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- Measurement Bases for Financial Reporting – Measurement on Initial Recognition

SUMMARY. I am grateful to the Canadian Accounting Standards Board for this comprehensive study. Its worthy purpose is to deeply investigate the implications of the frameworks' decision usefulness objectives (defined to give prominence to usefulness for predictive purposes), and of the concepts of assets and liabilities, while addressing "*the long-standing unresolved controversy about which measurement attribute to adopt*"[1].

The report concludes that assets and liabilities should be reported or at their observable market price, or at an estimated market price failing an observable one, or at its current cost (i.e. replacement cost, or reproduction cost, or historical cost) failing the ability to estimate the market price, or at a value coming out of an accepted model or technique. Even when the study assumes the existence of an observable market price, it is explained that circumstances needs to be considered in order to apply the necessary adjustments consistent with the market expectations. This is to say that market value is more an abstraction than a fact. Indeed, any new resource or obligation accounted for as difference between the historical price and the market value is hypothetical. Furthermore, it is a resource of no use for the entity since this resource becomes available only when exchanged in the market, or it is a loss of resource that the entity does not suffer from since this loss of resource becomes a reality only when exchanging the resource (or liability) in the market.

As a result, the study demonstrates implicitly the impossibility to identify a market measurement securing the usefulness, the reliability and the accuracy of the information delivered to the creditors and investors, and that giving up the long standing sound practices of accounting, to be well understood as dealing with facts, leads to a dead end.

By contrast, the fundamental concept of accounting proposed in this letter, the "FINANCIAL CAPITAL" defined as the number of monetary units having been provided to an entity, does not question which measurement attribute to adopt, numbering being not valuing. It leads to objective and useful figures for managers as well as for creditors and investors. This concept allows understanding the strict rationality of accounting which accountants failed up to now to explain, due to their practical minded nature.

The request for comments offers the opportunity to contribute to the enhancement of financial reporting and to the reputation of the accountants by stressing the urgent need to reconsider the fundamental choices and the definition of assets in the current frameworks.

If my unusual views can help at all in the deliberations, you need only contact me. I would enjoy discussing furthermore my suggestions.

I. The Study:

Despite its high contribution to the knowledge of accounting, the "*Discussion paper on initial measurement"* published for comment addresses the financial external reporting, and not the accounting techniques. And the study is rooted in the frameworks' concepts assumed to be accepted, this is questionable:

[1] *Revisiting the Concepts, a New Conceptual Framework Project*, May 2005, by Halsey G. Bullen, FASB Senior Project Manager and Kimberley Crook, IASB Senior Project Manager.

> *Accepted framework concepts provide the basic point of departure, particularly the decision usefulness objective of accounting, the qualitative characteristics of useful financial information, and concepts of "assets" and "liabilities" DP &24*

Despite such a limitation of scope of the study, the starting point of the reasoning is nevertheless adequate:

> *It is presumed that, for financial reporting purposes, the primary purpose of business entities is to create wealth, which is expressed in terms of money and is ultimately conceived as command over cash, or claims to expected future cash or cash-equivalent flows.(DP, & 47)*
>
> *"People engage in investing, lending, and similar activities primarily to increase their cash resources. The ultimate test of success (or failure) of those activities is the extent to which they return more (or less) cash than they cost. Business enterprises, like investors and creditors, invest cash in non cash resources to earn more cash." (FASB's CON 1 paragraph 38 & 39.)*

But this is immediately turned into the following statement:

> *Although investors and creditors are generally interested in net cash-equivalent flows of the entity as a whole, those amounts are the aggregate of a number of individual cash-equivalent flows related to individual assets and liabilities, or related groups of assets and liabilities ,within the entity.*(DP &47)
>
> *Thus, information on the amounts (value), timing and uncertainty of cash-equivalent flows is considered to be the primary focus of financial accounting. A consequence of this is that "assets" (economic resources ultimately reflecting expected direct or indirect cash flows or cash-equivalent benefits) and "liabilities" (present obligations reflecting expected outflows of economic resources, ultimately cash or cash-equivalent outflows) are the basic subject matter of financial accounting measurement*. (DP & 48)

