

Swiss Comment to

Consultation Paper Financial Reporting for Heritage in the Public Sector

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1. Introduction

The Swiss Public Sector Financial Reporting Advisory Committee (SRS-CSPCP) was established in 2008 by the Swiss Federal Ministry of Finance together with the cantonal Ministers of Finance. One of its aims is to provide the IPSAS Board with a consolidated statement for all three Swiss levels of government (municipalities, cantons and Confederation).

The SRS-CSPCP has discussed the CP Financial Reporting for Heritage in the Public Sector and comments as follows.

2. General Remarks

The SRS-CSPCP welcomes the fact that the IPSASB has drawn up a CP on heritage assets. In particular, it is important that heritage assets are precisely defined and their valuation (initial and subsequent measurement) is governed. Unfortunately, in this CP the economic approach to heritage assets, or in a broader sense the *valuation of non market goods*, is ignored. The CP sets aside the extensive literature in economics on this topic. This literature, both theoretical and empirical, is unanimously of the opinion that for this kind of goods the individuals' willingness to pay (WTP) should be used as the basis for valuation. This principle is notably recognized by the courts, in particular in United States of America, in order to award owners of such goods damages, when these goods are damaged¹. There are various methods for estimating the WTP (hedonic prices, contingent valuation, travel costs, replacement costs, etc.). Of course, these methods are not always applicable, above all because they do not conform with the "cost-benefit characteristic" of the Conceptual Framework. Nevertheless, the CP would gain credibility and acceptance, if this aspect had been expressly developed.

Furthermore, the SRS-CSPCP is of the opinion that in order to harmonize accounting, not too many valuation options should be proposed. In our view, the CP proposes too many options to pursue successfully the objective of harmonization. The SRS-CSPCP proposes that operating heritage assets (e.g. heritage buildings used as offices) should be considered as "normal" fixed assets and should therefore be treated based on IPSAS 17, whereas non operating heritage assets (e.g. historic documents) should be valued at symbolic value.

3. Specific Matter for Comment – Chapter 1 (following paragraph 1.8)

Do you agree that the IPSASB has captured all of the characteristics of heritage items and the potential consequences for financial reporting in paragraphs 1.7 and 1.8?

If not, please give reasons and identify any additional characteristics that you consider relevant.

The SRS-CSPCP agrees with this statement.

¹ See especially Arrow, K., Solow, R., Portney, P.R., Leamer, E., Radner, R., and Schuman, H. 1993. "Natural Resource Damage Assessment under the Oil Pollution Act of 1990". Federal Register 58 (10): 4601-4614.

4. Preliminary View – Chapter 2.1 (following paragraph 2.1)

For the purposes of this CP, the following description reflects the special characteristics of heritage items and distinguishes them from other phenomena for the purposes of financial reporting:

Heritage items are items that are intended to be held indefinitely and preserved for the benefit of present and future generations because of their rarity and/or significance in relation, but not limited, to their archeological, architectural, agricultural, artistic, cultural, environmental, historical, natural, scientific or technological features.

Do you agree with the IPSASB's Preliminary View? If not, please provide your reasons.

Basically, the SRS-CSPCP agrees with this statement. However in Switzerland, we generally limit the definition of heritage assets to man-made assets and do not usually include natural resources or customs.

5. Preliminary View – Chapter 2.2 (following paragraph 2.12)

For the purposes of this CP, natural heritage covers areas and features, but excludes living plants and organisms that occupy or visit those areas and features.

Do you agree with the IPSASB's Preliminary View? If not, please provide your reasons.

The SRS-CSPCP is of the view that the distinction between natural heritage covering areas and features on one side and the plants and other living organisms living therein on the other side is difficult. Furthermore, the recognition of living organisms as heritage assets, on one side, and agricultural production (covered by IPSAS 27) on the other side, would leave a gap in between the two (e.g. animals and plants held for research, security or entertainment purposes). It therefore recommends not excluding plants and other living organisms from the scope of heritage assets, provided they are not used for agricultural production and that they satisfy the other criteria for being considered as heritage assets.

The difficulties in valuing such assets are discussed by the SRS-CSPCP in the corresponding section (Specific Matters for Comment - Chapter 4.1 following paragraph 4.17). These remarks apply similarly also for forests (living organisms).

6. Preliminary View - Chapter 3 (following paragraph 3.11)

The special characteristics of heritage items do not prevent them from being considered as assets for the purposes of financial reporting.

Do you agree with the IPSASB's Preliminary View? If not, please provide your reasons.

The SRS-CSPCP agrees with this statement.

7. General Remarks to Chapters 4.1. and 4.2.

Basically, the SRS-CSPCP is of the opinion that heritage assets can be divided into two different categories. If heritage assets are used for operating purposes, e.g. an historic building as an administrative offices, they are *operating heritage assets*. They are to be valued in the same way as "normal" operating assets, that is at initial cost less depreciation over their useful life. The non operating assets are all other heritage assets. As explained in the above response to Preliminary View – Chapter 2.2 (following paragraph 2.12), in the view of the SRS-CSPCP this also includes living animals and organisms. Non operating heritage assets, which typically have no initial cost, should be valued at a symbolic amount of one currency unit.

