

31 May 2006

Director, Accounting Standards  
Canadian Accounting Standards Board  
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Canada

*(By email: [ed.accounting@cica.ca](mailto:ed.accounting@cica.ca))*

Dear Sir,

**RESPONSE TO DISCUSSION PAPER: *MEASUREMENT BASES FOR FINANCIAL ACCOUNTING – MEASUREMENT ON INITIAL RECOGNITION***

1. We are writing to comment on the Discussion Paper: *Measurement Bases for Financial Accounting – Measurement on Initial Recognition* issued by the International Accounting Standards Board (IASB) in November 2005.

2. We understand that IASB is currently reviewing the conceptual framework as part of its international convergence efforts. We believe the preliminary proposals raised in this Discussion Paper may have impact on the conceptual framework review. Hence, IASB may want to consider proceeding with the conceptual framework review first before it moves on to reviewing specific fundamental areas. Notwithstanding, our comments to the specific questions in the Discussion Paper are set out below.

**Question 1**

Do you agree that the list of identified possible measurement bases (see paragraphs 33-51 of the condensed version and paragraphs 69-74 of the main discussion paper) sets out the bases that should be considered? If not, please indicate and explain any changes that you would make.

**We agree with the list of identified possible bases for measurement on initial recognition.**

**Question 2**

Do you agree with the working terms and definitions, and supporting interpretations, of each of the identified measurement bases (see paragraphs 33-51 of the condensed

version and paragraphs 77-96 of the main discussion paper)? If not, please explain what changes you would make. In particular, do you have any comments on the term “fair value” and its definition (in light of the discussion in paragraphs 46-48 of the condensed version and paragraphs 88-93 of the main discussion paper)?

**We agree with the working terms and definitions, and supporting interpretations, of each of the identified measurement bases. We are of the view that these terms and definitions should be as consistent as possible with the definitions in the IASB Glossary.**

### **Question 3**

It is proposed that there are two fundamental sources of differences between the identified bases for measuring assets and liabilities on initial recognition:

- (a) market versus entity-specific measurement objectives, and
- (b) differences in defining the value-affecting properties of assets and liabilities.

(See paragraph 52 of the condensed version and paragraph 97 of the main discussion paper.) This proposal and its conceptual implications are the subject of chapters 4 and 5. Do you agree with the working terms and definitions, and supporting interpretations, of each of the identified measurement bases? If not, please indicate the fundamental sources of differences you have identified, and provide the basic reasons for your views. For any different fundamental sources you have identified, please indicate how these might be examined and tested.

**We agree with the proposed fundamental sources of differences between the measurement bases on initial recognition.**

### **Question 4**

The paper analyzes the market value measurement objective and the essential properties of market value.

- (a) Do you believe that the paper has reasonably defined the market value objective and the essential properties of market value for financial statement measurement purposes (see paragraphs 54-56 and 105-112 of the condensed version and paragraphs 99-110 and 236-241 of the main discussion paper)? If not, please explain why not, and what changes you would propose, or different or additional considerations that you think need to be addressed.

- (b) Do you agree with the proposed definition of “market” (see paragraphs 55-56 of the condensed version and paragraphs 107-110 of the main discussion paper)? If not, please explain why you disagree, and indicate any changes you would make and any issues that you believe should be given additional consideration.
- (c) Do you agree with the fair value measurement objective as proposed, and its derivation from the market value measurement objective (see paragraph 102 of the condensed version and paragraphs 111, 228 and 229 of the main discussion paper)?

**We believe that the paper has reasonably defined the market value objective and the essential properties of market value for financial statement measurement purposes. We are also agreeable with the proposed definition of “market” and the fair value measurement and its derivation from the market value measurement objective.**

#### **Question 5**

Do you agree with the definition and discussion of entity-specific measurement objectives (see paragraph 57 of the condensed version and paragraphs 112-116 of the main discussion paper) and their relationship to management intentions (see paragraph 58 of the condensed version and paragraphs 117-121 of the main discussion paper)? If not, please explain why you disagree.

**We agree with the definition and discussion on entity-specific measurement objectives and their relationship to management intentions.**

#### **Question 6**

Do you agree with the comparison of market and entity-specific measurement objectives (see paragraph 59 of the condensed version and paragraph 122 of the main discussion paper) and with the proposed conclusion that the market value measurement objective has important qualities that make it more relevant than entity-specific measurement objectives for assets and liabilities on initial recognition (see paragraphs 60-61 of the condensed version and paragraphs 123-129 of the main discussion paper)? If not, please explain your views.