The frameworks' definitions of assets and liabilities effectively lead logically to the idea that the basic subject matter of financial accounting measurement is to report their expected cash flows or cash-equivalent benefits or expected cash or cash-equivalent outflows. Thus the study logically states:

> *... market values of assets and liabilities reflect the present value of future expected cash flows to yield the current market rate of return for commensurate risk.*

II. The weaknesses of the frameworks and of the study

1°. Investors and creditors' actual information needs are not necessarily the one assumed.

- It is true that investors and creditors are interested in the net cash-equivalent flows of the entity as a whole reported in an adequate profit and loss account (Later on, I will discuss this term "cash".). As far as accounting is concerned, the function of this account is to report the extent to which the activities achieved during the period have actually returned more (or less) cash than their cost. And the figures shown in this account must be understood as the aggregated ones of the elementary activities achieved during the period, named here *cycles of production*.

- But it is far from proved that investors and creditors are in need of individual or groups of assets and liabilities quoted at their market value. It is up to them to say what their needs are, and it is up to them to suffer from a wrong choice. It is up to accountants to explain to them to what extend their accounts are capable of fulfilling parts of their needs. Accountants are not at all entitled to decide arbitrarily for investors and creditors as the frameworks do.

- Accountants are justified in saying that there is no actual market value for any asset not being "in the market". And the assets of most the business entities are not in any market, since they are designed to be consumed or used in the cycles of production to produce marketable assets. This is fully achieved only when someone is found and agrees to exchange the asset for cash (Later on, I will discuss assets not designed to enter into a cycle of production). As a result, to measure assets and liabilities at a market price is to mislead users of financial reporting.

2°. The frameworks concept of assets is not fully defined.

The *"economic benefits"* and *"resources"* do not specify which things are numbered in the accounts. Accounting is a technique designed to number objects that exist in the real world and can be observed. These terms need lengthy and confusing discussions in order to assess whether a particular item possesses the characteristics required to meet the definitions. That is because the definition itself does not state the specific right character of the concept of upper level (economic benefit, or resources) referred to. As a result, highly detailed standards are required which are never sufficient, when the definition itself must suffice.

3°. The recommendations of the study lead to assets as being a heterogeneous aggregate.

Assets are understood as being goods, services, and intangible assets of various natures to be summed up by measuring them at market value. They are aggregated without their total having been defined. And the study concludes that it is far from always possible to find out the market price of the assets. Thus, it is concluded that the measurement attribute is the observable market price, failing it an estimated market price, failing it the current cost, failing it figures produced by models or techniques aimed at reflecting the markets expectations. As a result, aggregated assets of an entity are a confused mixture of things and numbers.

Furthermore, any new resource or loss of resource accounted for as the difference between the historical price and the market value is no more than a phenomenon observable only in accounting records and financial statements. It is a resource of no use to the entity since this resource becomes available only when exchanged in the market along with the historical costs attached, or it is an obligation that the entity does not suffer from since this obligation becomes a reality only when exchanging the attached historical cost in the market. This resource is definitively attached to its original one, and does not stand on its own. Thus it cannot be exchanged for money nor can it be used as collateral to borrow money. It cannot be used to pay creditors nor be used separately from the historical costs in the entity's production process.

4°. The double-entry book-keeping system is not understood.

Since the frameworks define the liabilities as probable future sacrifices of assets, they are negative assets. Equity (assets less liabilities) is residual assets. These definitions bring some confusion about the two parts of the double-entry book-keeping system. Is this system no more than elementary arithmetic adding up positive and negative assets through one set of accounts, some being positive and the others negative? If so, is it really any different from the single-entry book-keeping system that was replaced by the double-entry book-keeping system that, centuries ago, was rightly understood to be revolutionary when conceived? Are there three sets of accounts, assets, liabilities and equities? What about the systematic equality between debits and credits, only a matter of arithmetic adding twice the same numbers? To reduce the elements of financial statements to positive and negative assets renders the accounting system that emerged around the years 1200 in Europe as a quite trivial new way of keeping accounts.

