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Purpose of paper

1. This paper discusses whether any changes are needed to the discussion of measurement uncertainty in Chapter 2—*Qualitative characteristics of useful financial information* of the Exposure Draft *Conceptual Framework for Financial Reporting* (‘the Exposure Draft’). In particular, it considers whether:
 - (a) the *Conceptual Framework for Financial Reporting* (‘the *Conceptual Framework*’) should continue to discuss measurement uncertainty as an aspect of relevance;
 - (b) the Exposure Draft suitably described a trade-off within Chapter 2 as a trade-off between measurement uncertainty and other factors affecting relevance; and
 - (c) Chapter 2 should also discuss other types of uncertainty.

Summary of staff recommendation

2. The staff recommend:
 - (a) describing measurement uncertainty as a factor affecting faithful representation rather than relevance;

- (b) clarifying in the Basis for Conclusions on the revised *Conceptual Framework* that a trade-off exists between the fundamental qualitative characteristics of relevance and faithful representation;
- (c) including a brief explanation of existence, outcome and measurement uncertainty in the Introduction to Chapter 2.

Structure of paper

- 3. This paper is structured as follows:
 - (a) background (paragraphs 5–6);
 - (b) summary of feedback (paragraphs 7–17);
 - (c) staff analysis (paragraphs 18–47);
 - (i) measurement uncertainty—a factor affecting relevance or faithful representation (paragraphs 20–37);
 - (ii) trade-off (paragraphs 38–42);
 - (iii) broader discussion of uncertainty (paragraph 43–47);
- 4. Appendix C summarises the staff’s proposed response to other suggestions about measurement uncertainty provided by respondents to the Exposure Draft.

Background

- 5. The Exposure Draft proposed that measurement uncertainty is one factor that can make financial information less relevant, and that there is a trade-off between the level of measurement uncertainty and other factors that make information relevant.
- 6. These changes were made to address concerns raised by some respondents to the Discussion Paper that, since 2010, the *Conceptual Framework* has no longer identified reliability as a qualitative characteristic of useful financial information. Their main concern seemed to be that measurement uncertainty makes financial information less useful. In response, the Board proposed to clarify that the level of measurement uncertainty affects the relevance of an estimate, and that there is a trade-off between the level of measurement uncertainty and other factors that make

information relevant. That trade-off is similar to the trade-off previously described in the *Framework for the Preparation and Presentation of Financial Statements* as existing between relevance and reliability. For example, one piece of information may be of high interest to users of financial statements but subject to high measurement uncertainty. Another piece of information about the same economic phenomenon may be of lower interest to users of financial information, but subject to lower measurement uncertainty. In such cases, judgement is needed to determine which piece of information is more relevant.

Summary of feedback

Views on measurement uncertainty as a factor affecting relevance

7. The invitation to comment asked respondents whether they support the proposal to clarify that measurement uncertainty is one factor that makes financial information less relevant, and that there is a trade-off between the level of measurement uncertainty and other factors that make information relevant.
8. More than half of the respondents commented on the question. Generally, the respondents welcomed the introduction of material on measurement uncertainty both in Chapter 2 and in the chapters on recognition and measurement.
9. However, the views of the respondents about whether measurement uncertainty affects relevance differed:
 - (a) More than half of those who commented agreed with the proposal to clarify that measurement uncertainty is one factor that can make financial information less relevant. A few of those respondents asked for a clearer explanation of why measurement uncertainty is discussed as a factor affecting relevance, because the link between measurement uncertainty and relevance may appear counterintuitive.
 - (b) A few respondents expressed the view that measurement uncertainty does not necessarily make information less relevant (for example, in the insurance industry measurements can be highly uncertain, but nevertheless, relevant), and in many circumstances the presence of significant uncertainty

can make information even more relevant. They argued that disclosures that explain the inputs used in the measurement of an item can provide users with necessary information to assess its relevance.

- (c) Some respondents, many of them standard-setters, argued that measurement uncertainty is a factor that affects faithful representation and when discussed as a factor affecting recognition and measurement decisions in later chapters of the *Conceptual Framework* it should be discussed within the context of faithful representation, not relevance.
- (d) Some respondents argued that measurement uncertainty is a factor that affects both relevance and faithful representation.
- (e) Some respondents, who called for reinstatement of reliability as a qualitative characteristic of useful financial information, suggested that measurement uncertainty should be discussed as a factor affecting reliability.

