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The Technical Director
International Public Sector Accounting Standards Board
International Federation of Accountants
277 Wellington Street West, 6th Floor
Toronto, Ontario M5V 3H2
CANADA

Dear Sir

1. The International Consortium on Governmental Financial Management (ICGFM) welcomes the opportunity to respond to the Consultation Paper "Financial Reporting for Heritage in the Public Sector" issued April 2017.
2. We are supportive of the intent on making financial reporting on heritage assets consistent with other assets. However, we have significant reservations about the approaches within the paper, as indicated in our detailed comments.
3. We appreciate the opportunity to comment on this exposure draft and would be pleased to discuss this letter with you at your convenience. If you have questions concerning this letter, please contact Michael Parry at Michael.parry@michaelparry.com or on +44 7525 763381.

Yours faithfully,

Michael Parry

ICGFM Accounting Standards Committee

Michael Parry, Chair

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Cc: Jack Maykoski, President, ICGFM

International Consortium on Government Financial Management (ICGFM)

Response to Consultation Paper on Financial Reporting for Heritage in the Public Sector – April 2017

Overview

We are supportive of the intent to bring heritage assets within a consistent reporting framework. However, we have significant reservations about the approach adopted as the preliminary view in the Consultation Paper. Our particular concerns are with the following issues:

1. Whether an approach based on financial values can provide useful information on the heritage assets of a country
2. The inclusion within a Governments' Statement of Financial Position heritage assets where there are legal, cultural or social restrictions on the disposal of such assets
3. The valuation of heritage assets that are subject legal, cultural and/or social restrictions on disposal

These concerns are reflected in our responses to the points for comment in the paper, as listed below.

| Text of the Consultation paper | ICGFM response |
|--|--|
| Specific Matters for Comment—Chapter 1 Do you agree that the IPSASB has captured all of the characteristics of heritage items and the potential consequences for financial reporting in paragraphs 1.7 and 1.8 | We agree that matters have been captured, though we do not agree with all of the conclusions in paragraph 1.8, as indicated in further responses |

| Text of the Consultation paper | ICGFM response |
|--|---|
| <p>Preliminary View —Chapter 2.1</p> <p>For the purposes of this CP, the following description reflects the special characteristics of heritage items and distinguishes them from other phenomena for the purposes of financial reporting: Heritage items are items that are intended to be held indefinitely and preserved for the benefit of present and future generations because of their rarity and/or significance in relation, but not limited, to their archaeological, architectural, agricultural, artistic, cultural, environmental, historical, natural, scientific or technological features.</p> | <p>UNESCO has no single all embracing definition of heritage assets, but does provide descriptions of different categories of heritage assets.</p> <p>The IMF GFS 2014 provides a single definition as follows: <i>“assets that a government intends to preserve indefinitely because they have unique historic, cultural, educational, artistic, or architectural significance”</i></p> <p>It is our view that for consistency the IMF definition should be used</p> |
| <p>Specific Matters for Comment —Chapter 2.2</p> <p>For the purposes of this CP, natural heritage covers areas and features, but excludes living plants and organisms that occupy or visit those areas and features.</p> | <p>There are situations where plants and organisms meet the criteria for recognition as heritage assets. Example would be the Svalbard Global Seed Vault and the Sacred Bo-Tree in Sri Lanka.</p> <p>Therefore, we see no justification for this exception</p> |
| <p>Specific Matters for Comment —Chapter 3</p> <p>The special characteristics of heritage items do not prevent them from being considered as assets for the purposes of financial reporting.</p> | <p>Yes – but see our comments on the benefits and format of such inclusion</p> |
| <p>Specific Matters for Comment—Chapter 4.1 (following paragraph 4.17)</p> <p>Do you support initially recognizing heritage assets at a nominal cost of one currency unit where historical cost is zero, such as when an asset was fully depreciated before being categorized as a heritage asset and transferred to the entity, or an entity obtains a natural heritage asset without consideration?</p> | <p>No. There is no valuation base that leads to a nominal valuation. Furthermore, we do not see the benefit of providing a nominal value merely to incorporate an asset in the Statement of Financial Position.</p> <p>Our preferred approach envisages a separate schedule of heritage assets based on their non-financial value to society. This approach would obviate the need for nominal values.</p> |

