

STAFF PAPER

23 September 2013

World Standard-setters Meeting

Project	Conceptual Framework		
Paper topic	Measurement		
CONTACT(S)	Rachel Knubley	rknubley@ifrs.org	+44 207 246 6904

This paper has been prepared by staff of the IFRS Foundation. The views expressed in this paper reflect the individual views of the author[s] and not those of the IASB or the IFRS Foundation. Comments on the application of IFRSs do not purport to set out acceptable or unacceptable application of IFRSs.

Purpose of this paper

1. During this small group discussion, we would like to discuss your reaction to Section 6 - Measurement of the *Conceptual Framework* Discussion Paper. This paper summarises the topics which we would particularly like to discuss with you. Further detail on each of the topics can be found in the Discussion Paper.

The objective of measurement (paragraphs 6.6—6.10)¹

2. Chapter 1 of the existing *Conceptual Framework* describes the objective of general purpose financial reporting as follows:

... to provide financial information about the reporting entity that is useful to existing and potential investors, lenders and other creditors in making decisions about providing resources to the entity. Those decisions involve buying, selling or holding equity and debt instruments, and providing or settling loans and other forms of credit.
3. Chapter 3 of the existing *Conceptual Framework* identifies relevance and faithful representation as the fundamental qualitative characteristics of useful financial information. In addition, comparability, verifiability, timeliness and understandability are identified as enhancing qualitative characteristics.

¹ References are to the relevant paragraphs of the *Conceptual Framework* Discussion Paper.

4. Applying the objective of financial reporting and the fundamental characteristics of useful financial information, the IASB's preliminary view is that the objective of measurement is:

... to contribute to the faithful representation of relevant information about the resources of the entity, claims against the entity and changes in resources and claims, and about how efficiently and effectively the entity's management and governing board have discharged their responsibilities to use the entity's resources.

Measurement objective

Do you think the *Conceptual Framework* should include an overall measurement objective? Why, or why not?

Do you agree with the measurement objective proposed in the *Conceptual Framework Discussion Paper*? Why, or why not?

The number of measurement bases

A single measurement basis (paragraphs 6.11—6.14)?

5. In developing the Discussion Paper, the IASB discussed whether the *Conceptual Framework* should state (at least at a conceptual level) that all assets and liabilities should be measured on the same basis, for example all at fair value or all at cost-based amounts.
6. Measuring all assets and liabilities on the same basis would make totals and subtotals more understandable than those in financial statements prepared under existing requirements. For example, under existing requirements, the amount presented as total net assets has little meaning because it aggregates items measured differently.
7. However, there are problems with this approach:
- (a) measuring all assets and liabilities on a cost basis may not provide relevant information to users of financial statements. For example, a

cost-based measurement is unlikely to provide relevant information about a financial asset that is a derivative.

- (b) for some assets and liabilities, some users of financial statements may consider information about current market prices to be less relevant than information about margins generated by past transactions. For example, some users find cost-based information about property, plant and equipment that is used in operations to be more relevant than information about its current market price. In addition, estimating current market prices when they cannot be obtained directly can be costly and subjective. Consequently, measuring all assets and liabilities at a current market price may not provide users of financial statements with sufficient benefits to justify the costs of determining (or estimating) those prices.

8. Because of these problems, the IASB's preliminary view is that the *Conceptual Framework* should not recommend measuring all assets and liabilities on the same basis.

Limit the number of different measures used (paragraph 6.23)

9. Although the IASB does not favour a single measurement basis for all assets and liabilities, the IASB's preliminary view is that it should limit the number of different measures used to the smallest number necessary to provide relevant information. This is because, the more measurements that are used, the harder it is to understand how those measurements interact to depict the entity's financial position and financial performance.

The number of measurement bases

Do you agree with the IASB's preliminary view that the *Conceptual Framework* should not recommend measuring all assets and liabilities on the same basis? Why, or why not?

Do you agree that that IASB should limit the number of different measures used to the smallest number necessary to provide relevant information? Why, or why not?

Selection of a measurement (paragraphs 6.15—6.18 and 6.73—6.109)

10. The IASB believes that the relevance of a particular measurement will depend on how investors, creditors and other lenders are likely to assess how an asset or a liability of that type will contribute to the entity’s future cash flows. Consequently, the IASB’s preliminary view is that the selection of a measurement:
- (a) for a particular asset should depend on how it contributes to future cash flows; and
 - (b) for a particular liability should depend on how the entity will settle or fulfil that liability.
11. The following tables summarise the implications of this preliminary view for the subsequent measurement of different types of asset or liability:

Assets

How the asset contributes to future cash flows	Likely measurement
Using	Cost
Selling	Current market price
Holding for collection	Cost (but not for derivatives)
Charging for rights to use	Cost or current market price

Liabilities

How the liability is settled or fulfilled	Likely measurement
Settled according to stated terms	Cost (but not for derivatives)
Liabilities without stated terms	Cash-flow-based
By performance	Cost
To be transferred	Current market price

12. In some cases, the IASB may decide that more than one measure is relevant for a particular asset or liability. When this is the case, the IASB might decide:
- (a) to use one measure in the primary financial statements and disclose another measure in the notes to the financial statements; or
 - (b) to use one measure in the statement of financial position and use a different measure to determine the amounts recognised in profit or loss (presenting the difference between the two measures as a ‘bridging item’ in other comprehensive income). Section 8 of the Discussion Paper describes bridging items and discusses when the IASB might decide to require this treatment.

Selection of a measurement

Do you agree with the IASB’s preliminary view that the selection of a measurement:

- (a) for a particular asset should depend on how it contributes to future cash flows; and
- (b) for a particular liability should depend on how the entity will settle or fulfil that liability.

Why or why not?

Do you agree that in some cases when more than one measurement is relevant, the IASB could:

- (a) use one measure in the primary financial statements and disclose another measure in the notes to the financial statements; or
- (b) use one measure in the statement of financial position and use a different measure to determine the amounts recognised in profit or loss?

Why, or why not?

Other considerations (paragraphs 6.15 and 6.30—6.34)

13. In addition to the above, the IASB's preliminary view is that when selecting a measurement the IASB should also consider:
- (a) what information that measurement will produce in both the statement of financial position and the statement(s) of profit or loss and other comprehensive income (OCI). Both the statement of financial position and the statement(s) of profit or loss and OCI need to provide relevant information for users of financial statements. Selecting measurements by considering either of those statements alone will not usually produce the most relevant information for users of financial statements
 - (b) whether the benefits of a particular measurement to users of financial statements are sufficient to justify the cost.

Other considerations

Do you have any comments on the factors listed in paragraph 13?

Other comments

14. The measurement section of the Discussion Paper also discusses:
- (a) Measurement categories: the Discussion Paper groups measurements into three categories – cost-based measurements, current market prices

including fair value and other cash-flow-based measurements (paragraphs 6.37—5.54);

- (b) Initial measurement (paragraphs 6.55—6.72);
- (c) Factors to be considered when developing cash-flow-based measurements (6.110—6.130).

Other comments

Do you have any other comments on the measurement section of the *Conceptual Framework* Discussion Paper?