Views on trade-off

10. Depending on their views on where measurement uncertainty should be discussed, the respondents' views on a possible trade-off differed. Some respondents explicitly supported the proposal in the Exposure Draft that there is a trade-off between measurement uncertainty and other factors affecting relevance. A few respondents asked for more guidance on the trade-off, including guidance on other factors that affect relevance.
11. Other respondents suggested the *Conceptual Framework* should discuss a trade-off between:
 - (a) relevance and faithful representation; or
 - (b) relevance and reliability.
12. Another suggestion was to discuss how measurement uncertainty affects whether information is presented in the financial statements or disclosed in the notes to the financial statements, ie the trade-off is between presentation and disclosure.

Suggestions for improving/expanding the discussion of measurement uncertainty

13. A few respondents suggested that further discussion about the interrelation between relevance and faithful representation would be helpful in determining which of these qualitative characteristics is affected by measurement uncertainty.
14. A few respondents commented on the fact that Chapter 2 discusses only measurement uncertainty and suggested that it should also discuss other types of uncertainty that affect financial reporting. Some of them suggested that this could be done by discussing uncertainty more broadly, possibly as a pervasive constraint (similar to the cost constraint), and then cross-referencing to the discussion in other relevant chapters of the *Conceptual Framework*.
15. A few respondents expressed a view that too much emphasis was put on measurement uncertainty in Chapter 2. They thought that other factors affecting relevance, for example low probability of a flow of economic benefits, should be addressed in Chapter 2, or that measurement uncertainty should be discussed in the relevant sections of chapters on recognition and measurement.
16. A few respondents found the example in paragraph 2.20 confusing:

EFRAG, however, disagrees with the idea that any number could qualify as a faithfully represented estimate, provided that the reporting entity has properly applied an appropriate process, properly described the estimate and explained any uncertainties that significantly affect the estimate as is stated in paragraph 2.20 of the ED. Faithful representation cannot be limited, in EFRAG's view, to strict compliance with a computation process and disclosures. An estimate will represent what it purports to represent, provided the link between the economic reality that is considered and the estimate that is provided can be identified. *European Financial Reporting Advisory Group (EFRAG)*
17. A few respondents suggested that the *Conceptual Framework* should also discuss:
 - (a) the boundary of an acceptable level of measurement uncertainty;

- (b) not only the level of measurement uncertainty as a factor that affects relevance but also how pervasive or broad the measurement uncertainty is;
- (c) the link between verifiability and measurement uncertainty;
- (d) the link between measurement uncertainty and prudence;
- (e) why measurement uncertainty affects recognition of different assets and liabilities differently, with possible factors including the availability of accepted valuation techniques or there being a binary outcome; and
- (f) how measurement uncertainty affects predictive and confirmatory value of information.

Staff analysis

18. In response to the feedback summarised in paragraphs 7–17, the staff suggest that the Board considers:
 - (a) if the *Conceptual Framework* should continue to discuss measurement uncertainty as an aspect of relevance (paragraphs 20–37);
 - (b) how a related trade-off should be described (paragraphs 38–42); and
 - (c) if there is a need to discuss uncertainty more broadly (ie not just measurement uncertainty) in Chapter 2 (paragraphs 43–47);
19. Appendix C summarises the staff’s proposed response to other suggestions about measurement uncertainty provided by respondents to the Exposure Draft.

Measurement uncertainty—a factor affecting relevance or faithful representation?

