

Financial Reporting
Advisory Board

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From the Chairman

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Alan O'Connor
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26 March 2007

Dear Alan

**RE: FINANCIAL REPORTING EXPOSURE DRAFT (FRED) 40 ACCOUNTING
FOR HERITAGE ASSETS**

The Financial Reporting Advisory Board (the Board) welcomes the publication of FRED 40 *Accounting for Heritage Assets*, and the opportunity to comment on the proposals in the draft FRS.

2. The Board supports many of the ASB's conclusions and proposals, but disagrees with the main proposal that practicability should be assessed at an individual collection level. The Board supports the proposals in the original Discussion Paper, where practicability would be assessed at the level of an entity's entire holding of heritage assets.

3. The detailed responses to the questions raised in the draft standard are attached.

Yours sincerely

Larry Pinkney

pp ELWYN EILLEDGE

Approved by the Board on the 19 March 2007 and signed in the Chairman's absence

FRED 40 ACCOUNTING FOR HERITAGE ASSETS

RESPONSES OF THE FINANCIAL REPORTING ADVISORY BOARD

(1) Do you agree that rather than the current arrangements under which entities generally capitalise only recently acquired heritage assets at cost, the requirements should be that an entity should, where practicable, adopt a valuation approach for its heritage assets?

The Board agrees with this proposal.

The [draft] FRS requires a valuation approach where practical, but where this is not practicable, prescribes a non-recognition approach. Do you agree this proposal will lead to an improvement in the quality of the financial reporting of heritage assets?

The Board believes that the pragmatic approach proposed to determine whether an entity adopts a valuation or non-recognition approach, combined with in either event, the proposed mandatory disclosures, will help improve the quality of financial reporting of heritage assets.

(2) The [draft] FRS proposes the assessment of practicability should be applied to individual collections rather than the entity's total holdings of heritage assets (see paragraphs 22 and 23 of Appendix I). Do you agree?

The Board disagrees with this proposal. It prefers the approach set out in the Discussion Paper, whereby practicability would be assessed at the level of the totality of an entity's holdings.

(3) If the approach is to be determined at the level of an individual collection, it is necessary to define the term 'collection'. Do you consider the definition proposed in paragraph 4 of the [draft] FRS is appropriate? If not, what alternative would you propose and why?

The Board considers the definition appropriate.

(4) The [draft] FRS proposes the approach should be determined for individual collections following an assessment of whether it is practicable to obtain valuations that provide useful and relevant information. This assessment will include consideration of the relevance of valuations as well as their reliability and the costs and benefits of obtaining them.

Do you support this approach or would you prefer that the approach emphasises that valuation is required only where the valuation is reliable? If you believe that a reliability approach, or some other approach, should be adopted, what

guidance would you see as being necessary to assess the reliability of valuations?

The Board supports the proposed approach for assessments, based on the practicability to obtain valuations, but that will also consider the relevance and reliability of valuations, and the costs and benefits of obtaining them.

- (5) *Do you consider that the proposals will cause auditors significant difficulties when assessing an entity's approach, particularly in terms of applying the assessment of practicability at the level of an individual collection? Where a valuation approach is adopted, do you think auditors will face further difficulties in evaluating the valuations being reported?*

When a valuation approach is adopted, the Board is of the opinion that there should be no difficulties that could not be overcome, providing that auditors are provided with all the relevant information, assumptions, justifications etc for the decision reached by the entity, to permit the auditors to make an informed decision on the valuation.

- (6) *The [draft] FRS requires that where an entity adopts a non-recognition approach for some or all of its collections, acquisitions and disposals of heritage assets should not be reported in the profit and loss account or equivalent statement, or in any manner that implies they are gains and losses (see paragraphs 29 to 31 of Appendix I). Do you agree?*

The Board agrees with the proposal in the draft FRS.

- (7) *The proposals require enhanced disclosures of heritage assets (see paragraphs 18 to 23 and paragraph 25 of the [draft] FRS). Do you consider the nature and extent of the required disclosures are appropriate? Do you consider any of the disclosure requirements are unduly onerous?*

The Board considers that the required disclosures are appropriate and not unduly onerous.

- (8) *The definition of a heritage asset is set out in paragraph 4 of the [draft] FRS and the scope of the proposed new standard is set out in paragraph 5. The rationale for these is discussed in paragraphs 7 to 12 of Appendix 1. Do you agree with the proposed definition and scope?*

The Board agrees the proposed definition and scope.

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

The Board firmly supports the view that the costs of implementing the proposals should not be disproportionate.