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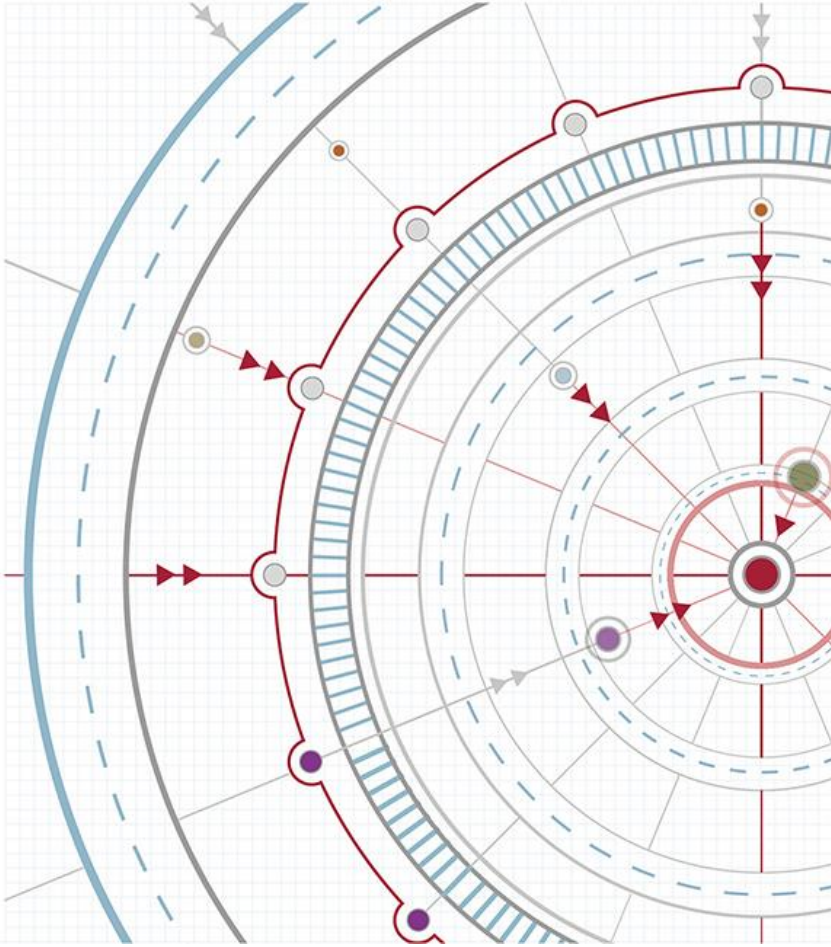

Conceptual Framework: Measurement

Agenda paper 10I, IASB Meeting – September 2016

Board Educational Session

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Background

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What did the ED say?

- Different measurement bases for different assets, liabilities, income and expense
- Measurement bases categorised as;
  - cost
  - current values
- Factors to consider include:
  - how the asset/liability contributes to cash flows:
    - property may be realised by sale
    - other assets used to produce goods & services, which are then sold to customers
  - characteristics of the asset, e.g. sensitivity to market and other risks

What respondents said (overview)

- Description of measurement bases ✔
- Factors to consider:
  - contribution of assets to cash flows (which may depend on business activities) ✔
  - characteristics of the asset, e.g. sensitivity to market and other risks✔
- Chapter fails to provide adequate guidance ✖

Tentative Board decisions (1)

(see Agenda Paper 10A for this meeting)

- Revised *Conceptual Framework* should retain a Chapter on measurement
- Discussion to be improved in the light of responses to the ED
- Staff should revise the discussion of factors to consider in selecting a measurement basis, in particular identifying the implications for measurement of:
  - How the asset/liability contributes to future cash flows
  - The characteristics of the asset/liability

Tentative Board decisions (2)

(see Agenda Paper 10A for this meeting)

- Specific implications of faithful representation and enhancing qualitative characteristics should not be added
- The revised *Conceptual Framework* should discuss current cost, and its advantages and disadvantages, under the heading of current value rather than historical cost
- The revised *Conceptual Framework* should describe measurement uncertainty as a factor affecting faithful representation rather than relevance

Objective of this session

- To obtain initial reactions from Board members on a redraft of key sections of the Measurement Chapter, in particular on the 'factors to consider'
  - Not to make decisions or consider drafting points
- Seek your views on the following questions:
  - The general approach adopted in the redrafting, as reflected in the draft at Paper 10H, at paragraphs 6.54–6.54K
  - The discussion of the contribution of the asset to future cash flows (Paper 10H, paragraphs 6.54A–6.54G)
  - The discussion of the characteristics of the asset or liability (Paper 10H, paragraphs 6.54H–6.54K)
  - Are there any other specific points on which you would wish to comment?

Next steps

- The refdraft will be discussed with ASAF in September
- We will revise the redraft in the light of comments received from the Board and ASAF and plan to ask you for decisions in October

Main points from the redraft

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A more structured approach?

- A rigid hierarchy (or decision tree) seems attractive, but doesn’t work in all cases
- Increased prominence of the point that importance of factors will vary depending on facts and circumstances (Paper 10H, paragraph 6.49B)

Relevance

- Importance of selecting a relevant measurement basis emphasised, consistent with discussion in qualitative characteristics (Paper 10H, paragraph 6.49A)
- Contribution to cash flows and characteristics of asset/liability discussed in terms of relevance (consistent with Exposure Draft)

Contribution to future cash flows (1)

(Paper 10H, paragraphs 6.54A–6.54G)

- Builds on point in Chapter 1 that:
  - some assets/liabilities generate cash flows directly
  - others are used in combination to generate cash flows indirectly
- Notes that this depends, in part, on the entity's business activities
- Suggests current values (fair value, value in use/fulfilment value) are likely to be relevant for assets/liabilities that produce cash flows directly

Contribution to future cash flows (2)
(Paper 10H, paragraphs 6.54A–6.54G)

- Suggests that where assets/liabilities contribute to cash flows indirectly, a cost-based measurement is likely to be relevant
  - provides information on margins

Contribution to future cash flows (3)

Specific cases

- Liabilities incurred to raise finance are unlikely to be transferred/settled before maturity so cost-based information may be relevant (Paper 10H, paragraph 6.54D)
- Where financial assets held to collect contractual cash flows, cost-based information may be relevant (Paper 10H, paragraph 6.54E)
- For inventory (other than commodity-type inventory), cost-based information may be relevant (Paper 10H, paragraph 6.54F)
- For liabilities for performance obligations to customers cost-based information may be relevant (Paper 10H, paragraph 6.54G)

Characteristics of the asset/liability

(Paper 10H, paragraphs 6.54H–6.54K)

- Where cash flows or value is variable or sensitive to market values or other risks, a current value such as fair value or value in use is likely to be relevant
- Where cash flows are variable—not simply principal and interest—amortised cost cannot be used
- Where value is sensitive, current value is relevant in assessing features identified as being of interest to users in Chapter 1
  - and historical cost might not produce appropriate income and expenses

Questions for the Board

What are your views on the following:

- The general approach adopted in the redrafting, as reflected in the draft at Paper 10H, at paragraphs 6.54–6.54K?
- The discussion of the contribution of the asset to future cash flows (Paper 10H, paragraphs 6.54A–6.54G)?
- The discussion of the characteristics of the asset or liability (Paper 10H, paragraphs 6.54H–6.54K)?
- Are there any other specific points on which you would wish to comment?