
Accounting Standards Advisory Forum
The Conceptual Framework
March 2015

**Identification, Description
and Classification of
Measurement Bases**

Summary

1. At the request of the IASB Staff, the ASBJ provides its preliminary views on the IASB's tentative decisions regarding identification, description and categorisation of measurement bases.
2. Considering the purpose of the *Conceptual Framework*, the ASBJ thinks that the measurement chapter should be designed to assist the IASB to select relevant measurement bases of assets and liabilities that would meet the objective of general purpose of financial reporting.
3. The ASBJ thus thinks that the IASB's tentative decision of a binary classification (i.e., to classify measurement bases into historical cost and current value) is insufficient. Instead, the ASBJ suggests that the *Conceptual Framework* classify measurement bases on the basis of:
 - (a) Whether to update inputs for measurement; and
 - (b) Whether to adopt market participant assumptions or entity-specific assumptions when measuring an asset or a liability.
4. The ASBJ thinks that this classification is generally consistent with the classification that the IASB Staff tried during the course of the IASB's redeliberation, except that it does not classify measurement bases based on the distinction between the entry value and the exit value, which the ASBJ thinks is unnecessary.
5. With regard to whether, and if so, how to update inputs for measurements, the ASBJ suggests that measurement bases be classified on the basis of the following:
 - (a) Measures with fully-updated inputs;
 - (b) Measures with partially-updated inputs; and
 - (c) Measures with locked-in inputs.
6. With the said classification in mind, the ASBJ suggests that the IASB establish a protocol to consider the following matters when determining relevant measurement bases in the

standard-setting process.

- (a) Reasons why a measurement basis classified within one of the three categories (i.e., measures with fully updated inputs, measures with partially updated inputs and measures with locked-in inputs) is used, both for measurement bases for the purpose of reporting an entity's *financial position* and *financial performance*.
 - (b) When a measurement basis classified within the category "measures with partially updated inputs" is selected, the reason why updating only part of inputs is considered to be relevant.
 - (c) When different measurement bases are selected from the perspectives of reporting an entity's *financial position* and *financial performance*, the reason why.
 - (d) Whether a measurement basis is considered based on market participants' assumptions or entity-specific assumptions.
7. The ASBJ also suggests establishing principles that would assist the IASB to properly select the "current market measures" (that is, fair-value based measurement. Please also see paragraph 41 of this paper) in standard setting process. For details, please see the paper titled, *Role of "Nature of an Entity's Business Activities" in Accounting Standard-Setting*, which explains when to use the "current market measures" in reference to the nature of an entity's business activities conducted.
8. As for identification and description of measurement bases, the ASBJ thinks that there are various alternative approaches, and recognises pros and cons of the extensive approach (that include the benefit of promoting understanding of the nature of different measurement bases and the consequence of the *Conceptual Framework* being a lengthy document.) In light of meeting the said objective, the ASBJ suggests that the *Conceptual Framework* keep the discussions on measurement bases at a high level and not discuss details (including the strengths and weaknesses of each measurement basis).

I. Preface

1. This paper has been prepared by the ASBJ to facilitate the discussion during the March 2015 meeting of the Accounting Standards Advisory Forum (ASAF). This paper explains the ASBJ's preliminary analyses and views on IASB's tentative decisions regarding the project on a review of *The Conceptual Framework for Financial Reporting* (the *Conceptual Framework*) leading up to an Exposure Draft (the ED), especially focusing on areas with regard to identification, description and classification of measurement bases.
2. Views stated in this paper are preliminary views of the ASBJ, and they are subject to change in its future deliberation.

II. Background

Existing Conceptual Frameworks

3. The IASB's existing *Conceptual Framework* states that measurement is the process of determining the monetary amounts at which the elements of the financial statements are to be recognised and carried in the balance sheet and income statement¹. The *Conceptual Framework* also explains that a number of different measurement bases are employed to different degrees and in varying combinations in financial statements, and include the following²:
 - (a) Historical cost;
 - (b) Current cost;
 - (c) Realisable (settlement) value; and
 - (d) Present value.

¹ See paragraph 4.54 of the *Conceptual Framework*.

² See paragraph 4.55 of the *Conceptual Framework*.

