



Australian Government

Australian Accounting
Standards Board

Level 7, 600 Bourke Street
MELBOURNE VIC 3000
Postal Address
PO Box 204
Collins Street West VIC 8007
Telephone: (03) 9617 7600
Facsimile: (03)9617 7608

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Alan O'Connor
ACCOUNTING STANDARDS BOARD
5TH Floor, Aldwych House
71-91 Aldwych
London
WC2B 4HN

Financial Reporting Exposure Draft (FRED) 42 *Heritage Assets*

Staff of the Office of the Australian Accounting Standards Board (AASB) welcome the opportunity to comment on the UK ASB's FRED 42 *Heritage Assets*.

In summary, we agree with most of the proposals in FRED 42. We believe that typically heritage assets are a subset of property, plant and equipment and therefore, for consistency, we agree with the proposals being based on FRS 15 *Tangible Fixed Assets*. In particular, we support, on pragmatic grounds, the proposal to require heritage assets to be measured either at cost or value, as we believe that this will lead to more items being recognised in the balance sheet as compared to a value-only approach. We are also of the view that the proposed enhanced disclosure requirements will improve the financial reporting of heritage assets.

However, we have some concern about the proposed impairment testing, the audit implications of information provided outside the financial report and the definition of heritage assets. We are concerned that the definition does not appropriately and sufficiently capture the nature of heritage assets. The AASB indicated this view in its submission to the IPSASB Consultation Paper *Accounting for Heritage Assets Under the Accrual Basis of Accounting* dated 23 June 2006.

Please find more detailed responses in the Attachment to this letter.

If you have any queries regarding any matters in this submission, please do not hesitate to contact Sabine Schühler (Assistant Project Manager; sschuhler@asb.gov.au).

Yours sincerely

A handwritten signature in cursive script that reads 'David Boymal'.

David Boymal
Chairman

ATTACHMENT

AASB Staff Comments on FRED 42 *Heritage Assets*

Specific comments

- 1 **This exposure draft proposes enhanced disclosures for heritage assets. Do you agree with the proposed disclosures and are there any additional disclosures that you consider would provide useful information?**

Due to the nature of heritage assets, we are of the view that the proposed enhanced disclosures are very useful for users, as they do not only focus on financial information. We think that the disclosures are of particular relevance when items are not reported on the balance sheet.

However, paragraph 14 proposes that the notes should disclose certain information relating to heritage assets, for the accounting period and each of the previous four accounting periods. This disclosure seems onerous. We note that four year-comparative information is not required for other types of assets and the varying transactions of entities holding heritage assets are conceptually no different from entities engaged in, for example, activities that are of a cyclical nature.

- 2 **The objective of the proposals is to improve the financial reporting of heritage assets. Do you agree that it is difficult to improve upon the current FRS 15 based accounting and that heritage assets should be reported in the balance sheet where information on cost or valuation is available?**

We believe heritage assets are a sub-category of property, plant and equipment (PPE). Accordingly, we agree with the proposal that heritage assets should be reported in the balance sheet where information on cost or valuation is available, as currently required by FRS 15 Tangible Fixed Assets. Our preference would be to apply the measurement principles that apply to PPE generally to heritage assets, unamended.

In relation to depreciation, we note that, given the nature of many heritage assets, they may not have limited useful lives (for example, when the entity adopts appropriate curatorial and preservation policies), and therefore should not be subject to depreciation. However, we think a Standard should provide some clarity as to when an entity can determine that a heritage asset has an unlimited useful life. We think that this is typically the case when curatorial and preservation policies have been developed and monitored by qualified personnel and those policies include the following:

- (a) a clearly stated objective about the holding and preservation of items;*
- (b) a well-developed plan to achieve the objective, including demonstration of how the policy will be implemented, based on advice by appropriately qualified experts;*
- (c) monitoring procedures; and*
- (d) periodic reviews.*

In addition, we think there should be evidence that the policies have been adopted by the governing body of the entity. The AASB has incorporated this view into the Australian Implementation Guidance to AASB 116 Property, Plant and Equipment for not-for-profit public sector entities and for-profit government departments through Amending

Standard 2007-9 Amendments to Australian Accounting Standards arising from the Review of AASs 27, 29 and 31.

