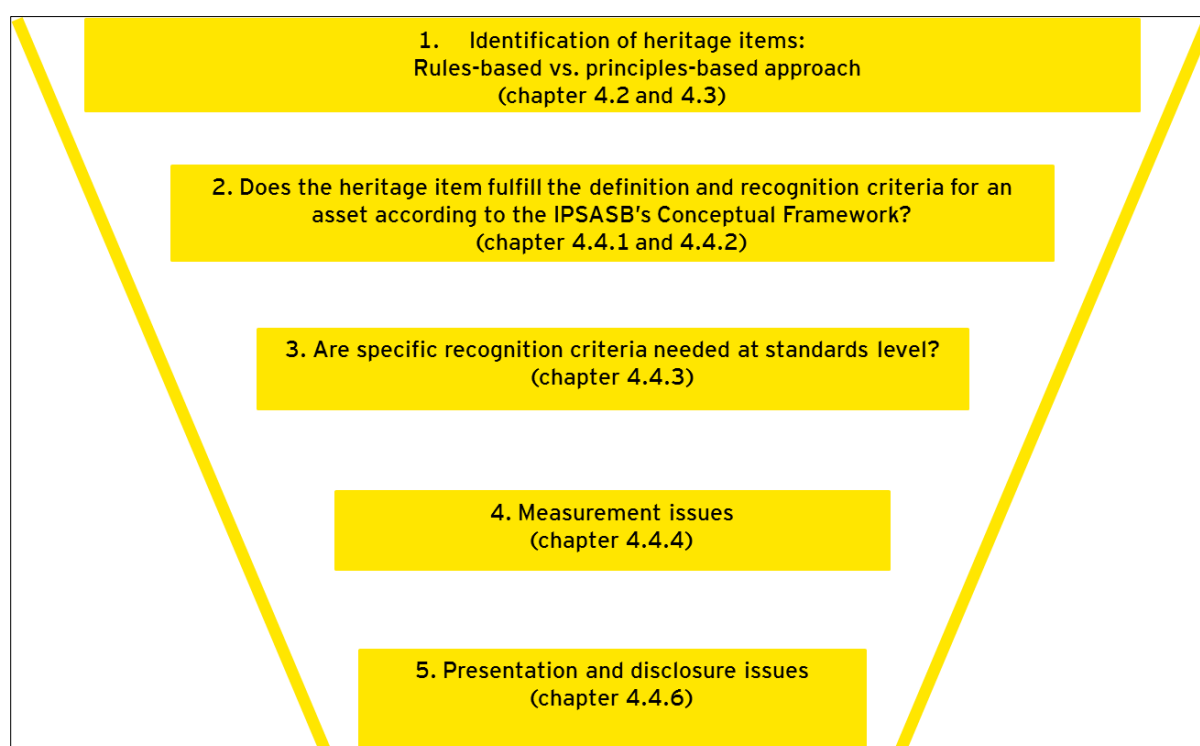


Figure 1: Approach for the identification, recognition, measurement and presentation/disclosure of heritage assets

To reflect the current discussion about the scope of accounting for heritage assets the first issue discusses two approaches for the identification of heritage items, i.e. the rules-based and the principles-based approach. This step has been inserted to define the scope for the accounting and financial reporting of heritage items/assets and because of the fact that there might be heritage items that will not be recognized in an entity's financial statements. When a heritage item is identified then, from an accounting perspective, the question is whether it fulfils the definition and the recognition criteria for an asset (issue 2). The IPSASB's Conceptual Framework is used here as a point of reference.

As heritage assets can be considered as either property, plant and equipment or intangible assets the question is whether specific recognition criteria are needed for heritage assets at standards level.

When it has been determined that an heritage items needs to be recognized as a heritage item then the question is how heritage assets should be best measured (issue 4).

Finally, presentation and disclosure issues such as foreseeing a separate line item for heritage assets in an entity's balance sheet or disclosures related to heritage items are discussed (issue 5)

4.1 Pros and cons of accounting for heritage assets

The pros and cons of accounting for heritage assets are provided in the table below³⁷ :

Pros of accounting for heritage assets	Cons of accounting for heritage assets
+ Heritage assets are valuable items being able to generate economic benefits or to have service potential. Next to that public entities are responsible for the protection and preservation of heritage assets and can be held accountable for this.	- An entity often does not have the ability to use its heritage assets to generate economic benefits. This is due to restrictions by law, statute or practice. Next to that there is typically no expectation to generate economic benefits from their sale or disposal.
+ A financial value should be allocated to heritage assets (even though this might not convey its full heritage significance) representing its significance to the entity as resource.	- A financial value could be misleading since it implies that heritage assets are for use or sale, while many have restrictions on both.
+ Recognition can lead to a balanced presentation of the information in surplus or deficit: <ul style="list-style-type: none"> ▶ Investments in heritage assets would be expensed without any differentiation between real investments and maintenance expenses; and ▶ In the exceptional case that a heritage asset would be sold a one-off gain will impact the statement of financial performance 	- Recognition comes with a cost (for example a cost to measure the assets), which can exceed the benefits. This argument will be less valid in case of: <ul style="list-style-type: none"> ▶ Multi-use assets (for example historical building being used as office space); ▶ Recently purchased heritage assets or assets which had recent replacement works done; or ▶ Heritage assets for which an active market exists.
+ (Intangible) heritage assets have similar characteristics to PP&E and intangible assets; therefore the same accounting principles should apply to them. Based on that also benefits for asset management can be realized.	
+ Data for ESA reporting can be improved given the fact that in practice often the perpetual inventory model ³⁸ is used. This model is further explained in chapter 4.7.2.	

The main argument against accounting for heritage assets is that it can be costly and cumbersome. There are Member States that have numerous heritage items and this would need to be taken into account.

On the other hand it might be hard to argue not to account for heritage assets since:

³⁷

The overview is based on the agenda paper for the IPSASB September 2015 Meeting.

³⁸

See chapter 4.7.2 for more details on the perpetual inventory model.

- ▶ Accounting for heritage assets would in general support convergence between public sector financial accounting and national financial accounting/government finance statistics as ESA 2010 also requires to accounting for heritage assets;
- ▶ Recognizing heritage assets can be in alignment with what Member States already do³⁹;
- ▶ Public entities responsible for the protection and preservation of the assets should be held accountable;
- ▶ Not recognizing heritage assets will lead to distortions in surplus or deficit.

The strongest argument we can see against accounting for heritage asset is the fact that it comes with a cost, certainly for the Member States which have a large amount of these assets. However, in our view this does not outweigh the benefits of accounting for heritage assets.

4.2 The difficulty of identifying heritage items

In the identification phase, this issue paper uses the terminology “heritage items” to clarify that at this stage the item is not recognized in the financial statements. Only after these items are identified it can be analysed whether they meet the asset definition and fulfil the recognition criteria for an asset. The items that meet this definition are further referred to as “heritage assets” throughout the paper. Each heritage asset can have a preservation obligation linked to it as described in chapter 4.4.5.

4.2.1 What are the different approaches to identify heritage items?

The IPSASB identified two possible approaches for the identification of heritage items:

- ▶ **Approach 1 - rules-based approach:** Under this approach heritage items within the identification scope are put on a list (nomenclature). An example for that approach is the Member State France. Our analysis showed that also Lithuania and the State of Hessen list the items they consider to be heritage assets; or
- ▶ **Approach 2 - principles-based approach:** Under this approach a definition of heritage items is provided, which is intended to serve as a basis for identification. An example is the approach envisaged to be applied by the IPSASB in its heritage project.

The IPSASB’s preliminary view expressed in the September 2016 meeting is that the following definition captures the special characteristics that define heritage items and distinguishes them from other phenomena for the purpose of financial reporting:

“Heritage items are items that, because of their rarity, importance and/or significance, are expected to be held indefinitely for the benefit of present and future generations and preserved. They are held and preserved for many different reasons including, and not limited to, their archaeological, architectural, agricultural, artistic, cultural, environmental, historical, natural, scientific or technological importance.”

The potential advantages and disadvantages of both approaches are listed below. These are based on the IPSASB agenda papers and EY’s view on the matter:

	Approach 1 - Rules-based approach	Approach 2 – Principles-based approach
Advantages	▶ Little if any need for professional judgment regarding the scoping decision by preparers;	Broad approach in which more types of heritage items will possibly be captured.

³⁹

However, further analysis has to be done on that issue as only a limited number of Member States was analysed in the issue paper.

	<ul style="list-style-type: none"> ▶ The one responsible for or a commission in charge of preservation has the best view on what should be considered in the rules as heritage items and can embed this in a list. 	
Disadvantages	<ul style="list-style-type: none"> ▶ It might be difficult to define a nomenclature centrally given Member States' specifics. ▶ Currently, not every Member State has a process in place to set up a nomenclature. For those Member States it might be a significant investment to apply this approach. 	<ul style="list-style-type: none"> ▶ It is difficult to judge whether an item has importance and/or significance; ▶ How old does an item have to be in order to be historic?; ▶ Heritage is like beauty, it is in the eye of the beholder; ▶ Leaves room for manipulation by the preparer to move assets into the heritage category when convenient for example for expense manipulation; ▶ Would the description be sufficiently detailed and would it ensure a common understanding when it comes to identification?.

As next step, the IPSASB will in its project attempt to develop specific and objective criteria to distinguish between heritage and non-heritage items taking into account the difficulties that can arise in the identification process when applying a principles-based approach. A further option could be to combine both approaches, for example to provide a definition of heritage items but to complement the definition with a nomenclature. Both options have to be carefully discussed with the EPSAS stakeholders to come to a well-balanced approach limiting the disadvantages linked to a rules-based and principles-based approach to a maximum.

4.2.2 Categorization of heritage items

Categorization of heritage items can be of help when defining the scope for accounting and financial reporting of heritage items/assets. For example, given the fact that there might be heritage items that are not recognized in an entity's balance sheet, it could be envisaged for accountability purposes that for not recognized heritage items disclosures could be provided. A categorization can for example also help with presenting heritage items in the notes to the financial statements.