4. At the same time, the existing *Conceptual Framework* does not classify them into specific categories.
5. Other accounting standards setters have identified measurement bases differently. For example, the ASBJ's Discussion Paper *Conceptual Framework of Financial Accounting* identified different measurement bases by relevant elements of financial statements (asset, liability, income and expenses); thus the total number of measurement bases is rather large (twenty-three). The FASB's Statement of Financial Accounting Concepts No. 5 *Recognition and Measurement in Financial Statements of Business Enterprises* explains that the following five different measurement attributes of assets (and liabilities) are used in present practice³:
 - (a) Historical cost (historical proceeds);
 - (b) Current cost;
 - (c) Current market value;
 - (d) Net realizable (settlement) value; and
 - (e) Present (or discounted) value of future cash flows.

The IASB's Preliminary Views in the DP

6. In July 2013, the IASB published the Discussion Paper *A Review of the Conceptual Framework for Financial Reporting* (hereinafter referred to as the "IASB's DP") with the comment period ended January 2014. The IASB's DP, among others, presented the IASB's preliminary view that measurement bases be grouped into the following three categories:
 - (a) Cost-based measurements;

³ In its February 2015 Board meeting, the FASB tentatively decided that the following general categories of methods should be discussed in the proposed Concepts Statement chapter on measurement:

- (a) Prices in transactions in which the entity participated;
- (b) Current prices observed or estimated by the entity;
- (c) Discounted or undiscounted estimates of future cash flows other than estimates of market prices; and
- (d) Other adjustment to carrying amount: accruals, systematic, and allowances for impairment.

- (b) Current market prices including fair value; and
 - (c) Other cash-flow-based measurement.
7. In connection with this, the IASB's DP explained that a few measurements used in existing IFRSs are neither current market prices nor cost-based, but are based on estimates of future cash flows⁴.

The IASB's Redeliberation

8. Since March 2014, the IASB has continued its deliberation on the *Conceptual Framework*, including measurement. During the meeting in July 2014, the IASB tentatively decided that the ED should not define a separate measurement objective, but describe how measurement contributes to the overall objective of financial reporting as follows:

Measurement is the process of quantifying in monetary terms information about the resources of an entity, claims against the entity and changes in those resources and claims. Such information helps users to assess the entity's prospects for future cash flows and assess management's stewardship of the entity's resources.

9. During the same meeting, the IASB also tentatively decided the following:
- (a) **The purpose of cash flow-based measurement techniques is normally to implement one of the measurement bases** that will be described in the *Conceptual Framework*.
 - (b) If the IASB decides in a particular Standard to use a cash flow-based measurement technique to implement a measurement basis that is not one of those described in the *Conceptual Framework*, the Basis for Conclusions on that Standard should explain why.
10. With regard to identification, description and classification of measurement bases, during the meeting in September 2014, the IASB tentatively reconfirmed its decision **not to develop a single or default measurement basis**, and decided to amend the IASB's DP

⁴ See paragraph 6.51 of the DP.

by replacing references to the three measurement bases described in the DP with reference to **‘historical cost’** and **‘current value’ (which includes fair value, value in use, and fulfilment value)**.

11. During the meeting in October 2014, the IASB tentatively decided to include in the ED description and discussion of measurement bases that is based on the revised working draft in the IASB Staff Paper 10-B for the meeting. In addition, the IASB tentatively decided that the ED should state whether to reflect the **transaction costs** in measurement⁵.

Issues to Discuss in this Paper

12. The ASBJ was asked by the IASB Staff to provide its analysis and views on the IASB’s tentative decisions in the following areas:
 - (a) Whether classifying the measurement bases as historical cost or current value is appropriate or whether a different classification would make sense;
 - (b) Whether the ED identifies the right measurement bases;
 - (c) Whether the ED correctly describes the identified measurement bases; and
 - (d) Whether the ED correctly describes the information provided by the identified measurement bases.