5°. The accrual basis is not understood.

> (The definition of assets)…. *exclude items that do not represent real-world economic phenomena ... accounting procedures such as accrual, deferred allocation, and matching of costs with revenues that are abstractions observable only in accounting records and financial statements* (FASB & IASB article: Revisiting the Concepts, p.6).

These accounting procedures emerged from centuries of progress in accounting after the double-entry book-keeping system was invented. They satisfy the need for the managers and other interested parties to know precisely, from time to time, the overall financial position of the entity and the financial performance of the work achieved at that time, despite the fact that, because of the going concern of the entity, ultimately such information is available only at the end of the activity, when all the receipts and expenses have been registered in the cash account (Schmalenbach[2] - W. A. Patton and A. C. Littleton[3]). Excluding these procedures because of the definition choice for assets one has chosen is the wrong way around; it is the inability of the definition to accept them that is questionable.

6°. The assets and liabilities view of accounting unduly exclude the revenue and expense view.

The assets and liabilities view of accounting in the frameworks excludes the revenue and expense view because of the definition of assets and the primacy given to the concept of assets at the expense of the concept of income. This illustrates the misunderstanding of the double-entry book-keeping system which associates them nicely.

7°. The measurement of assets and liabilities at their market value do not reflect the primary purpose of business entities. The study states fortunately*:*

> *"Business enterprises ..., invest cash in non cash resources to earn more cash."(& 47)...* *"Business entities create wealth through the production and sale of goods and the provision of services. The various means of creating wealth do not affect this purpose of business entities.*" (Note 12)

The purpose of such businesses is not to recover their cash invested in non-cash resources via an exchange of these resources for cash. That money is recovered only when exchanging the products from their process of consuming or using their non-cash resources to produce new non-cash resources (the products). Economists would say a new utility. To measure the non-cash resources used in the cycles of production at any market value is meaningless and not useful. The increases or decreases of such values are *abstractions observable only in accounting records and financial statement* (Revisiting the concepts). They are a hypothetical new resource that the entity cannot use, or a hypothetical loss of resource that the entity does not suffer from.

8°. The historical cost principle is not understood.

> *Historical cost: Assets are recorded at the fair value of the consideration given to acquire them at the time of their acquisition. Liabilities are recorded at the fair value of the consideration received in exchange for incurring the obligations at the time they were incurred. (DP & 77)*

But accountants are concerned merely with the money invested in the business, not with any value of the assets or liabilities. And they deal with facts, not with a tentative notion which gives value to the items they are accounting for. Accountants number the units of money actually provided to the business, and they number the units of money actually involved in each use of that money. This is the historical cost principle.

III Accounting does not question what an appropriate measurement basis is.

1°. The purpose of accounting

Accounting for the money involved in the enterprise in order to trace it and make sure that what is spent is at least recovered has been seen for centuries as the appropriate way to serve its continuity. Therein lies the purpose of accounting.

The activity of theses enterprises is to produce expensive goods and services, recovering their costs previously paid along with their remuneration through the exchange of the products for money, so that the process can continue. Costs consist of the money actually

[2] Emile Schmalenbach, Dynamische Bilanz, Westdeutscher Verlag, Köln und Opladen, Leipzig, 1926.
[3] W. A. Paton and A. C. Littleton, *An Introduction to Corporate Accounting Standards*, American Accounting Association, 1940 ed 2004.

exchanged for the materials, labor and services to be consumed or used during the process of producing new goods and services. Costs are usually incurred before they are recovered by exchanging the products for money. This brings about the prior disposal of money to cover these costs. Thus, that process can be viewed as a physical one called "cycle of production", from the input of goods and services to be consumed or used when incorporated into the product, to this product being the output when achieved. The same process can also be seen as a reciprocal financial one, where the output is the money exchanged for goods and services acquired, and where that money incorporated into these goods and services along the process is exchanged for new money. Obviously, the financial performance of producing is the excess (or deficit) of money received when exchanging the products over the costs incurred for producing these products. This is the income.