Two main potential approaches for categorization of heritage items have been identified by the IPSASB in its heritage project:

Approach 1 – remain close to existing accounting categories:⁴⁰

A categorization could be made focussing on items that, apart from their heritage qualities already fit fairly well into existing accounting categories such as property, plant and equipment, intangible assets or biological assets. The accounting categories and the categories as defined by a rules-based/nomenclature approach will likely differ. Accounting guidance on heritage assets could include a brief description of the wide set of items that can be considered as heritage items falling under the different accounting categories.

⁴⁰

This approach was proposed by the IPSASB staff during the September 2015 IPSASB meeting.

The IPSASB has preliminary decided in its September 2015 meeting⁴¹ to abandon such an approach at this stage of the project since its main disadvantage is that it takes a too narrow accounting standards perspective. Only the assets that fit into the three categories as defined by the three standards would be considered. This approach would potentially scope out other heritage-specific items.

Approach 2 – no link is kept with existing accounting categories⁴²

Approach two is applied in the national public sector accounting frameworks investigated and is also currently elected by the IPSASB in its draft consultation paper.

The United Nations Educational, Scientific and Cultural Organization (UNESCO) categories of heritage items inspire the categorization currently being reviewed by the IPSASB. The draft consultation paper discussed in the September 2016 meeting considers the two categories below:

Category 1: Cultural heritage – Tangible and intangible	Category 2: Natural heritage
<p>Cultural heritage consists of human-made heritage items that could either be tangible or intangible and includes items that have been partially or totally under water. Next to this, cultural heritage also includes natural history collections such as shells, insects, stuffed animals and mineral collections.</p> <p>Examples: monuments, archaeological sites, buildings of historical or artistic interest, heritage works of art, heritage scientific collections, important collections of books and archives, culturally significant or historical vessels/aircraft/infrastructure, heritage buildings beneath the water, sunken ships and underwater sculptures.</p> <p>The intangible cultural heritage consists of two broad types. The first type is the knowledge-in-action intangible cultural heritage, which are the practices, representations, expressions, knowledge and skills that are heritage items.</p> <p>Examples: oral traditions and expressions, performing arts, social practices, rituals and festive events, knowledge and practices concerning nature and the universe, and traditional craftsmanship.</p> <p>The second type is the intellectual property intangible cultural heritage, which contains items such as intellectual property, trademarks, computer software, patents, copyrights, and rights over motion picture films.</p> <p>Examples: rights over recordings of significant historical events, rights to use historic or culturally significant films, rights to reproduce television series or other electronic media, rights over music titles, and rights to use the likeness of a significant public person or literary creation on, for example, postage stamps or collectible coins.</p>	<p>Natural heritage consists of natural features, areas or sites that are heritage items.</p> <p>Examples: natural features such as heritage mountains, naturally occurring rock formations, heritage bodies of water such as lakes, rivers and waterfalls; physical and biological formations or groups of such formations such as reefs; geological and physiographical formations such as hot spring areas; and, areas that constitute habitats, such as forests, swamps or desert areas.</p> <p>The natural heritage items that have been moved and shaped to create a human-made form become cultural heritage (category 1).</p> <p>Examples: buildings carved into a cliff or Stonehenge.</p>

⁴¹ See meeting minutes of the December 2015 IPSASB meeting.

⁴² This approach was proposed by the IPSASB staff during the December 2015 IPSASB meeting.

4.3 Which categories of heritage items should be treated by future EPSAS standards, or guidance taking into account materiality and comparability considerations

Given its international acceptance and recognition we are of the view that the UNESCO categorization could be a useful starting point for the identification and categorization of heritage items. The two categories currently retained by the IPSASB, cultural heritage and natural heritage are the most important categories and it is suggested that future EPSAS guidance or an EPSAS standard should be based on those two categories. Possibly all Member States have heritage assets in those categories and therefore from a comparability perspective the focus of EPSAS on heritage assets should be laid on these two categories.

Further categories that might require specific accounting guidance

The IPSASB staff has listed the following items which would potentially need a specific accounting treatment:

- ▶ Heritage items that cannot (or should not) be valued in financial terms either because there are no equivalents, values are unknown and difficult to determine, their sacred nature makes a financial valuation offensive or the extent of the heritage asset is unknown so that its total value cannot be estimated;
- ▶ Heritage items that are not depreciated, because their nature (physical or otherwise) is such that normal depreciation and obsolescence does not apply to them; and
- ▶ Heritage items that are expected to have an ever-increasing financial value, due to their increasing significance and/or rarity.

4.4 What are the problematic points/issues with regards to definition, recognition and measurement of heritage assets⁴³ ?

The following problematic points/issues that can arise when accounting for heritage assets are looked at in more detail.

Problematic points/issues
Problematic point/issue 1 – Can heritage items meet the definition of an asset?
Problematic point/issue 2 – What are the options for recognition of heritage assets in the statement of financial position?
Problematic point/issue 3 – Are specific recognition criteria for heritage assets needed at standards level?
Problematic point/issue 4 – How could heritage assets be measured?
Problematic point/issue 5 – Are there any liabilities to be recognized for obligations to preserve and maintain heritage assets?
Problematic point/issue 6 – What could be the disclosure and presentation requirements for heritage assets?

Each issue is described in more detail below.

4.4.1 Problematic point/issue 1 – Can heritage items meet the definition of an asset?

When a heritage item is identified, a key question is under which circumstances, heritage items are likely to meet the definition of an asset. Different opinions exist - potential arguments in favour and against heritage items being assets are listed below.

⁴³

This section has been largely based on the work performed by the IPSASB in its heritage project. The information derived from the available IPSASB documentation was supplemented by the results found in the analysis of the national public sector accounting frameworks.

Arguments in favour and against heritage items being assets

In its heritage project, the IPSASB discussed this key question. Indicators in favour and against heritage items being assets have been summarized by the IPSASB staff⁴⁴ and have been included in the table below:

Indicators in favour of heritage items being assets	Indicators against heritage items being assets
<ul style="list-style-type: none"> ▶ Heritage items can have service potential and can be viewed as valuable items being able to generate economic benefits; ▶ Given the importance and value of heritage items it is usually possible to establish which entity presently has control over the item. That entity is able to control and restrict access to the heritage item, and is responsible for protection and preservation of the heritage item; ▶ The past event recognition criteria could be fulfilled through purchase, transfers involving non-exchange or other types of transactions, or discovery. 	<ul style="list-style-type: none"> ▶ An entity has very limited ability to use a heritage item to generate cash inflows; ▶ An entity's use of a heritage item is restricted by law, statute or practice; ▶ There is often no scope to sell or otherwise dispose of the item; ▶ There should be public access to heritage assets, so that the entity has little ability to restrict access to the items.

It has to be noted that not all heritage items are similar in nature. For significant items it might be a case-by-case-decision whether they can be considered as heritage assets.

Given the fact that the IPSASB envisages the application of a principles-based approach, an analysis whether a heritage item meets the asset definition is required.⁴⁵ The Conceptual Framework is used as a reference for the asset definition. According to the Framework an asset is defined as being:

⁴⁴ The summary was derived from the agenda paper for the IPSASB September 2015 meeting.

⁴⁵ Information derived from the agenda paper for the March 2016 IPSASB meeting.

Definition	Explanation
A resource that is...	<p>Can heritage items generate economic benefits? Economic benefits can arise for example through the sale of tickets to view the items. Also multi-use heritage assets (such as heritage buildings or heritage infrastructure assets) can generate economic benefits, because they are used in the production of services. However, it needs to be considered that heritage items can have high preservation cost, which can result in negative cash flows. Next to that, they are usually not held to generate economic benefits;</p> <p>► Do heritage items have service potential? Heritage items are rare, important and/or significant and they are held for the benefit of present and future generations. Therefore, it is argued that they have service potential.</p>
... presently controlled by the entity, as a result of...	<p>Until now, the IPSASB staff found that for the examples of heritage items analysed, control could often be indicated via legal ownership, although the entity's ability to control and restrict access to the heritage item, and the use of the heritage item to achieve its objectives, is also considered to be important.</p>
... a past event	<p>May arise in various ways, including purchase, transfer involving non-exchange or other types of transactions, or discovery.</p>

The analysis shows that heritage items can in principle fulfil the definition of an asset. However, it has to be noted that there might be exceptions (e.g. in the case where a heritage item neither generates economic benefits nor has service potential). Therefore, the question whether a heritage item fulfils the definition of an asset the definition criteria needs to be looked at from an individual item perspective.

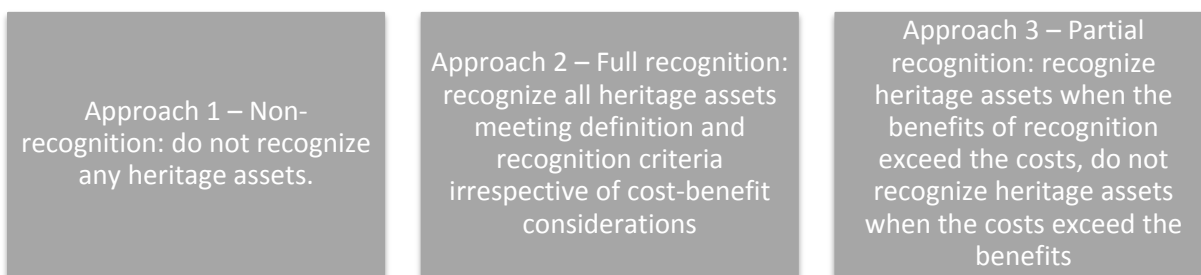
Useful further information can be the reflections on the application of the asset definition to the UNESCO heritage item categories made by the IPSASB staff summarized in Annex 3A. Furthermore, the IPSASB staff has also attempted to apply the definition to specific examples of which the outcome is included in Annex 3B.

4.4.2 Problematic point/issue 2 – What are the options for recognition of heritage assets in the statement of financial position?