**We agree with the comparison of market and entity-specific measurement objectives. We also agree with the proposed conclusion that the market value**

**measurement objective has important qualities that makes it more relevant than entity-specific measurement objectives for assets and liabilities on initial recognition.**

### **Question 7**

- (a) It is reasoned that there can be only one market (fair) value for an asset or liability on a measurement date (see paragraph 62 of the condensed version and paragraphs 131-138 of the main discussion paper). Do you agree with this conclusion? If not, please explain why you disagree.
- (b) It is proposed that differences between apparent market values for seemingly identical assets or liabilities on initial recognition may be attributable to:
  - (i) differences between the value-affecting properties of assets or liabilities traded in different markets, or
  - (ii) entity-specific charges or credits.

(See paragraph 63 of the condensed version and paragraphs 131-138 of the main discussion paper). However, the paper notes the existence of multiple markets for some assets and liabilities, and the possibility that they may be due to market access restrictions that require further investigation (see paragraphs 74-82 of the condensed version and paragraphs 95-109 of the main discussion paper).

Do you agree with these proposals, within the caveats and discussion presented? If not, please explain why you disagree.

**We agree that there can be only one market (fair) value for an item on any measurement date. We note the proposals that differences in market prices for seemingly identical items may be attributable to either differences between the value-affecting properties of assets or liabilities traded in different markets or entity-specific charges or credits.**

### **Question 8**

Do you agree that a promise to pay has the same fair value on initial recognition whether it is an asset or a liability, and that the credit risk associated with a promise to pay enters into the determination of that fair value with the same effect whether it is an asset or liability (see paragraph 65 of the condensed version and paragraphs 142-

147 of the main discussion paper)? If you do not agree, please explain the basis for your disagreement.

**We agree that a promise to pay has the same fair value on initial recognition whether it is an asset or a liability. The credit risk associated with a promise to pay is taken into account in the market's determination of the fair value with the same effect whether it is an asset or liability.**

### **Question 9**

The paper makes the following proposals with respect to defining the unit of account of the asset or liability to be measured on initial recognition:

- (a) The appropriate individual item or portfolio unit of account on initial recognition is generally the unit of account in which the reporting entity has acquired the asset or incurred the liability (see paragraphs 67-70 of the condensed version and paragraphs 149-154 of the main discussion paper).
- (b) The appropriate level of aggregation for non-contractual assets on initial recognition is the lowest level of aggregation at which an identifiable asset is ready to contribute to the generation of future cash flows through its sale or use (see paragraphs 71-73 of the condensed version and paragraphs 157-161 of the main discussion paper).

Do you agree with these proposals within the caveats and discussion presented? If not, please explain why, and in what respects, you disagree.

**We agree with the proposals that individual item or portfolio unit of account on initial recognition is generally the unit of account in which the reporting entity has acquired the asset or incurred the liability. We note the proposal in the discussion paper that the appropriate unit of account for non-contractual assets on initial recognition is the lowest level of aggregation at which an identifiable asset is ready to contribute to the generation of future cash flows.**

### **Question 10**

It is suggested that, in many cases, the best market source on initial recognition is the market in which the asset or liability being measured was acquired or issued. However, some significant situations are noted in which a different source may be appropriate, and research is proposed into possible multiple markets (see paragraphs 75-82 of the condensed version and paragraphs 162-182 of the main discussion

paper). Do you agree that the paper provides a reasonable analysis of market sources and their implications on initial recognition? If not, please provide reasons for disagreeing, and indicate any additional analysis or research you would think should be carried out.

**We agree that in measuring an asset or liability on initial recognition, an entity should generally look into the market in which it acquired the asset or incurred the liability. The discussion paper has provided a reasonable analysis of market sources and their implications on initial recognition.**

### **Question 11**

The paper concludes that transaction costs, as defined, are not part of the fair value of an asset or liability on initial recognition (see paragraphs 86-87 of the condensed version and paragraphs 193-200 of the main discussion paper). Do you agree with the proposed definition of transaction costs? Do you agree with the above conclusion? If you disagree, please explain your reasons and what you believe the implications of your different view would be for fair value measurement of assets and liabilities on initial recognition.

**We agree with the definition of transaction costs and that they should not be a part of the fair value of an asset or liability on initial recognition.**

### **Question 12**

Do you agree with the proposal that, when more than one measurement basis achieves an acceptable level of reliability, the most relevant of these bases should be selected (see paragraph 89 of the condensed version and paragraph 202 of the main discussion paper)? If not, please explain why you disagree, and indicate how you would settle trade-offs between the relevance and reliability of alternative measurement bases.