Usually, there are several cycles of production running at the same time in a specific enterprise, and often dissimilar products are coming out of a specific cycle of production. And these cycles may not be at the same degree of advancement. The going-concern, or continuity of activity, is a fundamental characteristic of the enterprises, since their aim is most of the time to run their business continuously with the vital necessity of at least recovering their costs.

2°. The going-concern, snag of accounting.

The output of money is far from always related to a specific cycle of production and to a specific product being exchanged for money. Thus the accountant comes upon two snags when wanting to trace precisely through completion the money invested in the entity. The first one is the necessity to allocate the specific amounts of money paid and received to each specific cycle of production in order to report what has been done with the money. The second snag is the necessity to allocate a specific amount of money paid for a specific cycle of production to each kind of resulting product in order to make sure that the money paid out is at the end at least recovered. In order to overcome these snags, accountants have found various means: to anticipate payments and receipts by the way of accounting for debts payable and debts receivable; to account for accruals, for deferred allocations, and for other similar items. The second major progress toward modern accounting, after the first one consisting of conceiving the double-entry book-keeping system, has been to invent these means of associating costs with revenues to reflect accurately the combination of materials, services and labor in the product. Therein lies the specific professional capability of the accountants, not in the basic task of recording papers in their accounts.

But because of the huge growth of the businesses during the last centuries, accountants were no longer in a position to allocate systematically money to the various products. The short cut has been to allocate money only to the successive time periods. But the principle stays there, so much so that accounting strictly for inventories cannot be done without allocating costs to products. Each period has to be viewed as a whole of cycles of production, the income of the period being the sum of the incomes of its cycles of production.

3°. The “FINANCIAL CAPITAL”.

Considering a specific cycle of production, the “FINANCIAL CAPITAL” is the amount of money needed to cover the costs before recovering them when exchanging the products for new money. Considering the enterprise as a whole, the “FINANCIAL CAPITAL” at a specific date is the amount of the overall money needed to cover the costs of all the cycles of production not yet completed at this date before recovering it when exchanging the products for new money.

The basic function of accounting is to trace that money, in order to maintain it under control, so that it can be judged by those interested in whether that money is properly used, and whether it serves the aim of continuing the business. This is the actual need of users of accounting and financial reporting. But the need is also, for obvious reasons, to know whose money made up that financial capital. The first main advancement of the modern accounting was to invent a way of showing both faces of the “FINANCIAL CAPITAL” concurrently: its sources through a first set of accounts (Debts payable and equity, including the income); and its uses (assets) through a second set of accounts. This is the double-entry book-keeping system all too misunderstood.

The income from a specific cycle of production or of a specific period is the net amount of money definitively consumed and the amount definitively recovered mainly by exchanging the products of that cycle of production or of that period for it. Assets are temporary uses of money invested in the cycles of production that are not yet completed. Debts payable is the money temporarily provided to the business by those not owning it. Equity is a mix of money provided by those owning the business, and money sprung out of the cycles of production as the surplus over costs not yet distributed to the owners of the enterprise.

4°. The fundamental concepts of accounting

It emerges from all this that accounting can be explained with a few unambiguous concepts that define objects actually existing in the real world which can be seen by anyone. These concepts hang firmly together, since they flow from the fundamental concept of “FINANCIAL CAPITAL” defining the money having been invested in an organization. To invest means here to provide money to be exchanged for goods, services and labor, with the objective of producing new goods and services along a process called "cycle of production", since this process is aimed at being renewed continuously. The following two concepts are those of “FINANCIAL CAPITAL” provided to the entity and “FINANCIAL CAPITAL” used by this entity, recorded in two sets of accounts, one for each of these two categories. Here is the essence of the double-entry book-keeping system. Each of these two views of the “FINANCIAL CAPITAL” is divided into definitively provided (revenue) and used (expense) “FINANCIAL CAPITAL”, and provisional ones (asset, equity and liability), leading to the profit and loss account and to the balance sheet.