Against the background that IPSAS 17 and IPSAS 31 provides an option to recognize heritage (intangible) assets either full recognition or non-recognition of heritage (intangible) assets is possible. In practice, however, there are three recognition approaches⁴⁶ that are currently widely applied in countries in- and outside the European Union:

⁴⁶

Information derived from the agenda paper for the March 2016 IPSASB meeting.



Approach 1 – Non-recognition

Proponents of non-recognition of heritage assets argue that recognizing heritage assets in the balance sheet does not contribute to decision-making of policy makers. The amount of work for the accounting of heritage assets is substantial and the informational value of presenting heritage assets on the face of the balance sheet and the benefits achieved with it are limited.

In the table below some potential advantages and disadvantages of this approach have been listed:

Arguments in favour of recognition	Arguments against recognition
Discharge of accountability. This argument is connected to the responsibility of public entities to protect and preserve heritage assets.	Recognition comes with a cost (for example a cost to register and measure the assets), which can exceed the benefits. This argument will be less valid in case of: <ul style="list-style-type: none"> ▶ Multi-use assets (for example historical building being used as office space); ▶ Recently purchased heritage assets or assets which had recent replacement works done; or ▶ Heritage assets for which an active market exists.
A financial value is allocated to the item (even though this might not convey its full heritage significance) representing its significance to the entity as resource.	A financial value could be misleading since it implies that heritage assets are for use or sale, while many have restrictions on both.
Non-recognition can lead to distortion of the information in the statement of financial performance: <ul style="list-style-type: none"> ▶ Investments in heritage assets would be expensed without any differentiation between real investments and maintenance expenses; and In the exceptional case that a heritage asset would be sold, a one-off gain will impact the statement of financial performance.	
Unnecessary differences between statistical and financial accounting can potentially be avoided.	

Approach 2 – Full recognition

Full recognition of heritage assets means that all heritage items are recognized that fulfil the asset definition as well as the recognition criteria. Using the IPSASB's Conceptual Framework a heritage item should be recognized in an entity's statement of financial position, if the item satisfies the definition of an element and can be measured in a way that achieves the qualitative characteristics and takes account of constraints on information in the financial statements. The question of the recognition of a heritage item is therefore linked to measurement. Given the fact that under IPSAS 17 and IPSAS 31 preparers are free to apply other measurement bases, measurement of heritage assets that complies with the qualitative characteristics and constraints should – from a conceptual perspective – be feasible.

The challenge will lay in the determination of an appropriate measurement basis given the specific nature of heritage assets. The full recognition approach would entail that once met the asset is recognized.

Approach 3 – Partial recognition

Under this approach it would be first assessed whether the benefits of recognition would exceed the cost. There might be cases where an entity faces a large number of heritage items (e.g. heritage items of low value in a museum of ethnology) and recognition and measurement of those items will be cumbersome. There might also be cases where measurement is likely to be costly or difficult (e.g. for works of art where there is no market or insurance value).

In cases where the benefits would exceed the cost (e.g. when the values of the heritage items are material and a reliable measurement basis is readily available), the same approach would be applied as detailed under approach 2. If it turns out that the cost of recognition and measurement would exceed the benefits, the asset would not be recognized. Also the EPSAS guidance for first-time implementation of accrual accounting takes such an approach and defines the following criteria for the recognition of heritage assets:⁴⁷

1. The items have been bought by government entities, or
2. are seen clearly as material obligations to maintenance, or
3. are sources of regular income, including assets for lease or sale.

Such criteria might help in defining heritage assets where the benefits of accounting for them exceed the costs.

4.4.3 Problematic point/issue 3 – Are specific recognition criteria for heritage assets needed at standards level?

For the recognition of an (intangible) heritage assets the following two recognition criteria of IPSAS 17/31 need to be fulfilled:⁴⁸

- ▶ It is probable that future economic benefits or service potential associated with the item will flow to the entity; and
- ▶ The cost or fair value of the item can be measured reliably.

The question is whether next to the two already existing recognition criteria further recognition criteria should be added at standards level to reflect the specificities of heritage assets. Especially against the background that costs for the accounting for heritage assets can outweigh the benefits (e.g. for the registration or the measuring of the assets) it could be argued that next to the standard-specific recognition criteria further heritage asset-specific recognition criteria should be defined. The recognition criteria as defined in the EPSAS guidance for first-time implementation of accrual accounting could give an indication how such recognition criteria could look like.

⁴⁷

See EPSAS Cell on First Time Implementation: Draft Final Report, EPSAS WG 16/02, Luxembourg, 16 June 2016, p. 9.

⁴⁸

See IPSAS 17.14 and IPSAS 31.28.

The outcome of having heritage-specific recognition criteria would be that the amount of heritage assets to be recognized could be reduced.

4.4.4 Problematic point/issue 4 – How could heritage assets be measured?

In parallel to the discussion on specific recognition criteria, specific measurement bases might be needed for heritage assets (e.g. symbolic value). In the following it is discussed how heritage assets could be best measured initially and subsequently.

Initial measurement

The Conceptual Framework⁴⁹ defines historical cost, market value, replacement cost, net selling price and value in use as being appropriate to measure assets. Net selling price has currently not been considered for heritage assets by the IPSASB staff as the situations in which heritage assets could be sold are rare.

The IPSASB staff has performed a preliminary analysis⁵⁰ trying to define the measurement bases which could be appropriate for heritage assets. This analysis was based on the objective of measurement embedded in the Conceptual Framework.⁵¹ This objective is described to be the selection of those measurement bases that most fairly reflect the cost of services, operational capacity and financial capacity of the entity in a manner that is useful in holding the entity to account, and for decision-making purposes. Next to this, the IPSASB staff also considered some specific heritage characteristics, which have been summarized in Annex 4. The result of this preliminary analysis is reflected in the table below:

Basis	Heritage characteristics	Cost of services	Operational capacity	Financial capacity
Historical cost	Reduce benefits	Medium	Medium	Medium
Market value	Reduce benefits	Medium	Strong	Very strong
Replacement cost	Reduce benefits	Medium	Strong	Very strong
Value in use	Make this basis irrelevant	Not relevant	Not relevant	Weak

The table shows that value in use is not suitable to reflect the cost of services, operational capacity and financial capacity of the entity in a manner that is useful in holding the entity to account, and for decision-making purposes. In general, historical cost, market value and replacement cost are better suited for those purposes. In terms of operational and financial capacity using market values and replacement cost (given that in many cases they will equal market value) are more appropriate than historical cost.

In its working documents, the IPSASB staff has also listed some possible difficulties⁵² that can arise when applying one of the measurement bases above. This information has been summarized below:

49 Conceptual Framework, Chapter 7, para. 6.

50 Information has been derived from the agenda paper for the June 2016 IPSASB meeting.

51 Conceptual Framework, Chapter 7, para. 2.

52 Information has been derived from the agenda paper for the June 2016 IPSASB meeting.

Historical cost	<ul style="list-style-type: none"> ▶ Assets can be very old with no information available; ▶ Assets can be obtained through non-exchange transactions; ▶ Where assets are acquired over very long periods of time, information generated will not be comparable.
Market value	<ul style="list-style-type: none"> ▶ Costs may exceed the benefits; ▶ No market exists for irreplaceable assets; ▶ Existing markets may not be active enough.
Replacement cost	<ul style="list-style-type: none"> ▶ Requires an asset to be replaceable by another asset with the same service potential.
Value in use	<ul style="list-style-type: none"> ▶ Value in use is difficult to assess.

Next to this, the IPSASB staff has already noted some preliminary considerations that could be relevant on the measurement of heritage assets in each of the four categories identified. This information is summarized and included in Annex 5.

Combining the table considering the objective of measurement with the possible difficulties linked to each measurement base, it seems that historical cost and market value could be the most relevant. This is confirmed by the analysis of the national public sector accounting frameworks since these include also these two measurement bases. However, each framework also allows the allocation of a symbolic value (1 Euro). The question is however whether symbolic values can really be considered as a measurement basis. Symbolic values are often used in practice when measurement of assets is impracticable. In the context of heritage assets the use of symbolic values can ensure that they are recognized and that measurement of them is not an impediment for their recognition.

The use of symbolic values was discussed at IPSASB level but found not to add informational value to the financial statements. The IPSASB concluded in its September 2016 meeting that symbolic values are not consistent with the Conceptual Framework. In EY's view the use of symbolic values would entail two main disadvantages:

- ▶ Statement of financial position: if an option is left to allocate a symbolic value of 1 Euro, the risk is that this will be used in many cases resulting in an unrealistic low value in the statement of financial position;
- ▶ Statement of financial performance: the distortion in the statement of financial performance will remain in case the asset would be sold.

In EY's view, if it is not possible to measure heritage assets using one of the measurement bases above, the use of the symbolic value could be considered as to prevent non-recognition of certain heritage assets. The main advantages of the use of the symbolic value in this specific circumstance are:

- ▶ Completeness, all heritage assets are recognized. The fact that a symbolic value has been used for certain assets and the reason can be disclosed in the financial statements;
- ▶ Going forward, subsequent expenditure can be capitalised.

Subsequent measurement

The information derived from the national public sector accounting framework analysis on subsequent measurement of heritage assets is summarised in Annex 2A, which confirms that different approaches are applied

in practice. Currently, the IPSASB has not reflected on what the appropriate subsequent measurement would be for heritage assets.

In our view, the points below are to be considered when discussing subsequent measurement:

- ▶ The normal depreciation considerations do not always apply to heritage assets since these are normally not consumed. Furthermore, some heritage assets even increase their value over time. Is there a need to capture this from an accounting point of view? If so, what would be the best way to do this?
- ▶ How can one test whether a heritage asset should be impaired? For these types of assets neither the reduction in cash flow nor the value in use can be used as reliable impairment indicators. It might rather be for example a decline of prices on the art market or physical deterioration which could indicate an impairment trigger.
- ▶ For subsequent costs related to heritage items IPSAS 17 for example differs between repairs and maintenance, replacement and major inspections. Whereas repairs and maintenance are recognized in surplus or deficit replacements are recognized when the asset recognition criteria are met. The cost for major inspections need to be recognized in the carrying amount of the underlying asset.