20. The Exposure Draft described measurement uncertainty as a factor that affects the relevance of financial information. Some respondents commented that this appears counterintuitive, and that the reasoning provided in the Basis for Conclusions does not appear to be sufficiently compelling and is likely to be a source of further confusion.
21. Indeed, some respondents thought that measurement uncertainty should be discussed as an aspect of faithful representation because:

- (a) if measurement uncertainty is discussed within relevance, it may lead to an interpretation that relevance is more important than faithful representation and possibly to the conflation of relevance with usefulness. Just as the Exposure Draft argues that a high level of measurement uncertainty affects relevance, it could be argued that mistakes and incorrect application of procedures, incompleteness and lack of neutrality will all reduce the predictive or confirmatory value of information, ie its relevance. Similarly, it can be argued that information is not relevant if it does not represent faithfully what it purports to represent. As a result, relevance would come to be seen as the single fundamental characteristic of useful information.
 - (b) information can be highly uncertain but still remain relevant. A high level of measurement uncertainty does not make a measure less relevant but does affect whether a faithful representation can be achieved. The information provided by a single figure could be misleading if that figure is used to represent a wide range of possible outcomes.
 - (c) measurement uncertainty relates to the degree of verifiability. The *Conceptual Framework* explains that verifiability helps assure users that information faithfully represents what it purports to represent, so measurement uncertainty should be considered as a factor that affects whether economic phenomena can be faithfully represented.
22. In addition, some respondents suggested that measurement uncertainty should be discussed as an aspect of both fundamental qualitative characteristics or an aspect of reliability.
23. To help determine where in Chapter 2 the *Conceptual Framework* should address measurement uncertainty:
- (a) paragraphs 24–28 discuss the interrelation between the qualitative characteristics of relevance and faithful representation;
 - (b) paragraphs 29–32 discuss whether and how measurement uncertainty could affect relevance;
 - (c) paragraphs 33–35 discuss whether and how measurement uncertainty could affect faithful representation; and

(d) paragraphs 36–37 provide the staff recommendation.

Interrelation between relevance and faithful representation

24. The staff agree with the respondents’ argument (paragraph 21(a)) that the discussion of measurement uncertainty within relevance can be interpreted as conflating usefulness and relevance.

25. The *Conceptual Framework* identifies both relevance and faithful representation as fundamental characteristics of useful financial information with equal weight:

2.20 Information must be both relevant and faithfully represented if it is to be useful. Neither a faithful representation of an irrelevant phenomenon nor an unfaithful representation of a relevant phenomenon helps users make good decisions. [...]

26. Paragraph 2.21 of the Exposure Draft explains the process of applying fundamental qualitative characteristics (emphasis added):

2.21 The most efficient and effective process for applying the fundamental qualitative characteristics would usually be as follows (subject to the effects of enhancing characteristics and the cost constraint, which are not considered in this example). First, identify an economic phenomenon that is capable of being useful to users of the reporting entity’s financial information. Second, identify the type of information about that phenomenon that would be most relevant *if it is available and can be faithfully represented*. Third, determine whether that information is available and can be faithfully represented. If so, the process of satisfying the fundamental qualitative characteristics ends at that point. If not, the process is repeated with the next most relevant type of information.

27. This suggests that:

(a) the qualitative characteristic of relevance is concerned with *what* particular piece of information would be capable of being useful and making a difference in the decisions made by users;

- (b) the qualitative characteristic of faithful representation is concerned with *whether* that information can be faithfully represented; and
- (c) the assessment of the most relevant type of information is made on the assumption that a faithful representation of that information can be provided.

28. Consequently, paragraphs 29–37 discuss whether measurement uncertainty affects relevance or/and faithful representation by analysing if it affects whether a measure:

- (a) would be capable of making a difference in the decisions made by users (ie be relevant); or
- (b) can be faithfully represented.

Does measurement uncertainty affect relevance?

29. The glossary provided in Appendix B of the Exposure Draft defined measurement uncertainty as uncertainty that arises when the result of applying a measurement basis is imprecise and can be determined only with a range. Some respondents to the Exposure Draft thought that measurement uncertainty is incorrectly identified as a factor affecting the relevance of financial information. They provided examples of insurance liabilities and Level 3 fair value measurement and argued that although this information has a very high level of measurement uncertainty it is, nevertheless, relevant (ie capable of making a difference to the decisions made by users).

30. Indeed, the Exposure Draft acknowledged in paragraph 2.13 that an estimate can provide relevant information, even if the estimate is subject to a high level of measurement uncertainty. However, it went on to state that if measurement uncertainty is high, an estimate is less relevant than it would be if it were subject to low measurement uncertainty.