⁵ The IASB tentatively decided that the ED should state the following⁵:

- (a) If a measurement depicts the current value (i.e., the fair value, fulfilment value or value in use) of an asset or liability, that measurement should not reflect the transaction costs of acquiring the asset or incurring the liability.
- (b) If a measurement depicts the value in use of an asset, the transaction costs that would be incurred on ultimate disposal of that asset should be deducted in producing the measurement.
- (c) If a measurement depicts the fulfilment value of a liability, the costs that would be incurred in fulfilling that liability should be added in producing the measurement. That measurement would not include transaction costs that would be incurred on transferring the liability to another party or on negotiating a settlement of the liability.
- (d) The fair value of an asset (liability) is not reduced (increased) by the costs of selling (transferring) the asset (liability). However, this does not preclude the IASB from deciding to measure an asset at fair value less costs to sell (or a liability at fair value plus costs of transfer), if doing so would provide users of financial statements with information that is more relevant than a fair value measurement.
- (e) If a measurement depicts the cost of an asset or liability (rather than its transaction price), that measurement:
 - (i) Should reflect (among other things) the transaction costs of acquiring the asset or incurring the liability;
 - (ii) Should not be decreased (increased) to reflect the transaction costs of realising the asset (or settling or transferring the liability).

13. In the following paragraphs, the ASBJ provides its preliminary views on the IASB's preliminary views about these areas, focusing on matters relating to (a) - (c) in the previous paragraph. Taking into account the IASB's tentative decision that foreign currency translation should not be dealt with as part of this review of the *Conceptual Framework*, the ASBJ does not discuss matters relating to foreign currency translation in this paper.

III. Classification of Measurement Bases

Objectives of Measurement Discussion in the Conceptual Framework

14. As reconfirmed during the IASB's redeliberation process, one of the purposes of the *Conceptual Framework* is to identify the concepts that assist the IASB to develop and revise the Standards. Therefore, the measurement chapter of the *Conceptual Framework* should be designed to assist the IASB to select relevant measurement bases of assets and liabilities so as to meet the objective of general purpose financial reporting.
15. As part of the discussion regarding the objective of general purpose financial reporting, the *Conceptual Framework* states that users need information to help them assess the amount, timing and uncertainty of the prospects for future net cash inflows to an entity⁶. It also states that users need information about the resources of the entity, claims against the entity, and how efficiently and effectively the entity's management and governing board have discharged their responsibilities to use the entity's resources so as to assess an entity's prospects for future net cash inflows⁷.
16. In connection with this, the *Conceptual Framework* explains that information about a reporting entity's 'financial performance' helps users to understand the 'return' that the entity has produced on its economic resources, which provides an indication of how well management has discharged its responsibilities to make efficient and effective use

⁶ See paragraph OB3 of the *Conceptual Framework*.

⁷ See paragraph OB4 of the *Conceptual Framework*.

of the reporting entity's resources⁸. It goes on to state that information about a reporting entity's past 'financial performance' and how its management discharged its responsibilities is usually helpful in predicting the entity's future returns on its economic resources.

17. In this respect, the IASB's tentative decision acknowledges that 'profit or loss' is the primary source of information about an entity's financial performance for the period, and that the IASB should consider the nature and relevance of the resulting information produced in both the statement of financial position and the statement(s) of profit or loss and OCI when selecting a measurement basis.
18. The ASBJ agrees that information about an entity's past financial performance is helpful in predicting the entity's future returns on its economic resources and assessing the prospects for future net cash inflows to an entity. Thus, the ASBJ thinks that it is important to select measurement bases of assets or liabilities from the perspective of reporting an entity's *financial performance* in which 'profit or loss' is the primary source of information about an entity's financial performance for the period. At the same time, there are situations where measurement bases that are considered relevant from the perspectives of reporting an entity's *financial performance* and *financial position* differ. Taking this into account, it is important the measurement chapter of the *Conceptual Framework* is sufficiently helpful to assist the IASB in selecting relevant measurement bases of assets and liabilities to meet the both (and sometimes conflicting) reporting purposes.

General Thoughts on Classification of Measurement Bases

19. In the following paragraphs, the ASBJ explains its general thoughts on classification of measurement bases. In doing so, the ASBJ follows the IASB's tentative decision not to develop a single or default measurement basis.

⁸ See paragraph OB16 of the *Conceptual Framework*.