4.4.5 Problematic point/issue 5 – Are there any liabilities to be recognized for the preservation of heritage items?

Information on practical application of this issue could not be derived from the national public sector accounting framework's analysis. Therefore, the only source that has currently performed analysis on the matter is the IPSASB. It has to be noted however that the work and the discussions of the IPSASB are still in an early phase.

As outlined earlier with a heritage asset there could be connected an obligation to preserve that asset. The question in that context is for example whether that obligation should be accounted for separately to the heritage asset, or whether a net perspective should be taken, i.e. to reflect the obligation in the value of the heritage assets.

The Conceptual Framework defines a liability to be a present obligation of the entity for an outflow of resources that results from a past event.⁵³ To be recognized as a liability something must satisfy the definition of a liability and be able to be measured in a way that achieves the qualitative characteristics and takes into account the constraints on information in financial reporting.⁵⁴ This encompasses the following key concepts:

53 Conceptual Framework, Chapter 5, paragraph 14.

54 Conceptual Framework, Chapter 6, paragraph 2.

Definition	Explanation
Present obligation ⁵⁵	A present obligation is a legally binding obligation or non-legally binding obligation, which an entity has little or no realistic alternative to avoid.
Outflow of resources ⁵⁶	Resource outflows related to the holding of a heritage item could be: <ul style="list-style-type: none"> ▶ Resource outflows to preserve a heritage item (for example cleaning or repair); ▶ Resource outflows to improve a heritage item (for example reconstruction or replacement).
Past event ⁵⁷	The present obligation must arise as a result of a past transaction or other event.
Measurability criterion ⁵⁸	In order to recognize the liability it will be necessary to attach a monetary value to it.

The IPSASB staff has applied the present obligation and resource outflow criteria to four illustrative situations. The result of this preliminary analysis is presented in the table below:

	Resource outflow and situation	Present obligation?	Liability
1	Heritage items need regular maintenance and an entity can chose to let the heritage item decay	No, able to avoid outflow of resources	No
2	Same as for situation 1 except here the entity has made a public commitment to preserve the item	No, able to avoid outflow of resources since the commitment is not binding	No
3	Same as for situation 2 except here the entity is legally required to preserve the item. However, the maintenance is not yet foreseeable.	Legal obligation, but the foreseeable maintenance is not yet required	No
4	Same as for situation 3 except here the heritage item requires maintenance	Yes, combination of legal requirement and maintenance need creates a present obligation and resource outflow	Yes

Criteria not met
Criteria met

In our view, it is also important to consider the following questions in addition to the considerations made by the IPSASB above:

- ▶ One can question whether the government can have a liability against themselves since preservation is often required by its own laws. Or does the government rather have a constructive obligation to preserve heritage items? In this situation it could be argued that the obligation of the government is against the citizens and not against itself.

⁵⁵ Conceptual Framework, Chapter 5, paragraph 15.
⁵⁶ Conceptual Framework, Chapter 5, paragraph 16.
⁵⁷ Conceptual Framework, Chapter 5, paragraph 17.
⁵⁸ Conceptual Framework, Chapter 6, paragraph 7.

- ▶ A situation between situation 1 and 2 identified by the IPSASB staff can be considered. This situation could be that even though no public commitment has been made, the public entity can still have a moral obligation towards the public not to let the item decay. Would this not lead to the recognition of a liability?
- ▶ In case a rules-based approach would be applied one can consider whether the fact of listing an asset would also result in the acceptance of an obligation to preserve. The consequence of this consideration could be that a liability would only be accounted for in case the asset is listed.

The key question discussed currently by the IPSASB is whether the special characteristics of heritage items, including an intention to preserve them for present and future generations, do not, by themselves, result in a present obligation such that the entity has little or no realistic alternative to avoid an outflow of resources.

4.4.6 Problematic point/issue 6 – What would be the disclosure and presentation requirements for heritage assets?

Depending on the recognition approach (non-/full-/partial-recognition) the disclosure requirements might vary. In case that it is decided that heritage assets should not be recognized then it could be at least envisaged to have appropriate disclosures on heritage items. When it is decided that heritage assets should be recognized in full, then probably the existing disclosure requirements of IPSAS 17 and IPSAS 31 could be applicable. From an accountability perspective it could also be envisaged to provide certain disclosures on heritage items. Where heritage assets are only recognized partially then next to disclosures for recognized heritage assets information on the heritage items that have not been recognized needs to be provided.

As outlined before the classification of heritage items into categories can be helpful for the disclosure requirements. In EY's view, disclosure requirements depend on the decisions made regarding recognition. If options not to recognize all or certain heritage items are provided, there will be a need for more extensive disclosure requirements.

With regards to the presentation of heritage assets on the face of the statement of financial position it could be foreseen under EPSAS that heritage assets should be presented separately. Depending on the materiality of the various categories a further split by categories could be an option.

4.5 Need for supplementary guidance to what is currently foreseen under IPSAS and format of that guidance

The question here is whether a separate standard on heritage assets is needed under EPSAS or whether additional guidance could be included in EPSAS standards on PP&E, intangibles, liabilities or biological assets.

Given the fact that the accounting specifics of heritage assets are limited compared to accounting requirements for PP&E and intangible assets we are of the view that (additional) guidance on accounting for heritage assets should be included in future EPSAS standards on PP&E, intangible assets, liabilities and probably biological assets. We are also of the view that the recognition criteria for PP&E, intangible assets (and biological assets) should apply to the recognition of heritage assets. Also this argument leads to the conclusion that no separate standard for the accounting of heritage assets is needed. However, specific recognition criteria for heritage assets could be defined at standards level and specific application guidance for the measurement of heritage assets could be provided in such a standard.

4.6 What are the advantages and disadvantages of the existing approaches to recognition and measurement?

Advantages and disadvantages of the recognition of heritage assets

A summary of the main advantages and disadvantages of recognizing heritage assets noted through the analysis of the national public sector accounting frameworks and the IPSASB heritage project documentation is given in the table below:

	Approach 1 – Non-recognition	Approach 2 – Full recognition	Approach 3 – Partial recognition
Objective achieved			
Objective partially achieved			
Objective not achieved			
<p>Accountability and transparency</p> <p>Public sector entities have an inevitable responsibility to preserve heritage items</p> <p>Recognition of a liability due to the inevitable obligation of public sector to preserve heritage</p>	<p>No information will be included in the financial statements, however the information can be included in reports outside the financial statements</p> <p>Recording of a liability if no asset is recognized can be questionable</p>	<p>Recognition of all assets resulting in inclusion of information in the financial statements allowing demonstration of accountability and increasing transparency</p> <p>Liabilities related to the asset can be recognized</p>	<p>Some information will be included in the financial statements; however, this will not be complete. Therefore, the need for reporting outside the financial statements for the assets not recognized should be considered</p> <p>Combination of approach 1 and 2</p>
Comparability	No information will be provided, hence there will not be any comparability	Comparability could be achieved depending on whether or not sufficiently detailed guidance is provided in the potential accounting standard	Comparability will possibly not be achieved
Completeness of the accounts	Not achieved	Achieved	Not achieved
Faithful representation of the statement of financial position	Not achieved as assets are potentially missing in the statement of financial position	Full recognition does not necessarily lead to a faithful representation due to potential measurement difficulties. For example France and Lithuania apply approach 2, but on the other hand they also measure some assets at a symbolic 1 Euro value.	The advantage is that all assets which are difficult to measure are not recognized, this would make the allocation of a symbolic value redundant. On the other hand, it can be that some important assets are excluded due to the fact that it would be expensive to measure them.

	Approach 1 – Non-recognition	Approach 2 – Full recognition	Approach 3 – Partial recognition
Faithful representation of the statement of financial performance	<p>Non-recognition will lead to distortion of the statement of financial position:</p> <ul style="list-style-type: none"> - All investments are expensed; none will be recognized; and - In case of a sale of the asset, a large gain will impact the statement of financial position given an incorrect view since this gain should have been reduced by the asset value. 	<p>The full-recognition approach fully resolves the disadvantages described under approach 1</p>	<p>The partial recognition approach partially resolves the disadvantages described under approach 1</p>
Stewardship/preservation concept	<p>Recording a liability if no asset is recognized</p>	<p>Liabilities related to the asset can be recognized</p>	<p>Combination of approach 1 and 2</p>
Cost versus benefit Recognition comes with a cost	<p>Cost: prevented, unless reporting outside the financial statements would be required</p> <p>Benefit: there is no benefit as heritage assets are not recognized nor reported</p>	<p>Cost: full recognition comes with a cost. This cost can be reduced if some assets are measured at a symbolic 1 Euro value as is done in France and Lithuania</p> <p>Benefit: all heritage assets are recognized and reported</p> <p>In some cases the cost can exceed the benefit</p>	<p>Cost: reduced as an option is left not to recognize if the cost would exceed the benefit</p> <p>Benefit: smaller than for approach 2 as the information in the financial statements is not complete</p>
Alignment with statistical accounting Potential improvement of the quality of statistical reporting	<p>Missed opportunity to improve statistical reporting</p>	<p>Accounting data could be used as a basis to draw-up statistical reporting, which will potentially improve the overall quality of this reporting</p>	<p>Could lead to a partial improvement of statistical reporting. However, as the accounting data is not complete it cannot be used as the sole source for statistical reporting</p>

	Approach 1 – Non-recognition	Approach 2 – Full recognition	Approach 3 – Partial recognition
<p>Cultural sensitivity</p> <p>Attaching a monetary value to heritage can be misleading as this implies they are up for sale</p> <p>Attaching a monetary value to heritage can be offensive in case of sacred heritage</p>	Non-recognition removes this ethical concern	Full recognition can cause some ethical concerns. However these concerns can maybe resolved through the inclusion of qualitative disclosures	Combination of approach 1 and 2

Advantages and disadvantages of the different measurement bases

Two measurement bases have been considered given the fact that from the analysis performed above it turned out that historical cost and market value are most relevant for heritage assets. A summary of the main advantages and disadvantages of these two measurement bases noted through the analysis of the national public sector accounting frameworks and the IPSASB heritage project documentation is given in the table below:

	Historical cost	Market value
Faithful representation of the statement of financial position	Assets can be old with no or insufficient information available	Faithful representation is achieved
Comparability	If assets are acquired over a longer period of time there will be no comparability	Comparability is achieved
Cost versus benefit	If costs are available, cost will not exceed the benefit	Cost may exceed the benefit
Alignment with statistical accounting	No alignment with statistical reporting	Strong alignment with statistical reporting
Ease of application	Cannot be used if assets are acquired through non-exchange transactions	Difficult to apply if there is no active market, in this case estimations will be needed

To sum up, there are advantages and disadvantages for both measurement bases. In our view, there is no key advantage or disadvantage that would speak for either the historical cost or the market value measurement basis.