31. Based on the analysis in paragraph 27, the staff think that measurement uncertainty by itself is insufficient to affect the relevance of a specific measure. Following the process described in paragraph 2.21 of the Exposure Draft the most relevant measure is selected on the basis of whether it is capable of being useful to users of financial information while assuming that that measure is available and can be faithfully represented. For example, if it is decided that fair value would provide the most

relevant information about an asset, this decision is made assuming that fair value information can be provided (ie that it is possible to faithfully represent this value). Paragraph 2.21 then requires that the entity determine whether the fair value of the asset is available and can be faithfully represented. We think that it is at this point that measurement uncertainty comes into play (see paragraph 35).

32. The staff think that it is other types of uncertainty, ie existence uncertainty and outcome uncertainty, or their combination with measurement uncertainty that could make an inclusion of a particular information in financial reports lack relevance. For example, recognition of a single amount as an asset for know-how generated by an internal research and development project may not provide relevant information if the probability of success is uncertain and there is a very wide range of possible outcomes.

Does measurement uncertainty affect faithful representation?

33. The Exposure Draft did not discuss whether measurement uncertainty affects the qualitative characteristic of faithful representation. Some respondents thought that the Exposure Draft implied that a faithful representation of relevant information can be provided independent of the level of measurement uncertainty if sufficient disclosures about measurement uncertainty are given. Consequently, faithful representation would not act as an effective filter in determining which information should be included in financial statements.
34. Paragraph 2.15 of the Exposure Draft explains that to be a perfectly faithful representation, a depiction would have to be complete, neutral and free from error. It should also provide information about the substance of an economic phenomenon.
35. The staff believes that in most cases it is possible to provide a faithful representation of a measure that was identified as relevant by selecting and applying an appropriate estimation method and disclosing the related uncertainty. However, we think that the level of measurement uncertainty can affect whether it is possible to provide a sufficiently faithful representation of a measure in question:
- (a) measurement uncertainty affects whether it is possible for a single amount to give a faithful representation. In some cases, for example, when the range of possible outcomes is very wide and the possibility of each estimate

is very difficult to estimate, providing a single estimate may not be appropriate as it would not represent the economic substance of a phenomenon. In this case measurement uncertainty affects whether a measure can be faithfully represented and thus affects the usefulness of the resulting financial information. In comment letters respondents said that in these cases a single estimate would create an ‘illusion of precision’ which would be misleading. In such cases, disclosure of the range of possible outcomes and related uncertainty, ie another type of information about the phenomenon, could be preferable to recognising a single estimate.

- (b) measurement uncertainty arises when a measure cannot be observed directly and must instead be estimated. The level of measurement uncertainty increases with the use of unobservable inputs and/or less-tested valuation techniques in the estimation process. Using such inputs and/or techniques makes an estimate more difficult to verify. In the Exposure Draft (and in the existing *Conceptual Framework*) verifiability is described as an enhancing qualitative characteristic of useful financial information which helps assure that information faithfully represents the economic phenomena it purports to represent. Thus, an increased level of measurement uncertainty reduces verifiability of an estimate, so users have less assurance that a particular estimate provides a faithful representation of the phenomenon.

Staff recommendation

36. The staff recommend moving the discussion of measurement uncertainty to the section describing the qualitative characteristic of faithful representation. This would help to clarify why:
- (a) a high level of measurement uncertainty does not prevent the use of an estimate if that estimate provides the most relevant information; but
- (b) a less relevant type of information may have to be provided if there is no measure that would faithfully represent the most relevant type of information.

37. Please note that explaining measurement uncertainty as a factor affecting faithful representation would mean corresponding changes to the role that measurement uncertainty plays in decisions about recognition and measurement decisions in Chapters 5 and 6 (ie measurement uncertainty would have to be discussed in the context of faithful representation, not relevance).

Question 1—Which fundamental qualitative characteristic is affected by measurement uncertainty?

Do you agree with the staff recommendation to describe measurement uncertainty as a factor affecting faithful representation?