20. As stated in paragraph 10 of this paper, the IASB tentatively decided to classify measurement bases into **two** categories: historical cost and current value. The ASBJ does not agree with this tentative decision for the following reasons:

- (a) The said binary distinction does not sufficiently address situations where some for measurement (e.g., the estimate of cash flows) are updated, while other inputs (e.g., discount rates) are locked-in.
- (b) The IASB's tentative decision does not classify measurement bases on the basis of whether they are based on market participants' assumptions or entity-specific assumptions.
- (c) The IASB discussed identifying possible measurement bases using the three dimensions (namely, the historical measurement vs. the current measurement, the entry value vs. the exit value and the market participants' perspective vs. the entity-specific perspective), which the ASBJ understands is a common way of categorising measurement bases. Yet the ASBJ thinks that the distinction between the entry value and the exit value is merely a difference of the supposed market, and thus, the ASBJ thinks that the measurement category can be classified on the basis of the other two dimensions.

21. The ASBJ explains the reasons in the following paragraphs in more detail.

Consideration of Updates of Inputs for Measurement

22. The IASB tentatively decided that following input factors are considered in measurement of an asset or a liability using cash-flow-based measurement techniques (or present value measurement techniques)⁹.

- (a) Estimates of the amounts of cash flows;
- (b) Expectations about possible variations in the amount and timing of the cash flows resulting from the uncertainty inherent in those cash flows;

⁹ This list of factors is consistent with paragraph B13 of IFRS 13 *Fair Value Measurement*. In addition, except for the point (f), the list of factors is consistent with the one explained in Statement of Financial Accounting Concepts No.7 *Using Cash Flow Information and Present Value in Accounting Measurement*.

- (c) The time value of money;
 - (d) The price for bearing the uncertainty inherent in the cash flows;
 - (e) Other factors, such as liquidity, that market participants would take into account; and
 - (f) For a liability, the non-performance risk relating to that liability, including the entity's (i.e., the obligor's) own credit risk.
23. These input factors are often explicitly considered by an entity when it estimates a measure using a cash-based measurement technique. At the same time, the market price (that is observable exit value in the market place) is also considered as a measure that reflects all the input factors from the perspective of market participants at the measurement date.
24. Under the existing IFRSs and the IASB's proposed standards, some measurement bases that require updating part of inputs (e.g., the estimate of cash flows) while not requiring updates of other inputs (e.g., discount rates). A typical example that requires updating only part of inputs is amortised cost¹⁰ as defined in IFRS 9 *Financial Instruments*, which requires making periodic downward adjustments to cash flow components, while keeping the discount rate is unchanged. In addition, IFRS 9 also requires that the effect of changes in an entity's own credit risk be excluded from profit or loss when an entity applies the fair value option to its financial liabilities. This means that the effect of changes in an entity's own credit risks is excluded when measuring the financial liability for the purpose of reporting an entity's *financial performance*.
25. Furthermore, the IASB's Exposure Draft ED/2013/7 *Insurance Contracts* proposed to require updating discount rates for the purpose of reporting an insurer's financial position, while it proposed to require the use of a locked-in discount rate for the purpose of reporting the insurer's *financial performance* except as otherwise stated.

¹⁰ The term "amortised cost of a financial asset or financial liability" is defined as the amount at which the financial asset or financial liability is measured at initial recognition minus the principal repayments, plus or minus the cumulative amortisation using the effective interest method of any difference between that initial amount and the maturity amount and, for financial assets, adjusted for any loss allowance.

26. The ASBJ thinks that the said binary classification (into the historical cost and the current value) does not sufficiently address these ‘in-between’ situations, and the IASB struggled with how to appropriately classify amortised cost. Accordingly, the ASBJ thinks that the *Conceptual Framework* should acknowledge the measurement category that requires updating only part of inputs, so that the IASB makes more careful consideration regarding whether, and if so, how to update all or part of inputs to identify the most relevant measurement bases for the purpose of reporting an entity’s *financial performance* and *financial position*, respectively. In some cases, the ASBJ thinks that it is possible that measurement bases that are relevant from the perspectives of reporting an entity’s *financial performance* and *financial position* are found to be different.

Distinction between Market Participants’ Assumptions and Entity-Specific Assumptions

27. The IASB’s tentative decision does not classify measurement bases in light of whether they are based on the market participants’ assumptions or the entity-specific assumptions. The ASBJ thinks that this distinction is critically important to properly identify the ‘fair value’ (that is, an exit value based on market participants’ assumptions) and its related measurement bases, which is often used in standard-setting process. The ASBJ thinks that unless this distinction is drawn, the measurement category would become less relevant for the purpose of selecting relevant measurement bases of assets or liabilities.