4.7 What are the consequences for a possible convergence between IPSAS and ESA?

4.7.1 Categorization of heritage items under ESA and IPSAS

As discussed above, the national accounts principle is to record all heritage assets within one of the following two categories:

- ▶ Category 1: Fixed assets (historic monuments, public monuments, buildings and structures, etc., which is also referred to as “gross fixed capital formation”). This also includes intangible heritage assets⁵⁹;
- ▶ Category 2: Valuables (paintings, jewellery, works of arts ...).

As outlined before, the IPSASB is currently considering the use of the UNESCO classification for heritage items in its current heritage project. It can be expected that in this case there will be certain heritage items under the UNESCO classification that will be identified as such by the IPSASB while there are no requirement for reporting by the ESA because they do not fall under the scope of either of the two categories described above (e.g. intellectual property). In terms of scope of reporting, no convergence between ESA and IPSAS will therefore be achieved.

4.7.2 Practical challenges of national accounting for heritage items

ESA Category 1: Fixed assets

Eurostat collects data on fixed assets from all Member States on a regular basis in accordance with the ESA transmission programme of data⁶⁰. However, only the aggregate amounts per asset category (or sub-category) must be reported under this transmission programme, which means that any heritage assets included within fixed assets cannot be separately identified in the data collected by Eurostat. Member States themselves do also generally not record heritage assets distinct from other assets. In practice, heritage assets are therefore only captured on an aggregate basis in the national accounts, namely as part of other fixed assets.

As explained above, the general principle for the national accounts is to value heritage assets at current prices. In practice however, given the absence of suitable source data, the ‘perpetual inventory model’ is applied in order to generate current asset prices for the national accounts. Under the perpetual inventory model, the variation in total fixed asset values from one year to the other is calculated as the sum of investments (referred to as “gross fixed capital formation”) minus depreciation for the year (referred to as “consumption of fixed capital”) and adjusted according to an asset price index in order to reflect current prices:

$$\begin{array}{c} \text{Stock of assets at current market value} \\ = \\ \text{previous period value} + \text{investments} - \text{depreciation} + \\ \text{re-pricing/revaluation} \end{array}$$

The statistical systems contain rules with regard to the capitalization of investments in fixed assets. Major structural works can be capitalized as investments when they increase the useful life of the asset. ‘Regular’ maintenance, in contrast, is not capitalized as it is seen as ‘consumption’ rather than an investment. In its project on heritage, the IPSASB is currently reflecting on the question of the accounting treatment of structural works in regard to heritage items. No conclusions have however been reached so far.

One of the limitations of that model is that the initial values of heritage items that had been acquired before the statistical reporting started are not captured. This model also does not consider any specific impairment losses which could occur, in addition to the regular depreciation, during the period.

This modelling approach allows to approximate variations and based on that, absolute values at the end of each period. Since most Member States do not use separate categories for heritage assets, only the aggregated investment amounts on fixed assets can be obtained, with no separate breakdown for heritage assets. Another

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According to Annex 7.1 of ESA 2010, intangible assets such as intellectual property products, research and development, computer software or databases, are also included under the category of “Fixed assets”.

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See European system of accounts - ESA 2010 - Transmission programme of data (<http://ec.europa.eu/eurostat/web/products-manuals-and-guidelines/-/KS-01-13-429-3A-C>).

consequence is that, in practice, heritage assets will be depreciated in the same way as, and as part of, other fixed assets (albeit in more detailed asset categories, such as buildings and structures).

ESA Category 2: Valuables

Most Member States rely on source data provided by museums or by government organizations in order to estimate statistics for valuables.

As explained above, the general principle in the national accounts is to value valuables at current prices. If organised markets exist for these assets, they should be valued at the actual or estimated prices. In the absence of organised markets, they should be valued based on their insurance value to the extent that information is available. Otherwise, they should be valued at acquisition prices, revalued to the current price level. In the case of valuable historical paintings, for example, the insurance value as determined by insurance companies will often be used for statistical reporting.

4.7.3 Conclusion for convergence between EPSAS and ESA

The IPSASB's Consultation Paper from October 2012 on "IPSASs and GFS Reporting Guidelines" recognizes that there are certain heritage items that IPSASs recognize but GFS reporting guidelines do not, and occasionally vice versa. The same holds true when comparing reporting guidelines under IPSAS and ESA. For example, IPSAS 17 provides a choice about the recognition of heritage assets, while ESA reporting requires that heritage assets be recognized if they meet the general definition of assets in national accounts. This heritage assets recognition difference can be partly resolved by choosing the IPSAS option to recognize heritage assets. However, given the on-going IPSASB project on heritage, it is currently unclear whether the IPSASB will propose recognition of (certain) heritage items and whether these would in that case have to be measured at historical cost or fair value.

According to the statistical reporting requirements, the national accounts record all heritage assets by categorizing them into one of the two categories described above and by measuring them at current (market) prices. In practice, however, the recording and valuation depends on the kind of data that is available or can be obtained. Currently, only very few Member States use public accounting balance sheet data as a basis for their statistical reporting on heritage assets.⁶¹ One of the factors explaining this is the difference in valuation rules (historical vs. current) between accounting and statistical systems. Also, most Member States do not have specific accounting data on heritage assets. Instead, budgetary data on government investments is used to derive the stocks of heritage assets. If governments adopted IPSAS 17 and IPSAS 31 and opted for the heritage asset recognition and fair value measurement options in these standards, statisticians would no longer need to use the perpetual inventory model and could use the data in their public accounting information systems to generate ESA information on heritage items.

Statistical reporting requires to recognize heritage assets while current IPSAS guidance makes recognition optional. In order to achieve converge, heritage assets would therefore need to be recognized under EPSAS. As regards measurement, convergence would in principle be achieved if a current value measure is used. Measurement differences may however still arise in practice, especially when there is not an active and liquid market for the valuation of these types of assets. As an example, the perpetual inventory model, which is applied in practice for the statistical reporting of fixed assets, can be expected to yield different results than fair value measurement under IPSAS, notably because of the inherent limitations of the model (missing initial valuation for assets acquired before statistical reporting started and impairment).

Another difference between IPSAS and ESA stems from the fact that items that are used in production, such as by being displayed in government museums, will be classified as machinery and equipment under statistical reporting

⁶¹ One exception is given by France, which uses a balance sheet type approach by making use of balance sheet data in their statistical reporting.

guidelines. Where such items fit the description of heritage, they would be presented as such under IPSAS but as machinery and equipment under national accounts. Therefore, if EPSAS bases itself on IPSAS for the classification of heritage items, convergence between EPSAS and ESA would in this case not be achieved from a classification and presentation point of view.

Given that the IPSASB's project on heritage is still on-going, it remains to be seen what the IPSASB proposes with regard to the scope, definition, recognition and measurement of heritage items under IPSAS.

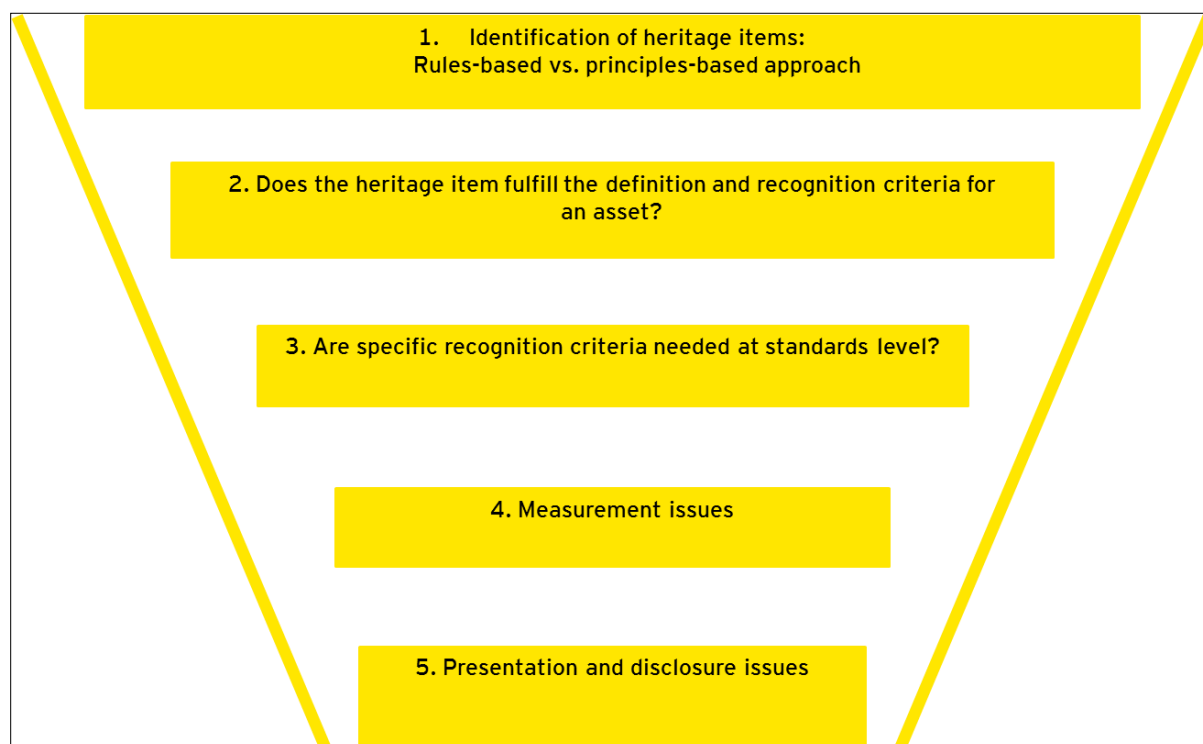
4.8 Develop an approach for organizing the future discussion on heritage assets with the EPSAS stakeholders