Trade-off

38. The Exposure Draft stated that there is a trade-off between the level of measurement uncertainty and other factors that make information relevant.
39. As explained in paragraph 31, the staff think that measurement uncertainty does not directly affect the relevance of information. Hence, the staff do not recommend that the *Conceptual Framework* discuss a trade-off between the level of measurement uncertainty and other factors that make information relevant.
40. However, the staff think that the Basis for Conclusions on the revised *Conceptual Framework* should clarify that a trade-off similar to the pre-2010 trade-off between relevance and reliability still exists between the two qualitative characteristics of useful financial information identified in the existing Chapter 2 – relevance and faithful representation. It is already implicit in paragraphs 2.20–2.21 that explain that:
- (a) both relevance and faithful representation are needed to provide useful financial information; and
 - (b) neither a faithful representation of an irrelevant phenomenon nor an unfaithful representation of a relevant phenomenon helps users make good decisions.
41. Thus, balancing relevance and faithful representation may be necessary in some cases to provide useful financial information. As noted in paragraph 35, in most cases it is possible to provide a faithful representation of the most relevant measure. However,

if it is not possible, the next most relevant measure should be selected. This measure could be included in financial statements if it faithfully represents the phenomenon.

42. In some cases, when there is only one measure that is relevant for a particular phenomenon, and this measure is subject to high measurement uncertainty, applying the trade-off can mean that significant additional disclosures will be necessary to provide a sufficiently faithful representation, for example in the case of Level 3 fair values.

Question 2—Trade-off

Do you agree with the staff recommendation to clarify in the Basis for Conclusions on the revised *Conceptual Framework* that a trade-off exists between the fundamental qualitative characteristics of relevance and faithful representation?

Broader discussion of uncertainty

43. As part of the discussion of the recognition criteria, the Discussion Paper discussed different types of uncertainty: existence uncertainty, measurement uncertainty and outcome uncertainty. Some respondents commented that uncertainty affects not only recognition but also other areas, for example, measurement and presentation and disclosure.
44. The Exposure Draft did not include a central discussion of uncertainty. However, it referred to different types of uncertainty throughout the document (see Appendix A):
- (a) Chapter 2 discussed how measurement uncertainty affects the relevance of an estimate;
 - (b) Chapter 5 discussed the effect of existence uncertainty and measurement uncertainty on recognition of elements; and
 - (c) Chapter 6 discussed the role of outcome uncertainty and measurement uncertainty in decisions about measurement.
45. The staff think that it would be helpful to discuss different types of uncertainty in Chapter 2. We propose to include a short description of existence, outcome and

measurement uncertainty in the Introduction to Chapter 2. Appendix B illustrates how this could be achieved.

46. The staff believe that a description of the different types of uncertainty would be helpful because:
- (a) It would put into context the discussion of the qualitative characteristics of useful financial information. Uncertainty is part of the environment in which financial reporting operates, and inevitably it affects the usefulness of financial information. Explaining existence, outcome and measurement uncertainty in the Introduction to Chapter 2 would indicate how uncertainties affect the usefulness of information.
 - (b) As noted in paragraph 44, the *Conceptual Framework* refers to different types of uncertainty throughout the document. The document would be easier to read if all types of uncertainty were identified at the beginning of Chapter 2. Then later chapters could simply refer to a particular type of uncertainty and explain its effect in a particular instance without repeating the explanation of the term.
47. The staff note that this would require a further change to the chapter beyond that in the Exposure Draft and would introduce further divergence with the FASB’s Concepts Statement No 8. However, the material that the staff propose to include in this chapter is not a new material. It has been exposed and received feedback at the Discussion Paper and Exposure Draft stages. The descriptions of the different types of uncertainties were also included in the glossary which was provided in Appendix B of the Exposure Draft. So this change is more of an editorial, rather than substantive nature.

Question 3—Broader discussion of uncertainty

Do you agree to include a brief explanation of existence, outcome and measurement uncertainty in the Introduction to Chapter 2?

Appendix A—Relevant extracts from the Exposure Draft

Extract from Chapter 2—*Qualitative characteristics of useful financial information*

[...]

Measurement uncertainty

2.12 One factor affecting the relevance of financial information is the level of measurement uncertainty. Measurement uncertainty arises when a measure for an asset or a liability cannot be observed directly and must instead be estimated. The use of estimates is an essential part of the preparation of financial information and does not necessarily undermine its relevance, but the estimate needs to be properly described and disclosed (see paragraph 2.20).