Linkage with the IASB’s Discussion of Measurement Bases Using Three Dimensions

28. Furthermore, during the course of redeliberation with an aim to develop the ED, the IASB Staff Paper 10-K for the July 2014 IASB board meeting suggested that measurement bases can be categorised by the three dimensions (namely, the historical measurement vs. the current measurement, the entry value vs. the exit value, and the market participants’ perspective vs. the entity-specific perspective), but the IASB tentatively decided not to classify measurement bases on these dimensions. Without regard to the effect of transaction costs or other similar costs, the ASBJ thinks that explaining possible measurement bases using the three dimensions is common.

29. At the same time, the ASBJ thinks that making a distinction based on the difference between the entry and exit values would be unnecessary, and instead this would give rise to excessive complication. This is because the entry value may be considered as the exit value, if the value is considered from the market participants' perspective. Thus, the ASBJ thinks that measurement bases can generally be explained by way of two dimensions (namely, historical measurement vs. current measurement and market participants' perspective vs. entity-specific perspective). The ASBJ also thinks that the decision about whether to update all or none of inputs in measurement equals to the decision about whether to adopt the historical measurement or the current measurement.

ASBJ's Preliminary Proposal

30. Accordingly, the ASBJ preliminary suggests that, instead of classifying measurement bases into the two categories, the *Conceptual Framework* classify them into categories based on the following:

- (a) Whether, and if so, how to update inputs of measurement; and
- (b) Whether to adopt the market participants' assumptions or the entity-specific assumptions when measuring assets or liabilities (this is explained in paragraph 27 of this paper).

31. In connection with the degree of updating inputs (that corresponds to (a) in the previous paragraph), the ASBJ further suggests that measurement bases be classified based on the following¹¹:

- (a) **Measures with fully-updated inputs**
- (b) **Measures with partially-updated inputs**
- (c) **Measures with locked-in inputs**

¹¹ In the following paragraphs, the paper does not consider the "current cost", because this measurement basis is necessary only in the context of the physical capital maintenance, which is not the premise of Standards of IFRSs except when considering the inflation accounting (see paragraph 4.61 of the IASB's existing *Conceptual Framework*).

32. This classification is based on the degree to which the six input factors explained in paragraph 22 of this paper are updated in the measurement of assets or liabilities. When the six input factors are ‘fully’ updated in a measurement basis, the measurement basis is classified within the category “measures with fully-updated inputs”. A measurement basis that does not ‘fully’ reflect changes of inputs but ‘partially’ reflects changes of inputs is classified within the category “measures with partially-updated inputs”. When a measurement basis does not reflect changes of inputs from the initial recognition (or the timing on which the original cost base is changed), the measurement basis is classified within the category “measures with locked-in inputs”. Following paragraphs explain this classification in more detail.

Measures with Fully-Updated Inputs

33. This category refers to the measurement bases for which input factors are ‘**fully**’ updated in the measurement of assets or liabilities. Measurement bases that fall under this category should incorporate all the six input factors; thus “fair value” falls under the category regardless of whether there is a corresponding level 1 input for the asset or liability.
34. Measurement bases such as “fair value less cost to sell” and “net realisable value” also fall under this category, because the difference between fair value and these measures is merely the effect of related costs (such as, the transaction cost).
35. In addition, measurement bases such as “value in use” and “fulfilment value” are also classified within this category, because the cash-flow-based measurement techniques (or present value measurement techniques) require consideration of all the six input factors and the only difference between “fair value” and these measures is whether they are calculated based on the market participants’ assumptions or the entity-specific assumptions.