The discussion of the pros and cons for accounting of heritage assets has shown that the main arguments against accounting for heritage assets are that it can be costly and cumbersome (especially from a registration and measurement perspective) and that there are Member States that have numerous heritage items. On the other hand it needs to be considered that:

- ▶ Accounting for heritage assets would in general support convergence between public sector financial accounting and national financial accounting/government finance statistics as ESA 2010 also requires to account for heritage assets;
- ▶ Recognizing heritage assets can be in alignment with what Member States already do;
- ▶ Public entities responsible for the protection and preservation of the assets should be held accountable;
- ▶ Not recognizing heritage assets will lead to distortions in surplus or deficit.

In our view, these benefits of accounting for heritage assets outweigh the cost.

We recommend organizing the future discussion on accounting for heritage assets with the EPSAS stakeholders according to the approach as outlined in the graph below:



With regards to the identification of heritage items we recommend to use a combined approach of following a principles-based approach and providing a nomenclature of heritage items that are within the scope of EPSAS. An

issue that would need to be explored further is whether such a nomenclature can be developed centrally for Member States or whether each Member State would have to develop its own nomenclature. In terms of categorization of heritage items we recommend to use the UNESCO-approach given its international acceptance and recognition and to retain the two categories currently identified by the IPSASB. All Member States probably have heritage assets in those categories and therefore from a comparability perspective the focus of the EPSAS guidance on (intangible) heritage assets should be laid on these two categories.

When heritage items are identified then as a next step it should be examined whether those items fulfil the asset definition and recognition criteria as provided by the accounting framework. To acknowledge the fact that accounting for heritage assets can be costly and cumbersome we recommend developing specific recognition criteria for heritage assets at standards level. The recognition criteria as defined in the EPSAS guidance for first-time implementation of accrual accounting could give an idea how such recognition criteria could look like (e.g. items that are clearly seen as material obligations to maintenance).

When it comes to measurement the analysis has shown that in the case (intangible) heritage assets are recognized IPSAS currently leaves it open how to measure heritage assets. Our analysis of the different measurement bases has shown that for heritage assets historical cost and market value are the most relevant ones. The analysis of the national public sector accounting frameworks revealed that next to these two measurement bases Member States also allow the use of symbolic values (i.e. 1 Euro) under certain conditions. Despite the fact that from a convergence perspective the single use of market values would be preferable, we would not recommend to narrow down the current measurement option provided by IPSAS 17/31. In terms of future guidance on accounting for heritage assets we recommend to specify under what circumstances which measurement approach would be preferable (e.g. the use of a symbolic value when measurement is impracticable). Next to this, guidance could be needed to account for:

- ▶ Heritage items that cannot (or should not) be valued in financial terms either because there are no equivalents, values are unknown and difficult to determine, their sacred nature makes a financial valuation offensive or the extent of the heritage asset is unknown so that its total value cannot be estimated;
- ▶ Heritage items that are not depreciated, because their nature (physical or otherwise) is such that normal depreciation and obsolescence does not apply to them; and
- ▶ Heritage items that are expected to have an ever-increasing financial value, due to their increasing significance and/or rarity.

Given the fact that certain preservation and maintenance obligations could be associated with heritage assets, we also recommend providing guidance under what circumstances a liability needs to be recognized. Based on the considerations under section 4.5, such guidance could be provided under existing accounting standards (in terms of the IPSAS accounting framework that would be IPSAS 19).

Disclosure requirements possibly vary depending on the recognition approach (non-/full-/ partial-recognition). Given the fact that we would favour a partial recognition approach (as we would prefer to have heritage asset-specific recognition criteria), it is in our view necessary to take into account the disclosure requirements of IPSAS 17/31. From an accountability perspective it would be beneficial if also disclosures would be made on heritage items not recognized in the financial statements (e.g. the number of heritage items in accordance with the UNESCO categories).

As outlined in this section and in section 4.5 we would underline that we would not recommend having a separate standard on heritage assets. We would rather recommend refining and aligning existing guidance.

Finally, we would like to stress that in our view it is important for the EPSAS project to keep track of the IPSASB's heritage project. The IPSASB's work plan 2016-2020 foresees to approve the Consultation Paper either in the December 2016 or March 2017 meeting. In addition the IPSASB's work plan 2016-2020 from June 2016 indicates that the outcomes of the heritage assets projects needs to be consistent with the outcomes of the public sector measurement project. Therefore, an approach to leave the measurement of heritage assets open seems currently to be the best approach. From a balance sheet perspective and compared to other areas of accounting for assets

(e.g. infrastructure assets) heritage assets probably have in our view only medium priority. The first steps for EPSAS would therefore be to focus on the question of recognition of heritage assets.

Annex 1: Discussion of matters relevant for future standard-setting

When drafting the issue paper the following matters have been identified that could possibly be of relevance for future standard-setting:

1. Two approaches to identify heritage items can be followed, the rules-based or the principles-based approach. The fact that the rules-based approach is often used in practice and that a principles-based approach is envisaged to be used by the IPSASB can be taken into consideration in this discussion. Next to that, the advantages and disadvantages of each approach described in this issue paper can be relevant.
2. If the principles-based approach would be selected, then the question is whether there would be need to develop specific and objective criteria to distinguish heritage and non-heritage items supplementing the description of a heritage item.
3. The question is also whether there is a need to identify specific categories of heritage items. Relevant for this discussion can be the fact that two of the three national public sector accounting frameworks investigated contain category-specific guidance for recognition and measurement. Two approaches to categorize heritage items can be followed, one remaining close to existing accounting categories or one keeping no link with these categories (e.g. categorization inspired by the UNESCO categories). The question is what would be the best approach for accounting on heritage assets. If the approach to not keep a link with the existing accounting categories is selected, the issue is whether the UNESCO categories currently retained by the IPSASB are suitable.
4. A fundamental question is whether heritage items can be considered as assets. In this discussion the potential arguments in favour and against heritage items being assets as well as the current practices in the three national public sector accounting frameworks investigated can be considered and also taking into account the IPSASB's Conceptual Framework asset definition.
5. With regard to recognition it could be considered whether a future EPSAS should be restricted to one of the three possible recognition approaches, being full recognition, partial recognition or a non-recognition approach. Or should a future EPSAS guidance provide relief in the area of recognition as done in the current IPSAS standards. Potential advantages and disadvantages of each approach have been summarized in this issue paper and can serve as a basis for this discussion. In case that a partial recognition of heritage assets is followed the question is how heritage-specific recognition criteria could look like.
6. It needs to be considered how the guidance on the recognition of liabilities for the preservation of heritage items should look like in detail.
7. With regard to measurement of heritage assets the question is whether future EPSAS guidance should be restricted to one of the two measurement bases deemed most relevant for heritage assets, being the historical cost or market value. Or should a future EPSAS standard provide relief in the area of measurement as done in the current IPSAS standards? Potential advantages and disadvantages of the historical cost and market value have been summarized in this issue paper and can serve as a basis for this discussion.
8. With regard to the best subsequent measurement approach for heritage assets no conclusion could be taken at this stage. In this discussion it should be considered that the three national public sector accounting frameworks analysed each seem to have developed their own subsequent measurement approach.
9. The requirements for disclosures on heritage items/assets likely depend on the question of recognition of heritage assets. One of the issues that should be discussed is whether from an accountability perspective there should also be disclosures on heritage items.

Annex 2A: Comparison accounting treatment national public sector accounting frameworks

	France	State of Hessen	Lithuania
Identification	Rules-based approach	Principles-based approach with more detailed requirements in Annex 11 of the Kontierungshandbuch	<ul style="list-style-type: none"> ▶ Rules-based approach for category 1 and 2; ▶ Principles-based approach for category 3 and 4.
Categorization	<p>Two categories of heritage assets:</p> <ul style="list-style-type: none"> ▶ Category 1 - Immovable heritage assets; and ▶ Category 2 - Movable heritage assets. 	<p>Three categories of heritage assets:</p> <ul style="list-style-type: none"> ▶ Category 1 - Heritage items and heritage collections; and ▶ Category 2 - Heritage monuments ▶ Category 3 - Art and scientific collections and libraries <p>For archive materials two sub-categories are defined:</p> <ul style="list-style-type: none"> ▶ Sub-category 1 - Conventional archive materials; and ▶ Sub-category 2 - Treasures. 	<p>Four categories of heritage assets:</p> <ul style="list-style-type: none"> ▶ Category 1 - Immovable cultural objects; ▶ Category 2 - Movable cultural objects; ▶ Category 3 - Other valuables; and ▶ Category 4 - Intangible heritage assets.
Recognition	No recognition criteria specified, all listed assets are recognized	In general the State of Hesse applies a full recognition approach of heritage assets. All works of art and collections are recognized. However, not all archive materials are recognized.	<ul style="list-style-type: none"> ▶ No recognition criteria specified for category 1 and 2, all assets listed are recognized; ▶ Category 3 and 4 must meet the recognition criteria before being recognized.

