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The Director, Accounting Standards
Canadian Accounting Standards Board
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**Draft – 15 May 2006**

By email: ed.accounting@cica.ca

19 May 2006

Dear Sir or Madam

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

The Institute's Accounting Standards Committee has considered the above discussion paper and I am pleased to set out its comments below.

The Institute is the first incorporated professional accountancy body in the world. The Institute's Charter requires the Accounting Standards Committee to act primarily in the public interest, and our responses to consultations are therefore intended to place the general public interest firrst. Our Charter also requires us to represent our members' views and protect their interests, but in the rare cases where these are at odds with the public interest, it is the public interest which must be paramount.

**Overall comments**

Whilst we welcome the publication of this discussion paper, we believe that it has a number of significant weaknesses which we have set out below.

We see two major problems in the scope of the paper which will limit the paper'its usefulness as a contribution to the measurement debate. Firstly, we are disappointed that it was decided that the paper should focus on measurement on initial recognition only. While the paper acknowledges that its conclusions are tentative, and will be re-assessed in terms of their implications for re-measurement, we believe that it is a mistake to consider measurement on initial recognition in isolation. The measurement base used on initial recognition will have implications for the subsequent measurement of the asset or liability therefore the two should not be approached separately. We are concerned that the conclusions in this paper will most likely have to be revised in the context of the vital wider debate on

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measurement.

Secondly, the paper states in chapter one that it does not intend to deal with the implications of different measurement bases for reporting financial performance. In order to make a proper case for the preference for market values it would also have to be considered whether how this ese contributes to achieving the aims of the financia the objectives of performancel reporting more generallyframework. If the objectives of financial reporting are not clear, then there are no criteria against which to assess the various measurement bases, since each could be appropriate dependent on the preferred view of an entity's financial performance and position. There seems to be an assumption in the paper that decision-usefulness is the most important objective, and is favoured over the stewardship objective. , hHowever, thisHowever, this is not justified in any way and appears to have been chosen merely in order to make the case for market values. Since the paper has failed to address this key point of the objectives of financial reporting, we find that there are no grounds against which to assess the validity of the other arguments, assumptions and conclusions made in the paper.

We have noted that a number of key assumptions in the paper lack sufficient justification. Most importantly, we cannot agree with the discussion paper's assertion in paragraph 60 that 'the market measurement objective has important qualities that make it superior to entity-specific measurement objectives' as this is not supported by any reasoned argument or evidence. The table preceding paragraph 60 comparing market objectives and entity-specific objectives merely provides descriptive analysis and does not offer any comparison of the perceived advantages and disadvantages of the two measurement objectives. The only justification for the preference for the market measurement objective provided in the full discussion paper is that this is what rational users of financial statements would choose. However, no evidence is offered to support this assertion. We believe that further research would be required to determine what it is that investors and other users in fact require from financial statements. Furthermore, the argument in favour of users' needs as the key factor is only valid if it is demonstrated that decision-usefulness is the most important objective, which this paper has failed to do.

We believe that the argument in favour of the market-based measurement objective is further weakened through being based on the concept of a perfect market. In practice, there are no perfect markets is wholly perfect in the economist's meaning of that term and it therefore it seems unwise to ignore the existence of inefficient markets when considering the applicability of market values. We do not agree that there is only one fair value for an asset or liability at the measurement date, as this would only be the case if there was a perfectly efficient market. In general, the paper lacks practical examples which could be used to test whether the assumptions set out about market values are workable in practice.

The paper appears to us to downplay the disadvantages of market values while failing to adequately explore the advantages of the other measurement bases discussed. These bases are dismissed solely on the grounds that they are entity-specific, although we do not believe that the case against the entity-specific measurement objective has not been adequately made in this paper. We are unconvinced by the conclusion that for an asset for which a market does not exist, a market value based on a hypothetical market would be more reliable than an entity-specific measure.

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On the basis of these comments, we have not provided answers to the specific questions set out in the invitation to comment.

If you wish to discuss any of our comments please do not hesitate to contact me.

Yours sincerely

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