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**Board**

*This document is provided as a convenience to observers at Standards Advisory Council meetings, to assist them in following the Council's discussion. It does not represent an official position of the IASB. Board positions are set out in Standards.*

*Note: These notes are based on the staff paper prepared for the Council. Paragraph numbers correspond to paragraph numbers used in the Council paper.*

## **INFORMATION FOR OBSERVERS**

**SAC Meeting: June 2006, London**  
**Project: Conceptual Framework**  
**Measurement Phase Plan**  
**(Agenda Paper 9A)**

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## **INTRODUCTION**

1. At the April joint meeting of the IASB and FASB, the Boards generally approved a plan for the measurement phase of the joint conceptual framework (CF) project. This paper explains the CF project team's goal for the measurement phase, summarizes the plan, takes a closer look at the measurement phase's first milestone, and discusses the interaction of the CF project and the Board's standard-setting activities during the measurement phase of the CF project.

## **GOAL OF THE MEASUREMENT PHASE**

2. The Boards' current frameworks are nearly void of conceptual guidance on accounting measurement, providing only short lists of measurement bases used in the current mixed-attribute accounting model. The CF staff views the goal of the measurement phase of the CF

project as filling that void by defining the various measurement bases, describing their strengths and weaknesses, and providing a conceptual foundation for determining where the measurement bases can provide the most useful information for various decision makers.

3. That goal is broad. It does not focus on any particular measurement basis. It is true that there are some who think fair value is the only relevant measurement basis. It is also true that the Board has studied fair value as part of its standard-setting activities and concluded that fair value is the most relevant measurement basis for financial instruments. However, the Board has not reached a similar conclusion in the broader context of all assets and liabilities.
4. The selection of an appropriate measurement basis is now and always will be done on a standard-by-standard basis. Whatever the Board concludes, the goal of the measurement phase of the CF project is to construct a measurement framework and guidance that will enhance the quality of the Board's decisions.

#### **MEASUREMENT PHASE PLAN**

5. The CF staff has defined three milestones or parts for the measurement phase, each with several issues to address. The first milestone focuses on measurement bases. Its purpose is to carefully identify, define, and describe measurement bases that are either currently used or proposed, as a foundation for the rest of the measurement phase. This milestone is currently under way and is expected to be completed by mid-2007. The purpose of the second milestone is to evaluate those measurement bases using a set of criteria that includes, but is not necessarily limited to, the qualitative characteristics of decision-useful information discussed in the initial phase of the CF project. The primary task of the third milestone is to derive conceptual conclusions from the results of the first two milestones and address practical issues of using the measurement bases. In addition, any miscellaneous measurement issues not addressed in the first two milestones will be discussed in the final milestone.

## MEASUREMENT BASES

6. Measurement debates traditionally have been characterized in terms of historical cost versus current value and more recently as historical cost versus fair value. The staff thinks there are at least two reasons that such debates have never produced a consensus. The first reason is oversimplification; the second is miscommunication.
7. By oversimplification the staff means that historical cost and current value are not single measurement bases, but rather two families of measurement bases. The historical cost family includes original transaction price, original entry value, accumulated cost, allocated cost, amortized cost, and combinations of accumulated, allocated, and amortized costs. The properties of these historical cost variants, including the time dimension(s) to which they relate and the subjectivity or objectivity of their inputs, may affect the extent to which they satisfy the qualitative characteristics of decision useful information in various settings. Therefore, understanding the nature and properties of those variants in the first part of the measurement phase is a precursor to evaluating historical cost variants in the second part of the phase.
8. Likewise, current value is not one measurement basis, but many, including current cash equivalent, replacement cost, reproduction cost, deprival value, entry value, exit value, at least two versions of fair value, net realizable value, and value in use. As is the case with historical cost variants, current value variants do not share all the same properties, may not stand up to evaluation by the qualitative characteristics in the same manner, and may not be equally suited for providing useful information in all settings.
9. By miscommunication, the CF staff means that some measurement bases have been given more than one label, and some labels have been used to refer to more than one measurement basis. For example, there are some who use the labels *net realizable value* and *exit value* (fair value less cost to sell) interchangeably. At the same time, the CF staff's early research has identified three different uses of the label *net realizable value*, two of which are not substitutes for *exit value*. The staff believes that confusion is created when measurement

bases have more than one label, which may lead those who use the labels to think they agree or disagree with others' ideas when in fact they do not.

10. The CF staff thinks that taking the time to clearly define, describe, and understand the various historical cost and current value variants and to select one label for each variant may improve the quality of the measurement phase deliberations and the completed conceptual framework.

## **STANDARD SETTING DURING THE MEASUREMENT PHASE**

11. Many constituents have asked questions about the relationship between the measurement phase of the CF project and standard setting, in terms of current projects that have important measurement implications as well as current standards that do not harmonize with the current frameworks. The CF staff thinks it is important to remember that the purpose of the CF project differs from the purpose of any standard-setting project. While the CF establishes broad concepts and ideals, individual standards projects are relatively narrower in scope and must address practical considerations, such as costs vs. benefits. Also, the CF project is independent of any standard-setting project, although CF project activities may inform standard-setting projects and *vice versa*.
12. Since its inception, the Board has made decisions about measurement in its standards with help from a framework inherited from the IASC. That framework includes the qualitative characteristics of useful information as a decision aid, but no substantive measurement guidance. Nevertheless, the Board has continued to set standards and do the best it can.
13. During the measurement phase of the CF project, the Board will continue to work on standards as it has in the past; making decisions and exposing those decisions. The staff believes that as the measurement phase progresses and improves, the Board's decisions will be grounded in improved guidance. Once the CF project is finished, it will guide the Board in new standards projects.

## QUESTION FOR COUNCIL MEMBERS

1. *Do council members have any questions, comments, or observations about the measurement phase of the CF project and the staff's plan for that phase?*
2. *The paper identified two measurement base families. The historical cost family includes: original transaction price, original entry value, accumulated cost, allocated cost, amortized cost, and combinations of accumulated, allocated, and amortized costs. The current value family includes: current cash equivalent, replacement cost, reproduction cost, deprival value, entry value, exit value, fair value, net realizable value and value in use.*
  - a. *Do council members believe that there are measurement base families other than historical cost and current value? If so, please describe.*
  - b. *Do council members believe that there are measurement bases, not listed above? If so, please describe.*