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| <p>Preliminary view —Chapter 4.1 (following paragraph 4.40)</p> <p>Heritage assets should be recognized in the statement of financial position if they meet the recognition criteria in the Conceptual Framework.</p> | <p>Yes, if they can be assigned a value – see our comments below</p> <p>See Hassan Ouda’s paper published in the International Journal of Financial Management 2014: Volume XIV, Number 2 (attached) distinguish between “Unrestricted” and “Restricted” heritage assets. The latter are subject to legal, cultural and/or social restrictions on disposal. Hassan Ouda suggests such assets should be treated as “trust” assets and incorporated in a separate statement of trust assets and liabilities.</p> <p>Many heritage assets of national governments fall into the restricted category. It is useful to provide information on such assets, but their inclusion in the Statement of Financial Position could be positively misleading. A preferred approach is a separate statement of such assets.</p> |

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| <p>Specific Matters for Comment—Chapter 4.2</p> <p>Are there heritage-related situations (or factors) in which heritage assets should not initially be recognized and/or measured because:</p> <p>It is not possible to assign a relevant and verifiable monetary value; or</p> <p>The cost-benefit constraint applies and the costs of doing so would not justify the benefits?</p> <p>Preliminary View—Chapter 4.2</p> <p>In many cases it will be possible to assign a monetary value to heritage assets. Appropriate measurement bases are historical cost, market value and replacement cost.</p> | <p>Heritage assets, as defined, do not have active, open and orderly markets. Even where a market exists, for example for a work of art, restrictions on disposal will make such a value inappropriate. Conceptual Framework Para 7.27 states that for an orderly market “There are no barriers that prevent the entity from transacting in the market”. Clearly restrictions on disposal would be a barrier.</p> <p>By their nature heritage assets are typically irreplaceable, e.g. a work of art may be copied, but cannot be replaced.</p> <p>Therefore, whilst in principle the valuation bases are appropriate, in practice restrictions on disposal and/or irreplaceability make such valuation bases inappropriate for most heritage assets.</p> <p>Paragraph 4.24 refers to heritage assets that are to be sold – but the decision to sell heritage assets means that by definition they are no longer heritage assets.</p> <p>This only leaves cost as a valuation base. However, many heritage assets have no cost, or only some items of a collection have a cost, or the acquisition was so long ago as to make the cost meaningless.</p> <p>Our conclusion is therefore that it is only exceptionally that a monetary value can be assigned to a heritage asset.</p> |
| <p>Specific Matters for Comment—Chapter 4.3</p> <p><i>What additional guidance should the IPSASB provide through its Public Sector Measurement Project to enable these measurement bases to be applied to heritage assets? (page 26)</i></p> | <p>In our view, a more fundamental discussion is required about the purpose and benefits of including heritage assets in financial reports.</p> |
| <p>Specific Matters for Comment—Chapter 4.2</p> <p>Are there heritage-related situations (or factors) in which heritage assets should not initially be recognized and/or measured because:</p> <p>(a) It is not possible to assign a relevant and verifiable monetary value; or</p> <p>(b) The cost-benefit constraint applies and the costs of doing so would not justify the benefits?</p> | <p>Our view is that there are such situations, e.g.</p> <ul style="list-style-type: none"> • Restricted assets as described above • No market for the asset and no or limited direct financial benefits from ownership • The asset is irreplaceable |

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| <p>Specific Matters for Comment—Chapter 4.3</p> <p>What additional guidance should the IPSASB provide through its Public Sector Measurement Project to enable these measurement bases to be applied to heritage assets?</p> | <p>Empirical evidence is required of the benefits to the users of financial reports of disclosing information in different formats about heritage assets</p> |
| <p>Preliminary view —Chapter 5</p> <p>Subsequent measurement of heritage assets:</p> <p>(a) Will need to address changes in heritage asset values that arise from subsequent expenditure, depreciation or amortization, impairment and revaluation.</p> <p>(b) Can be approached in broadly the same way as subsequent measurement for other, non-heritage assets.</p> | <p>In view of our above comments we do not agree with the approach</p> |
| <p>Specific Matters for Comment—Chapter 5</p> <p>Are there any types of heritage assets or heritage-related factors that raise special issues for the subsequent measurement of heritage assets?</p> | <p>See above</p> <p>Also, it is necessary to take into account the special status of objects protected by UNESCO.</p> |
| <p>Preliminary view —Chapter 6</p> <p>The special characteristics of heritage items, including an intention to preserve them for present and future generations, do not, of themselves, result in a present obligation such that an entity has little or no realistic alternative to avoid an outflow of resources. The entity should not therefore recognize a liability.</p> | <p>We concur with the preliminary view</p> |
| <p>Specific Matters for Comment —Chapter 7</p> <p>Information about heritage should be presented in line with existing IPSASB pronouncements.</p> | <p>It is our view that because of the problems of restrictions on disposal and consequent issues concerning valuation, heritage assets cannot in generally be usefully disclosed in financial terms. Instead there should be a separates schedule of heritage assets indicating their value to society rather than their monetary value</p> |