	France	State of Hessen	Lithuania
Initial measurement	<p>Before opening balance sheet date:</p> <ul style="list-style-type: none"> ▶ Net asset value for the assets recognized; and ▶ Symbolic value of 1 Euro for the 	In general the separate valuation principle applies for the measurement of heritage assets applies. However there are certain exemptions, for example a group valuation of assets or a measurement on fixed amounts are possible. Also the prudence principle applies for the initial measurement of	<ul style="list-style-type: none"> ▶ Historical cost; ▶ Fair value; or ▶ Symbolic value of 1 Euro.

	<p>assets not recognized but controlled.</p> <p>After opening balance sheet date:</p> <ul style="list-style-type: none"> ▶ Historical cost for assets acquired in an exchange transaction; and ▶ Fair value for assets acquired in a non-exchange transaction. 	<p>heritage assets. According to the Kontierungshandbuch all assets have to be primarily measured at cost. Only in the case where historical or acquisition/production costs are not available, alternatively, an estimated fair value might be used. Annex 11 of the Kontierungshandbuch provides different initial measurement approaches for works of art and collectibles and archive materials:</p> <p>Category 1: Works of art and collectibles</p> <p>Items owned at the opening balance sheet date:</p> <ul style="list-style-type: none"> ▶ Items acquired before 1 January 1999 either in an exchange or non-exchange transaction need to be measured with an estimated fair value or with a reminder value depending on the value group. It is differed between three value groups A, B and C. <ul style="list-style-type: none"> ▶ Items acquired after 1 January 1999 and before the opening balance sheet date in an exchange transaction should be measured at cost (including VAT and incidental costs). <p>Items obtained after the opening balance sheet date</p> <ul style="list-style-type: none"> ▶ For items acquired in an exchange transaction: historical cost (including VAT and incidental cost); ▶ For items acquired in a non-exchange transaction: estimated fair value <p>Category 2: Archive materials</p> <p>Sub-category 1: Conventional archive materials</p> <ul style="list-style-type: none"> ▶ When acquired in a non-exchange transaction: No asset should be recognized. ▶ When acquired in an exchange transaction: Historical cost (including VAT and incidental cost). When the cost at acquisition are 	
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		<p>not known then fair value has to be used.</p> <p>▶</p> <p>Sub-category 2: Treasures</p> <p>▶ When items owned at the opening balance sheet date were acquired in a non-exchange transaction or where the cost of acquisition of those items are not known they should in principle be measured at an estimated market value (fair value) and then classified in one of the value groups A, B or C according to the Kontierungshandbuch Annex 11. Depending on the value group the measurement approach differs (e.g. for value group A a separate measurement of treasures based on fair value is foreseen, whereas for value group B they should be measured according to a group measurement approach based on average fair values).</p> <p>▶ Items acquired or obtained after the opening balance sheet date: historical cost for exchange transactions and fair value for non-exchange transactions.</p>	
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	France	State of Hessen	Lithuania
Subsequent measurement	<p>No depreciation, impairment, nor revaluation.</p> <p>Routine maintenance is expensed. Reconstruction work and major repairs are capitalized separately from the main (underlying) asset.</p>	<p>The values determined on or after the opening balance sheet date for works of art and collectibles as well as archive materials are in principle valid on a continuing basis. Price variations in the art market have no impact on the valuation of the heritage assets. The same applies for restoration and maintenance investments, unless the restoration would lead to the observation that the initial measurement was incorrect. Impairments are only considered with regard to non-market related factors such as physical and lasting damage. All subsequent expenditure is expensed.</p>	<p>Category 1, 2 and 3:</p> <p>Subsequent measurement at fair value, no depreciation and no impairment except in case of damages. Subsequent expenditure is expensed.</p> <p>Category 4:</p> <p>In case of a finite useful life the assets are amortized. The intangible heritage assets with an indefinite useful life are tested for impairment. Subsequent expenditure is recognized if it concerns significant asset improvements and follows the subsequent measurement rules.</p>
Disclosure	<p>The following disclosures are made:</p> <ul style="list-style-type: none"> ▶ Accounting policy; ▶ Movement schedule plus explanation main movements; ▶ Voluntarily disclosure of a valuation different to that presented on the face of the balance sheet; ▶ Appropriate disclosure if a 	<p>No specific disclosure requirements. However, a separate line item for heritage assets is presented in the statement of financial position.</p>	<p>Category 1 and 2:</p> <ul style="list-style-type: none"> ▶ Separate line items in the statement of financial position; ▶ Latest fair value estimation date plus valuation technique applied; ▶ Carrying amounts of the objects for which the insurance value was taken as the fair value; ▶ Total value objects measured at 1 Euro symbolic value. <p>Category 3 and 4:</p> <p>Will be embedded in the disclosures for the regular other tangible assets or intangible assets.</p>

	<p>heritage asset suffers significant partial deterioration;</p> <ul style="list-style-type: none">▶ Qualitative disclosure regarding assets recognized at the symbolic value of 1 Euro;▶ Heritage assets for sale.		
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Annex 2B: Categorization of heritage assets in the national public sector accounting frameworks

France	<p>Category 1 - Immovable heritage assets</p> <ul style="list-style-type: none"> ▶ Listed or registered historical monuments⁶²; ▶ Listed or registered natural monuments and sites⁶³; and ▶ Buildings subject to the French act of 9 December 1905 on the separation of the church and state⁶⁴. <p>Category 2 – Movable heritage assets</p> <ul style="list-style-type: none"> ▶ Cultural assets included in the categories defined by the Order of the French Supreme Administrative Court: <ul style="list-style-type: none"> ▶ Listed historical monuments⁶⁵ or historical archives pursuant to the French Heritage Code; ▶ Classified as national treasures by the central government based on the recommendation of the commission provided for in the French Heritage Code⁶⁶; ▶ Cultural assets that belong to a public entity and which are: <ul style="list-style-type: none"> ▶ Either listed in the collections of museums with the label “musées de France” or other museums and similar heritage organizations, archives or library conservation holdings; or ▶ Listed historical monuments or archives pursuant to the French Heritage Code; ▶ Cultural assets, that are held in public places of worship or their outbuildings, are classified as monuments or historical archives or national treasures by the Central Government based on the recommendation of the commission provided for in the French Heritage Code⁶⁷; ▶ An identified copy of each of the documents deposited as prescribed in the French Heritage Code for the purposes of creating a national archive (legal deposit)⁶⁸; ▶ Public archives⁶⁹ as defined in the French Heritage Code;
France	<ul style="list-style-type: none"> ▶ Archives from private sources acquired for public collections by purchase, gift, payment in kind or bequest; ▶ Discoveries of movable objects that have become or remain public property as defined in the French Heritage Code⁷⁰;

62

French Heritage Code articles L.621-1 and L.621-25.

63

French Heritage Code article L.630-1 and French Environmental Code articles L.341-1 and L.342-2.

64

Loi du décembre 1905 concernant la séparation des églises et de l'état.

65

French Heritage Code articles L.622-1 and L.622-10.

66

French Heritage Code article L.111-4.

67

French Heritage Code article L.111-4.

68

French Heritage Code article L.131-2.

69

French Heritage Code article L.211-4.

	<ul style="list-style-type: none"> ▶ Movable maritime cultural assets as defined in the French Heritage Code⁷¹; ▶ Movable objects listed or registered in the French Heritage Code⁷² or located in a listed or registered building and contributing to the presentation to the public of listed or registered portions of the said building; ▶ Movable objects of historical or artistic interest, other than those mentioned above, that have become or remain public property under the French act of 9 December 1905 on the separation of the church and state; ▶ Museum collections; ▶ Contemporary works of art and art objects acquired by the National Centre for Plastic Arts and the collections of works of art and art objects registered with the National Contemporary Art Fund of which the centre has received custody; ▶ Library collections of ancient, rare, or precious documents; and ▶ Public collections of furniture and furnishings under the responsibility of the “Mobilier National” and the “Manufacture National de Sèvres”.
<p>State of Hessen</p>	<p>The State of Hessen differs between the following categories of heritage assets:</p> <p>0620: Heritage items and heritage collections 0621: Heritage monuments 0622: Art and scientific collections and libraries</p> <p>For measurement and registration purposes heritage assets are further divided into works of art and collectibles as well as archive materials:</p> <p>Category 1 – Works of art and collectibles</p> <ul style="list-style-type: none"> ▶ Archaeology; ▶ Old masters (paintings, frames,...); ▶ Modernity (paintings, frames,...); ▶ Arts and crafts, and sculptures; ▶ Artworks on paper; ▶ Technology and physics; ▶ Folklore; ▶ Ethnology; ▶ Libraries; ▶ Wallpapers; ▶ Geological-paleontological and mineralogical collections; ▶ Zoological collections; and

70 French Heritage Code book 5, title 2, chapter 3 and title 3, chapter 1.

71 French Heritage Code book 5, title 3, chapter 2.

72 French Heritage Code, book 6, title 2, chapter 2.

	<ul style="list-style-type: none"> ▶ Botanical collections.
State of Hessen	<p>Category 2 – Archive materials</p> <ul style="list-style-type: none"> ▶ Conventional archive materials; and ▶ Treasures.
Lithuania	<p>Category 1 – Immovable cultural property</p> <ul style="list-style-type: none"> ▶ Objects registered with the Register of Cultural Objects of the Republic of Lithuania; ▶ For example: library funds, encompassing old, rare and especially valuable printed manuscripts as well as other old valuable documents and museum pieces, except biological assets. <p>Category 2 – Immovable cultural objects</p> <ul style="list-style-type: none"> ▶ Objects of cultural heritage registered with the Register of Cultural Objects of the Republic of Lithuania. <p>Category 3 – Other valuables</p> <ul style="list-style-type: none"> ▶ Valuable articles and their collections, except cultural objects, that are not used in production and consumption and that are non-perishable under normal conditions and are likely to increase in value. <p>Category 4 – Intangible heritage assets</p>

Annex 3A: Application of the asset definition to the UNESCO categories of heritage items⁷³

Categories of heritage items	Resource	Control
Cultural heritage – tangible heritage items	For the examples selected by the IPSASB (see Annex 3B) a conclusion could be reached whether the heritage item had service potential and/or an ability to generate cash inflows.	For some of the examples selected (see Annex 3B), control could be established either through legal ownership or the laws applicable to discovery. There were other examples where the public has general access to the item, however the rights to restrict access could usually be attributed to a specific entity.
Cultural heritage – items that have been partially or totally under water	It can be questioned whether this would be a resource: <ul style="list-style-type: none"> - Value and whether it is a resource can be unknown until excavations have been carried out; - Due to the cost some underwater structures are left in-situ even though they have archaeological value. The result is that there is no access and hence neither service potential nor cash flows being generated. 	Control can usually be established through legal ownership or the laws applicable to discovery.