8. Specific Matter for Comment – Chapter 4.1 (following paragraph 4.17)

*Do you support initially recognizing heritage assets at a nominal cost of one currency unit where historical cost is zero, such as when a fully depreciated asset is categorized as a heritage asset then transferred to a museum at no consideration, or an entity obtains a natural heritage asset without consideration?
If so, please provide your reasons.*

The SRS-CSPCP agrees that non operating heritage assets, which have no initial cost or the initial cost of which is no longer available with reasonable effort, are valued at a symbolic amount of one currency unit. The following reasons support this approach:

- an inventory is made of all heritage assets;
- the use of a heritage asset is recorded pro memoria; it therefore becomes clear whether in certain circumstances future liabilities are to be expected;
- this method of recording makes it possible, if necessary, to add additional information in the notes.

On the other hand, *operating heritage assets* should be valued in the same way as fixed assets, i.e. at initial cost less depreciation over their useful life.

9. Preliminary View – Chapter 4.1 (following paragraph 4.40)

*Heritage assets should be recognized in the statement of financial position if they meet the recognition criteria in the Conceptual Framework.
Do you agree with the IPSASB's Preliminary View? If not, please provide your reasons.*

The SRS-CSPCP is in agreement with this statement, if the Symbolic Value approach in SMC 4.1. is taken into account.

10. Specific Matter of Comment – Chapter 4.2 (following paragraph 4.40)

Are there heritage-related situations (or factors) in which heritage assets should not initially be recognized and/or measured because:

- (a) It is not possible to assign a relevant and verifiable monetary value; or
(b) The cost-benefit constraint applies and the costs of doing so would not justify the benefits?*

If yes, please describe those heritage-related situations (or factors) and why heritage assets should not be recognized in these situations.

The SRS-CSPCP does not agree with this statement. It has indeed stated above that non operating heritage assets should be valued at the symbolic amount of one currency unit, if the initial cost is not available or is not available with reasonable effort.

11. Preliminary View – Chapter 4.2 (following paragraph 4.40)

In many cases it will be possible to assign a monetary value to heritage assets. Appropriate measurement bases are historical cost, market value and replacement cost.

Do you agree with the IPSASB's Preliminary View? If not, please provide your reasons.

Heritage assets may or may not be used by the public sector. Historic buildings, for example, may be used e.g. as administrative offices. Such assets could be referred to as *operating heritage assets*. If heritage assets are not in use, they are non operating heritage assets. If there is neither a predominantly commercial (financial assets) nor operating (administrative assets) use of a heritage asset, they are non operating heritage assets, which are to be recognized at the symbolic amount of one currency unit (symbolic value). In the case of operating assets a distinction must be made whether they belong to the what we call in Switzerland "administrative assets" (i.e. are necessary for the government to provide the legally required public services) or to the "non-administrative assets" (no connection to any legally required public services, assets being rather Investment Property). If the heritage asset belongs to the administrative assets, it is to be carried under the cost model, i.e. the heritage asset is carried at initial cost less accumulated depreciation.

If the heritage asset belongs to the financial assets (and therefore can be sold), it is carried at market value. If there is no market value, the value of the heritage asset must be estimated in accordance with IPSAS 17.47 or IPSAS 16.55.

12. Specific Matter for Comment - Chapter 4.3 (following paragraph 4.40)

What additional guidance should the IPSASB provide through its Public Sector Measurement Project to enable these measurement bases to be applied to heritage assets?

As already mentioned above, depending on the purpose of their use, heritage assets are either operating or non operating assets. The SRS-CSPCP therefore wishes that the IPSASB draws up additional guidelines for differentiation and therefore as the basis for the valuation of such assets.

13. Preliminary View - Chapter 5 (following paragraph 5.14)

Subsequent measurement of heritage assets:

(a) Will need to address changes in heritage asset values that arise from subsequent expenditure, consumption, impairment and revaluation.

(b) Can be approached in broadly the same way as subsequent measurement for other, non-heritage assets.

Do you agree with the IPSASB's Preliminary View? If not, please provide your reasons.

The SRS-CSPCP is of the opinion that subsequent measurement can be the same as for assets which are not heritage assets. Therefore, the SRS-CSPCP agrees with answer (b).

14. Specific Matter for Comment - Chapter 5 (following paragraph 5.14)

Are there any types of heritage assets or heritage-related factors that raise special issues for the subsequent measurement of heritage assets?

If so, please identify those types and/or factors, and describe the special issues raised and indicate what guidance IPSASB should provide to address them.

The SRS-CSPCP is of the opinion that there are no types of heritage assets or heritage-related factors that raises special issues for the subsequent measurement. Operating heritage assets are valued in accordance with IPSAS 16 or IPSAS 17. Heritage assets in the category non operating heritage assets require no subsequent measurement, because they are recognized only with a symbolic amount of one currency unit.

15. Preliminary View - Chapter 6 (following paragraph 6.10)

The special characteristics of heritage items, including an intention to preserve them for present and future generations, do not, of themselves, result in a present obligation such that an entity has little or no realistic alternative to avoid an outflow of resources. The entity should not therefore recognize a liability.

Do you agree with the IPSASB's Preliminary View? If not, please provide your reasons.

The SRS-CSPCP is in agreement with this statement.

16. Preliminary View - Chapter 7 (following paragraph 7.9)

Information about heritage should be presented in line with existing IPSASB pronouncements.

Do you agree with the IPSASB's Preliminary View? If not, please provide your reasons and describe what further guidance should be provided to address these.

The SRS-CSPCP is of the opinion that no additional disclosures for heritage assets are necessary. IPSAS 3 already covers the disclosure of significant accounting and valuation methods. More extensive disclosures are in principle not necessary. However, there should be a clear separation of heritage assets, which constitute non operating assets, and other assets.

Lausanne, September 11, 2017