The concept of the accounting period is related to the human way of splitting the process of time which is as well a continuous phenomenon. As far as the activities of the enterprise are concerned, only cycles of production exist basically and obviously. The concept of accounting period needs to be understood as the period of time during which specific cycles of production are running or achieved.

5°. Accruals, deferrals, allocations … as parts of the financial capital.

There is certainly no point in accounting for money having not been altogether provided to the entity nor used by the entity. On the other hand, there are cases where some money is definitively received by the entity which relates to cycles of production or periods not yet started (example: rent received during the period which relates to the next period). The adequate measure of the income as well as the one of the financial capital implies to account for such an item as money received, but as revenue related to a future period, not to the current one, not to running a cycle of production. There are also cases where some expenses related to running the process up to the year end have not been paid, nor invoiced; accounts have to report that some money has been used, which is to be paid after the year end to somebody not entitled to payment before. Lastly, some expenses could have occurred related to cycles of production not yet started at year end; it must be reported that some money has been used without allocating it to any cycle of production occurring before the year end. In these cases, these items shown in the balance sheet are not at all nonmonetary assets and liabilities. They record one of the two entries of a part of the financial capital having been received or used.

6°. Accounting conservatism[4].

Conservatism is a practice prevailing for centuries going along the adage: "*anticipate no profit, but anticipate all losses*". No rationale supports this attitude, which could lead to the reporting significant misleading figures for periodic income and for equity. Nevertheless, accounting standards need not be dogmatic moving away from conservatism; but they need to maintain a strict control over this practice.

The proposed concepts leave no room for conservatism. They require the allocation of revenues and expenses to the product, so that both the financial position and the income of a specific entity at a specific date can be numbered. But accountants are dealing with their practice as best as they can, balancing the usefulness of their work with its cost. They know that allocating exactly some kinds of expenses to the products such as some research and development costs, could be too hazardous or too costly, and that not doing so does not mean producing significantly misleading figures. In such cases, they treat these expenses as unrecoverable costs. The proposed accounting concepts can help to formulate the accounting for arbitrary conventions allowing reasonable trade-offs between rationality, usefulness and accuracy.

7°. The two views of accounting no longer in conflict

The asset and liability view of accounting has for years been at odds with the revenue and expense view. To repeat, this results from a misunderstanding of the double-entry book-keeping system hidden by incorrect reasoning where primacy is given to the concept of asset or to the concepts of expense and revenue, when all of them flow from the same concept of “FINANCIAL CAPITAL”. The double-entry book-keeping system overcomes this said competition, since the income is part of the “FINANCIAL CAPITAL” added to the parts provided by the owners or the creditors; the part resulting from the cycles of production as the surplus over costs.

8°. The concept of money in accounting.

Nowadays, money is the means given by the states to settle a debtor's obligation with no possibility for the creditor to refuse that payment. The value of this money (face value) is fixed and therefore beyond debate. That is the law; however, reality is slightly different. In essence, money is the means of exchanging quite easily and nearly immediately an actual thing for something still to be chosen in the future, without loosing some power of exchange of what has been given away. Precious stones and gold were used as money millenniums ago, as was beef in ancient Rome. In today’s economies, where exchanges are far more developed, financial instruments are used to trade money (exchange of currencies, exchange of today’s money for future money …).