**We agree with the proposal that, when more than one measurement basis achieves an acceptable level of reliability, the most relevant of these bases should be selected.**

### **Question 13**

Do you agree with the two proposed sources of limitations on measurement reliability — estimation uncertainty and economic indeterminacy — and supporting discussion (see paragraphs 90-100 of the condensed version and paragraphs 204-216 of the main discussion paper)? If not, please explain your view.

**We agree with the two identified sources of measurement uncertainty, namely, estimation uncertainty and economic indeterminacy.**

#### **Question 14**

Do you agree that fair value is the most relevant measure of assets and liabilities on initial recognition of assets and liabilities, and therefore should be used when it can be estimated with acceptable reliability (see analyses of fair value and alternative bases in chapter 7, and discussion of measurement date on initial recognition in paragraphs 179-180 of the condensed version and paragraphs 410-415 of the main discussion paper)? If not, please explain why.

**We agree that fair value is the most relevant measure of assets and liabilities on initial recognition of assets and liabilities, and therefore should be used when it can be estimated with acceptable reliability.**

#### **Question 15**

Do you agree that fair value is not capable of reliable estimation in some common situations on initial recognition (see paragraph 104 of the condensed version and paragraphs 232-277 of the main discussion paper)? More specifically, do you agree that:

- (a) A single transaction exchange price should not be accepted to be equal to fair value unless there is persuasive evidence that it is (see paragraphs 106-114 of the condensed version and paragraphs 243-252 of the main discussion paper), and
- (b) A measurement model or technique cannot be considered to achieve a reliable estimation of the fair value of an asset or liability when the estimate depends significantly on entity-specific expectations that cannot be demonstrated to be consistent with market expectations (see paragraphs 115-118 of the condensed version and paragraphs 263-268 of the main discussion paper)?

Please provide explanations for your views on these questions if they differ significantly from the conclusions and supporting arguments presented in the paper.

**We agree that fair value might be subject to reliability limitations when there is no directly observable market price for an item at measurement date.**

### Question 16

Do you agree and conclusions with respect to the comparative relevance and reliability of:

- (a) historical cost (see paragraphs 120-137 of the condensed version and paragraphs 281-319 of the main discussion paper);
- (b) current cost - reproduction cost and replacement cost (see paragraphs 138-154 of the condensed version and paragraphs 320-361 of the main discussion paper);
- (c) net realisable value (see paragraphs 155-161 of the condensed version and paragraphs 362-375 of the main discussion paper);
- (d) value in use (see paragraphs 162-169 of the condensed version and paragraphs 376-392 of the main discussion paper); and
- (e) deprival value (see paragraphs 170-178 of the condensed version and paragraphs 393-409 of the main discussion paper)?

Please provide reasons for any disagreements, and any advice you may have as to additional analysis or research that you believe should be carried out.

**We note the evaluation of other alternative measurement bases in terms of their relevance and reliability and agree with the conclusions drawn.**

### Question 17

The paper discusses substitutes for fair value when the fair value of an asset or liability cannot be reliably estimated on initial recognition. Do you agree that, when other measurement bases are used as substitutes for fair value on initial recognition, they should be applied on bases as consistent as possible with the fair value measurement objective (see paragraph 186 of the condensed version and paragraph 417 of the main discussion paper)? If not, please explain why.

**We agree that when other measurement bases are used as substitutes for fair value on initial recognition, they should be applied on bases as consistent as possible with the fair value measurement objective.**



### **Question 18**

Do you agree with the proposed hierarchy for the measurement of assets and liabilities on initial recognition (see chapter 8)? If not, please explain your reasons for disagreeing and what alternatives you might propose.

**We agree with the proposed hierarchy for the measurement of assets and liabilities on initial recognition.**

### **Question 19**

Do you have comments on any other issues or proposals, including the proposals for further research (see paragraph 189 of the condensed version and paragraph 441 of the main discussion paper)? If so, please provide them.

**We do not have other comments.**

3. Should you require any further clarification, please contact Mr Ramchand Jagtiani, Deputy Director, at the Institute of Certified Public Accountants of Singapore via email at [jagtiani@icpas.org.sg](mailto:jagtiani@icpas.org.sg). Thank you.

Yours sincerely,

Derek How  
Secretary, CCDG