- 3 **The exposure draft notes that impairment reviews will often not be relevant for heritage assets. Do you agree that impairment reviews should be required only where there is evidence that the value of an asset may have declined due to physical deterioration or damage? If not, in what circumstances should an impairment review be required?**

We believe that heritage assets should be subject to the same impairment requirements that apply to other sub-categories of PPE, including consideration of all the impairment indicators that might trigger impairment testing. Impairment requirements should have regard to whether the asset is held by a for-profit or not-for-profit entity and, if held by a not-for-profit entity, whether it is a cash-generating or non-cash-generating asset. Possible requirements for non-cash-generating assets held by not-for-profit entities are outlined in IPSAS 21 Impairment of Non-Cash-Generating Assets. In Australia we have incorporated the following paragraphs into AASB 136 Impairment of Assets:

“Aus32.1 ... in respect of not-for-profit entities, where the future economic benefits of an asset are not primarily dependent on the asset’s ability to generate net cash inflows and where the entity would, if deprived of the asset, replace its remaining future economic benefits, value in use shall be determined as the depreciated replacement cost of the asset.

Aus32.2 Depreciated replacement cost is defined as the current replacement cost of an asset less, where applicable, accumulated depreciation calculated on the basis of such cost to reflect the already consumed or expired future economic benefits of the asset. The current replacement cost of an asset is its cost measured by reference to the lowest cost at which the gross future economic benefits of that asset could currently be obtained in the normal course of business.”

- 4 **As explained in paragraphs 8 to 12 above, the Board believes that the costs of implementing the proposals should not be disproportionate. Do you agree? If not, why not? It would be helpful if any significant costs that would arise on implementation of the proposals (including any not identified above) could be identified and quantified.**

We agree with the proposal. We do not believe that costs of implementing the proposals would exceed the benefits.

Other issues

5 **Proposed definition of heritage asset**

Consistent with the AASB submission to the IPSASB Consultation Paper Accounting for Heritage Assets Under the Accrual Basis of Accounting (dated 23 June 2006), we do not think that the definition of heritage assets in paragraph 2 of FRED 42 is appropriate, as noted in the following:

- (a) *We agree that the intrinsic nature of an asset should determine whether it is a heritage asset. However, the proposed definition of a heritage asset is expressed in terms of its ‘principal’ purpose and therefore does not deal well with multi-purpose heritage assets. We think that there is a public accountability issue that arises if, for example, multi-purpose heritage assets are accounted for only as ‘operational’ property, plant and equipment. That is, users may not be able to readily determine that assets within property, plant and equipment possess heritage attributes. Entities that hold and maintain multi-purpose heritage assets have an obligation to protect and preserve these items and users*

should be provided with information regarding the heritage (and operational) significance of such assets.

- (b) The definition should include community assets such as parks, recreational reserves and sites or objects of indigenous significance by making explicit reference to 'natural and cultural' attributes.*
- (c) The phrase 'for its contribution to knowledge and culture' is too restrictive, and should be replaced with the phrase 'for public benefit purposes'. AASB staff appreciate that 'public benefit' is the basis that the ASB uses to make a distinction from for-profit entities, however, together with the other parts of the definition, we consider that its use is appropriate in the heritage asset context. This change would make the definition consistent with principles-based standard setting.*

Arguably, the phrase 'contribution to knowledge and culture' is superfluous to the definition because the definition already refers to specific qualities possessed by heritage assets.

- (d) The word 'qualities' should be changed to 'significance' because it better distinguishes assets with heritage attributes that have technological qualities (such as the first mainframe computer) from assets (such as modern computers) that do not have heritage attributes but have operational attributes and technological qualities.*
- (e) FRED 42 does not state who determines or how it is determined that potential heritage assets possess the attributes required to satisfy the definition of heritage assets. This may result in the subjective and inconsistent designation of heritage assets by entities. We suggest that the UK ASB consider whether an external/formal designation should be required before an item can be considered to be a heritage asset.*

In light of the above comments we believe the definition of a heritage asset should be changed to:

An asset ~~with~~ of historic, artistic, scientific, technological, geophysical, ~~or~~ environmental, natural or cultural significance ~~qualities~~, that is held and maintained ~~principally for its contribution to knowledge and culture for~~ public benefit purposes.

The above reworded definition should be supported by amplifying text (grey letter) to clarify its meaning. For example, the text should clarify that the reference to 'technological' does not mean that all computers in a museum used for maintaining an electronic data base are heritage assets.

6 Audit of information provided outside the financial statements

Paragraph 8 of FRED 42 states that entities may provide detailed information outside financial statements by cross-reference. We note that an audit issue may arise in these circumstances.