The moment at which the product is exchanged for money ends the cycle of production, because that is when the job has been completed. And that is precisely when income is definitively in hand, can be used, and must, at the latest, be accounted for. Here is the cut off between products and money. Here is when costs accumulated in the products are recovered and become actual money. Nevertheless, for centuries accountants account for exchange of products for the promise of money (receivable) including the profit, as soon the exchange is formally agreed. Debts are treated as if they are money. There is no other rationale for explaining this practice than the aim to avoid the cumbersome ways to produce numbers when needed. In fact, people nearly always keep their promises. If the facts are different, then the exchange for promise of money is not agreed, the product has to be paid in cash.

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[4] Ross L. Watts, *Conservatism in Accounting*, Simon Business School, University of Rochester, Working Paper N° FR 03-16, May 16, 2003 and Working Paper N° RF 03-25 August 21, 2003
http://ssrn.com/abstract=414522
http://ssrn.com/abstract=438662

9°. To marry historical cost with market value

The amount of the "FINANCIAL CAPITAL" of a specific enterprise is not automatically adjusted to the actual needs of its cycles of production. In case of a lack of "FINANCIAL CAPITAL", complementary financing is sought out, or the volume of the business is reduced. When "FINANCIAL CAPITAL" exceeds the actual needs of the cycles of production, the excess money is paid out to the owners of the business, or it is retained in the enterprise and managed so that it earns a return. This is achieved by exchanging the excess money for goods that will be exchanged back later on for money, hopefully with profit. The nature of these goods may be financial instruments; or they may be a physical good (such as gold, currencies, or art works) that is not consumed nor used along a cycle of production aimed at producing new goods or services. The historical cost principle is suitable to these transactions, since an excess or deficit of money will actually exist only when the financial instruments or the goods are exchanged for new money.

Nevertheless, it is conceivable to see money provided by the state is not the only measure, but as it was before money was invented around the sixth century B.C., any thing that assumes the main functions of money under states control; that is, means of exchanging something against another thing not yet identified, without loosing any power of exchange of what has been given away. Then, it could be agreed to apply to those transactions the current market price in the year end accounts, whatever is the current overall activity of the enterprise. However, financial instruments and other substitutes for money under states' control must be liquid; they must be available and exchangeable within a short period (without delay) without lengthy discussions about their characteristics and their value. An active market must exist as a strict condition to move away from the historical cost principle in favor of the current market price.

IV. Practical outcomes from the fundamental concept of accounting

For a good understanding of the views proposed, some of the practices derived rationally from the fundamental concept of "FINANCIAL CAPITAL" are now listed. It is beyond the scope of this letter to study in more depth these practices.

1°. Items to be accounted for are any amount of money (as defined) having been provided to the entity or used by the entity. Money having been neither provided to the entity nor used by it is excluded from the accounts of the entity.

2°. The numbers to be accounted for are the numbers of monetary units having been actually involved in the transactions of the entity.

3°. The profit and loss account reports any money having been invested in the products exchanged during the period, any money received in exchange for the products, as well as money definitively received or definitively lost during the period whatever the reasons are.

4°. The "FINANCIAL CAPITAL" invested in the process of production is automatically revalued when products are exchanged for money. Until this exchange, any change in the measurement of the "FINANCIAL CAPITAL" is hypothetical, depending whether economics circumstances prevailing at that date allow market prices to absorb any change in the value of the "FINANCIAL CAPITAL". Thus, any difference between the "FINANCIAL CAPITAL" as measured along the historical cost principle and the one measured along another measurement basis has no reality, and must be excluded from the accounts of the entity.

5°. It would not be inappropriate to measure the "FINANCIAL CAPITAL" not invested in the process of production at market value, under strict conditions referred to above.

6°. The accounting for business combinations has the same rationale as the one for accounting for a specific entity. To modify the measurement of the individual assets and the individual liabilities of the acquiree (assumed here to be accounted for at their historical cost) because of the occurrence of the business combination is not justified. The total amount paid by the acquirer in excess of the part of the acquiree's equity acquired is no more than the amount paid in consideration of the future income the acquiree is expected to provide the acquirer. That amount must be clearly reported in the financial statements, and must be amortized in order to report the consolidated income net of its costs.