⁷³

Information has been derived from the agenda paper for the December 2015 IPSASB meeting.

Categories of heritage items	Resource	Control
Cultural heritage – intangible heritage items	For many of the examples looked at in more detail (see Annex 3B), it was clear for the IPSASB staff that the item was a resource due to the fact that it had service potential. It becomes more complex for example when considering items that need excavation before having service potential.	Control is difficult to demonstrate. Intangible cultural heritage items appear to be owned by a whole community and its existence depends on continued use and appreciation by the community. Arguably, unless the general good is transformed into a specific right that can be controlled by one entity (for example trademarks and licenses) these would not meet the definition of an asset. Even if there are specific rights it can also be questioned whether these would meet the definition of heritage items (for example mass-produced national flags).
Natural heritage	There is currently still discussion whether natural heritage would be a heritage item. In general it seems to be feasible to assess whether natural heritage has service potential.	Control can usually be established through legal ownership or the laws applicable to discovery.

Annex 3B: Application of the asset definition to various examples of heritage items⁷⁴

The following colour code has been used to simplify the interpretation of the tables:

Yes, criteria met
Case of doubt
No, criteria not met

	Resource	Control
Cultural heritage – tangible heritage items		
Land beneath an historic building	Has service potential	Owned by relevant entity
Land under gardens that are integral to an historic building (e.g. Monet's garden at Giverny)	Has service potential	Owned by relevant entity
Land that forms an historic open space (e.g. Times Square, New York)	Has service potential	Owned by relevant entity
Land – Sacred grounds	Has service potential but could offend individuals if it would be treated as an asset	National government is responsible for preservation but the land is not owned by any individual
Cemeteries or gravestones with specific significance	Has service potential but could offend individuals if it would be treated as an asset	Ownership can be unclear
Historic manuscripts such as constitutions, declarations, treaties, religious books or scripts	Has service potential	Held by national government or other public entities on behalf of the Nation/State
Statue of respected ruler or statue of deposed ruler	The statue of the respected ruler has service potential while the statue of the deposed ruler does not	Owned by relevant entity
Structure beneath ancient buildings, e.g. Rome	No additional resource until excavated	Controlled by the owner of the building
Structure beneath buildings, ancient sewer system, e.g. Paris	The system is a resource even though it is not a heritage item under the UNESCO definition	Controlled by the owner of the system
Graffiti artworks by famous artist (e.g. Banksy) on bridge	Resource unclear since the owner may propose to paint over	Owned by the bridge owner

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Information has been derived from the agenda paper for the December 2015 IPSASB meeting.

	Resource	Control
Cultural heritage – items that have been partially or totally under water		
Shipwreck HMS Erebus	The shipwreck is a resource	Memorandum of ownership allocates control
Shipwreck Titanic	The shipwreck is a resource	Salvage rights belong to discoverer
Shipwreck Unknown	Not yet established, therefore not an asset	Salvage rights belong to discoverer
Submerged building, building buried under new construction – contents <u>not</u> saved	If the contents cannot be saved it would not be a resource.	Rights belong to relevant public sector entity
Submerged building, building buried under new construction – contents saved	If the contents can be saved the items discovered will be extracted, studied and displayed.	Rights belong to relevant public sector entity
Submerged building, raised from seabed	The building is a resource	Rights belong to relevant public sector entity
Submerged building, diving site	If accessible it would have service potential and/or cash flows	Rights belong to relevant public sector entity
Building foundation, e.g. Venice	Not a resource until excavated	Controlled by the owner of the building

	Resource	Control
Cultural heritage – intangible heritage items		
Knowledge (e.g. traditional craftwork)	Knowledge can generate cash flows or give service potential	If there is a specific expression (e.g. book or licensed trade practice) with copyright or license
Performing arts (e.g. dances)	Performing arts can generate cash flows or give service potential	If it is a specific song, dance, film or routine that is owned by an artist or entity (e.g. ballet company, theatre, music company, etc.)
National flag	A national flag can generate cash flows or give service potential	A company can own the machinery to create flags of a particular size and quality and the resulting inventory
National anthem	A national anthem can generate cash flows or give service potential	If audio or video recording of a particular group or singer is owned by a music company
Symbol, Louvre museum	A symbol as for the Louvre museum can generate cash flows or give service potential	There are rights to use the Louvre name, which can be sold to others, e.g. museum in Abu Dhabi called Louvre
Symbol, Champagne	It can be questioned for whom the service potential or cash flow will be	Who controls the use of the symbol legally restricted to wines produced in one region?
Dance, Waltz, haka, disco	A dance can generate cash flows or give service potential	For example the haka has been licensed to one group
Social, baseball	Baseball can generate cash flows or give service potential	Items that are controlled include the baseball field, merchandize, copyrights or licensing over uniform, etc.

	Resource	Control
Natural heritage		
National parks with restricted use (conservation and tourism)	National parks are a resource	The national parks are owned by the national government
Donated land with restriction to use as park	Donated land with restriction to use as park is a resource	The donated land with restriction to use as park is owned by city council
Historic hunting grounds; several tribes have rights and access is restricted to them	The historic hunting grounds have service potential (unique national culture)	The national government is responsible for preservation, but it is not owned by any individual
Sacred grounds; several international religions involved	The sacred grounds have service potential (unique heritage and culture, tourism)	The national government is responsible for preservation, but it is not owned by any individual
Island reserve for rare animals with no access for tourism	These reserved islands have service potential (protects natural heritage)	Public sector entities own and control access
Endangered snails living in the wild, only valued by scientists	These endangered snails have service potential (part of natural heritage)	Not controlled by an entity
Rare lizards living in the wild	The rare lizards have service potential (part of natural heritage) and can generate cash flows through illegal trading	Not controlled by an entity
Rare birds held in the national zoo	The rare birds have service potential	These birds are owned by public sector entities and access is controlled
Bonsai trees (200+ years old)	The bonsai trees have service potential	Can be controlled by an entity
Tane Mahuta, Waipoua forest (1,000+ years old)	The forest has service potential	Can be controlled by an entity

Annex 4: Heritage characteristics with implications for measurement⁷⁵

Heritage assets are:

- ▶ Usually used to provide heritage services, rather than to provide operational or financial capability;
- ▶ Items whose heritage value is unlikely to be fully reflected in a market-derived value;
- ▶ Expected to be held indefinitely and neither sold nor replaced, with contractual, legal or statutory prohibitions or severe restrictions on transfer or sale;
- ▶ Rare, specialized in nature with few if any similar or equivalent items in existence;
- ▶ Usually very old so that acquisition documentation is difficult or impossible to obtain;
- ▶ Often acquired through non-exchange transactions;
- ▶ Irreplaceable given their heritage significance; and
- ▶ Not frequently sold, such that markets for heritage items are either:
 - ▶ Not open, active or orderly; or
 - ▶ Do not exist in any meaningful sense.

Not all of the above points will necessarily apply to a particular heritage asset or particular subcategories of heritage assets.

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Information has been derived from the agenda paper for the June 2016 IPSASB meeting.

Annex 5: Considerations for measurement for each category of heritage items⁷⁶

Category of heritage items	Considerations that could be relevant
Cultural heritage – items that have been partially or totally under water	Measurement of the asset relates to its eventual value as cultural heritage. Either historical cost, where the cost of recovering the heritage item could be capitalized as acquisition cost, or the market value of similar items could be used to value the item.
Cultural heritage: intangible heritage items - trademarks and brand names	Measurement will only be possible if the asset is identifiable and can be separated out from the service potential and/or economic benefits related to other aspects of the asset.
Cultural heritage: intangible heritage items – copyrights	<ul style="list-style-type: none"> - The original work might be relatively old resulting in potential problems ascertaining historical cost; - If copyright was acquired recently, purchase information should be available that can serve as historical cost; - In case copyright was acquired through a non-exchange transaction, no historical cost information will be available. Market values may be available, although the rare or unique nature of the asset may cause unavailability of comparable market value information.
Cultural heritage: intangible heritage items – databases and computer software	If there are examples that would be heritage assets, then it is likely that their original development costs were accounted before they were classified as heritage and have been fully depreciated or written down. The relevant measurement basis in this case would be market value leading to similar issues as those for the measurement of copyright.
Cultural heritage – integral human-made physical structures	The integral human-made physical structures encompass relatively recently built huts, bridges, pathways or viewing platforms that are similar to structures that exist outside the natural heritage area. For these historical cost information should be available and, if not available a more current measurement would be needed. In this case either market value or if there are no other possibilities the replacement cost could be applied to measure the value of these structures.

⁷⁶

Information has been derived from the agenda paper for the June 2016 IPSASB meeting.

Category of heritage	Considerations that could be relevant
Natural heritage – land component	<ul style="list-style-type: none">- Historical cost may not exist due to for example lost records or the fact that it was acquired through a non-exchange transaction;- Market values for land bordering the natural heritage area could be used as a reasonable estimate despite the land's restricted use;- Depreciated replacement cost seems likely to generate the same monetary value as a market value, since the natural heritage item is of such a specialized area that no other area can be used as a substitute and still provide the same service potential, but at a lower cost;- It should also be considered that natural heritage land may be used for non-heritage purposes such as farming activities.

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