2.13 An estimate can provide relevant information, even if the estimate is subject to a high level of measurement uncertainty. Nevertheless, if measurement uncertainty is high, an estimate is less relevant than it would be if it were subject to low measurement uncertainty. Thus, there is a trade-off between the level of measurement uncertainty and other factors that make information relevant. For example, for some estimates, a high level of measurement uncertainty may outweigh those other factors to such an extent that the resulting information may have little relevance. On the other hand, a high level of measurement uncertainty does not prevent the use of an estimate if that estimate provides the most relevant information.

[...]

Extract from Chapter 5—*Recognition and derecognition*

[...]

Relevance

5.13 Information about assets, liabilities, equity, income and expenses is relevant to users of financial statements. However, if one or more of the following factors applies, recognition may not provide relevant information:

- (a) if it is uncertain whether an asset exists, or is separable from goodwill, or whether a liability exists (see paragraphs 5.15–5.16);
- (b) if an asset or a liability exists, but there is only a low probability that an inflow or outflow of economic benefits will result (see paragraphs 5.17–5.19); or
- (c) if a measurement of an asset or a liability is available (or can be obtained), but the level of measurement uncertainty is so high that the resulting information has little relevance and no other relevant measure is available or can be obtained (see paragraphs 5.20–5.21).

5.14 Deciding whether recognition will provide relevant information requires the exercise of judgement. It will often be a combination of the factors described in paragraph 5.13, instead of any single factor, that causes information to lack relevance. Moreover, other factors may also cause information to lack relevance.

Existence uncertainty and separability

5.15 Some assets, for example, rights to benefit from items such as know-how and customer or supplier relationships, are not contractual or other legal rights. It may therefore be uncertain whether there is an asset or whether it is separable from the business as a whole (that is, it may be unclear whether there is an asset distinct from goodwill). In some such cases, uncertainty about the existence of an asset combined with the difficulty of separately identifying the asset may mean that recognition may not provide relevant information.

5.16 For some liabilities, it may be unclear whether a past event causing an obligation has occurred. For example, if another party claims that the entity has committed an act of wrongdoing and should compensate

the other party for that act, it may be uncertain whether the act occurred or whether the entity committed it. In some such cases, the uncertainty about the existence of an obligation, possibly combined with a low probability of outflows of economic benefits and a high level of measurement uncertainty, may mean that the recognition of a single amount would not provide relevant information. Whether or not the liability is recognised, disclosures about the uncertainties associated with the liability may be needed.

[...]

Measurement uncertainty

- 5.20 To be recognised, an asset or a liability must be measured. In many cases, measurements must be estimated and are subject to uncertainty. The use of reasonable estimates is an essential part of the preparation of financial statements and does not necessarily undermine their usefulness. A faithful representation is achieved if amounts that are estimates are described as such, and the nature and level of uncertainties, if material, are disclosed in the notes to the financial statements.
- 5.21 As noted in paragraph 2.13, for some estimates, a high level of measurement uncertainty may contribute to the resulting information having little relevance, even if the estimate is properly described and disclosed. For example, a measurement may not provide relevant information if:
- (a) the range of possible outcomes is extremely wide and the likelihood of each outcome is exceptionally difficult to estimate. In such cases, the most relevant information for users of financial statements may relate to the range of outcomes and the factors affecting their likelihoods. When that information is relevant (and can be provided at a cost that does not exceed the benefits), disclosure of that information in the notes to the financial statements may be appropriate, regardless of whether the entity also recognises the asset or the liability. However, in some cases, trying to capture that information in a single number may not provide any further relevant information. In such cases, if no relevant measure is available, or can be obtained, recognition would not provide relevant information.
 - (b) measuring the resource or obligation requires unusually difficult or exceptionally subjective allocations of cash flows that do not relate solely to the item being measured.

[...]

Extract from Chapter 6—*Measurement*

[...]