Conclusion

The "*Discussion paper on initial measurement"* published for comment implicitly proves that, moving from accounting properly understood, the frameworks fundamental concepts lead to an impossible objective and useful measurement attribute for reported assets and liabilities.

By contrast, the fundamental concept of “FINANCIAL CAPITAL” resolves the long standing controversy about which measurement attribute to adopt, and leads to objective and useful figures for managers as well as for creditors and investors. This concept facilitates an understanding of the strict rationality of accounting which accountants have failed up to now to explain, due to their practical minded nature.

Overall, there is an urgent need to revisit the frameworks’ fundamental concepts. This could be achieved a lot more quickly and easily than currently estimated. It could accelerate the job of formulating undisputed as well as accounting and financial reporting standards more difficult to circumvent.

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Answer to questions

Q.1- Agree, the possible measurement bases should be deeply considered so that, last but not least, we put an end to these discussions about the means of valuing, out of question as far accounting is concerned.

Q.2- Disagree. The historical cost definition is not valid. Its current definition does not refer to value.

Q.3- Agree

Q.4- Agree

Q.5- Disagree. Entity specific measurement is not mainly related to expectations. It is related to facts that have happened and are observable: Cash or near-cash items provided to the entity or employed by the entity.

Q.6- Disagree. The presumed qualities of market measurement objectives just do not exist, because market value is not a single and undisputable observable fact. Should these qualities exist, 146 pages would not have been necessary to define the market value and state the way to include it in the financial statements!

Q.7- Disagree. (See Q.6)

Q.8- Agree.

Q.9- Agree

Q.10- Disagree. There is no point of discussing at length the implications of the existence of different market sources, except for concluding that market value is not appropriate for purpose of accounting and financial reporting. (Initial recognition has nothing to do with any market consideration. What matters is the fact that some cash or cash equivalent has been exchanged for something else).

Q.11- Disagree with conclusions. Transaction costs paid is a fact to be accounted for. Market considerations are not an accounting and reporting problem. What only matters is the relationship between these costs and the specific productive actions they are incurred for.

Q.12- Disagree. Relevance and reliability are not part of a true definition of assets or liabilities, they are derived from it. Thus, they are not a criterion for selecting the measurement basis of assets or liabilities which is derived from their definitions. But I agree that they could signal improper measurement basis.

Q.13**-** Agree, except that to oppose as do the study fair value and market value is questionable, since fair value is a kind of market value.

Q.14- Disagree. Fair value, even for financial reporting purposes as opposed to accounting purposes, is irrelevant. The presumed needs of the creditors and investors supporting the fair value objectives are not at all proven. Moreover, their rationale is wrongly established, since under the normal course of the entity's activities, assets are not in any market, they are designed to be consumed or used during the process of producing the marketable products. Furthermore, accounts and financial reporting exist only to report facts, not *what they would be if* …

Q.15- The question itself suggests that fair value is inadequate both for accounting purpose and for financial reporting purposes, since fair value is rightly said in any case an estimation, and any estimation is highly judgmental. Accounts and financial reporting must be objective.

Q.16- Disagree. The historical cost principle has been wrongly defined as being in relation to some market value, when it is in relation with a fact (see the body of my letter). And relevance of the other measurement bases is not proved.

Q.17- Disagree. No substitute for observable market values is adequate.

Q.18- Disagree. The fact that substitutes to observable market value are needed prove the practical impossibility of measuring assets and liabilities in financial statements at market values.

Q.19- Yes, I am commenting on the study only because I have positive proposals summarized in part III of my letter. Others issues the study missed or did not address are how the fundamental concepts of the current frameworks used over the past forty years have proved to be inadequate (Enron and others). The urgent need is for a definitive rejection of any market value for accounting and for financial reporting purposes (with the exception of assets not invested in a cycle of production), and for improved definitions of the fundamental concepts of accounting and financial reporting.

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