- 6.55 One factor affecting the relevance of the information provided by a measurement basis is the level of measurement uncertainty in estimates of that information (see paragraphs 2.12–2.13). A high level of measurement uncertainty does not prevent the use of an estimate that provides the most relevant information. However, in some cases, the level of measurement uncertainty is so high that a different measurement basis may provide more relevant information. Moreover, if no measurement basis for an asset or a liability would provide relevant information, it is not appropriate to recognise the asset or the liability (see paragraph 5.13).
- 6.56 Measurement uncertainty is not the same thing as outcome uncertainty. For example, if the fair value of an asset is observable in an active market, no uncertainty is associated with the measurement of that fair value, even though it is uncertain how much cash the asset will ultimately produce. Nevertheless, outcome uncertainty may sometimes contribute to measurement uncertainty. For example, there may be a high level of uncertainty about the cash flows that a unique asset will produce (outcome uncertainty) and estimating a current value of that asset may depend on a model whose validity is untested and that requires inputs that are difficult to verify.

[...]

Appendix B—Proposed changes to the Introduction to Chapter 2 to include a description of different types of uncertainty

A1. Additions to the text of the Introduction to Chapter 2 in the Exposure Draft are underlined.

Introduction

- 2.1 The qualitative characteristics of useful financial information discussed in this chapter identify the types of information that are likely to be most useful to the existing and potential investors, lenders and other creditors for making decisions about the reporting entity on the basis of information in its financial report (financial information).
- 2.2 Financial reports provide information about the reporting entity's economic resources, claims against the reporting entity and the effects of transactions and other events and conditions that change those resources and claims. (This information is referred to in the *Conceptual Framework* as information about the economic phenomena.) Some financial reports also include explanatory material about management's expectations and strategies for the reporting entity, and other types of forward-looking information.
- 2.3 The reporting entity's economic resources, claims against the reporting entity and the effects of transactions and other events and conditions that change those resources and claims are inevitably affected by uncertainty. The *Conceptual Framework* identifies and discusses the effect of the following types of uncertainty on financial information:
- (a) existence uncertainty, ie uncertainty about whether an economic resource or claim exists;
 - (b) outcome uncertainty, ie uncertainty about the amount or timing of any inflow or outflow of economic resources; and
 - (c) measurement uncertainty, ie uncertainty that arises when the result of applying a measurement basis is imprecise and can be determined only with a range.
- 2.34 The qualitative characteristics of useful financial information apply to financial information provided in financial statements, as well as to financial information provided in other ways. Cost, which is a pervasive constraint on the reporting entity's ability to provide useful financial information, applies similarly. However, the

considerations in applying the qualitative characteristics and the cost constraint may be different for different types of information. For example, applying them to forward-looking information may be different from applying them to information about existing economic resources and claims and to changes in those resources and claims.

Appendix C—Staff response to other comments raised by respondents

This appendix shows how the staff propose to deal with some of the other comments raised by a few respondents (see paragraph 17). We do not intend to discuss these comments at this meeting.

Comment raised	Staff response
(a) The <i>Conceptual Framework</i> should discuss the boundary of an acceptable level of measurement uncertainty	The staff think that the boundary of an acceptable level of measurement uncertainty depends on particular circumstances, thus this issue will be considered when developing specific Standards.
(b) The <i>Conceptual Framework</i> should discuss not only the level of measurement uncertainty as a factor of relevance but also how pervasive or broad the measurement uncertainty is	The staff think that this factor will be considered when developing particular Standards.
(c) The <i>Conceptual Framework</i> should clarify the link between measurement uncertainty and prudence	The Exposure Draft describes prudence as the exercise of caution when making judgements under conditions of uncertainty. Measurement uncertainty is one type of uncertainty. However, we do not think it is necessary to clarify this link further.
(d) The <i>Conceptual Framework</i> should discuss why measurement uncertainty affects recognition of	The staff will consider this suggestion when considering if any changes are needed to the chapter on recognition.

<p>different assets and liabilities differently, with possible factors including the availability of accepted valuation techniques or there being a binary outcome</p>	
<p>(e) The <i>Conceptual Framework</i> should explain how measurement uncertainty affects predictive and confirmatory value of information</p>	<p>Not necessary in view of the staff recommendation to explain measurement uncertainty as a factor affecting faithful representation.</p>