Measures with Partially Updated Inputs

36. This category refers to the measurement bases for which the input factors are ‘partially’ updated in the measurement of an asset or liability. As explained in paragraphs 24 to 26 of this paper, this category includes the amortised cost as defined in IFRS 9 and the measurement basis that reflects the said input factors except for the effect of changes in an entity’s own credit risks.
37. The need for more explicit consideration of selected inputs (in particular, the discount rate) was cited in the paper authored by Dr. Thomas J. Linsmeier *A Revised Model for Presentation in the Statement(s) of Financial Performance: Potential Implications for Measurement*¹². As additional thoughts on measurement, this paper pointed out that there is no conceptual basis as to when only the estimate of cash flows (and not the discount rate) are updated, and suggested that the measurement chapter of the *Conceptual Framework* should provide a basis for determining when to use the following subsequent measurement methods: (a) allocated historical costs, (b) historical cost with remeasurement of cash flows and not the discount rate, if any, and (c) fair value or another current value measure.
38. Due to the challenges to foresee the future standard-setting needs, the ASBJ admits that it is rather difficult to develop a comprehensive conceptual model regarding when and how only part of inputs should be updated. At the same time, the ASBJ thinks that it is at least possible and important to establish a protocol to make sure that the IASB clearly explains the reason why it thinks that only part of inputs should be updated and not the others in the Basis for Conclusions, when it decides to require the use of measures with partially-updated inputs in its standard setting process.

Measures with Locked-in Inputs

39. This category refers to the measurement bases that do **not** require periodic updates on any of the six input factors in the measurement; thus all input factors are locked-in at the

¹² Dr. Linsmeier’s paper can be downloaded from the following web-site:
<http://www.ifrs.org/Meetings/MeetingDocs/ASAF/2014/March/AP5A%20Presentation%20and%20Measurement.pdf>

initial recognition (or the timing on which the original cost base is changed). This category typically includes measurement bases that are solely based on the original transaction cost (unadjusted historical cost)¹³ but also includes the cost as adjusted by relevant factors, such as depreciation or amortisation, and accretion of discount or amortisation of premium.

40. IAS 16 *Property, Plant and Equipment* requires depreciation of property, plant and equipments in determining their measures, while also requiring the assessment of whether to recognise impairment losses. At the time when an impairment loss is recognised for an item, its carrying amount would be replaced with its “value in use” which reflects all the six factors (which is the measure with fully-updated inputs). Then, the replaced carrying amount (which reflects the value in use at that time) is considered as the new cost base, and thus, the subsequent carrying amount is considered as the measure with locked-in inputs based on the new cost base.

¹³ Glossary of IFRSs defines cost as the amount of cash or cash equivalents paid or the fair value of other consideration given to acquire an asset at the time of its acquisition or construction, or when applicable, the amount attributed to that asset when initially recognised in accordance with the specific requirements of other IFRSs (e.g., IFRS 2).

Conclusion

41. Based on the explanations in paragraphs 30 to 40 of this paper, the measurement categories can be visualised as follows:

Table 1: Classification of Measurement Bases

Whether to update input factors \ Assumptions used	Market Participants' Assumptions	Entity-Specific Assumptions
Fully update	<i>Current Market Measures</i> ¹⁴ (e.g., fair value, fair value less cost to sell)	e.g. <i>Value in Use, Fulfilment Value</i>
Partially update	e.g., <i>Measures that do not reflect the changes in an entity's own-credit risks (as required by IFRS 9)</i>	e.g., <i>Amortised Cost as defined in IFRS 9</i>
Not updated (Lock-in)	e.g., <i>Original cost, Depreciated Balance</i>	N/A

42. Having regards to the classification in the table above, the ASBJ suggests that the IASB establish a protocol to consider the following matters when determining relevant measurement bases of assets and liabilities in its standard setting process. In the ASBJ's view, this will assist the IASB to select relevant measurement bases in its standard setting more consistently.

- (a) Reasons why a measurement basis classified within one of the three categories (i.e., measures with fully updated inputs, measures with partially updated inputs, or measures with locked-in inputs) is used, for measurement bases both for the purpose of reporting an entity's *financial position* and *financial performance*.
- (b) When a measurement basis classified within the category "measures with partially updated inputs" is selected, the reason why updating only part of inputs is considered to be relevant.
- (c) When different measurement bases are selected from the perspectives of reporting an

¹⁴ This category corresponds to the upper left part of the table in paragraph 21 of the ASBJ's Paper titled, *Role of Nature of an Entity's Business Activities* (Agenda Paper 2-2).

entity's *financial position* and *financial performance*, the reason why.

- (d) Whether a measurement basis is considered based on market participants' assumptions or entity-specific assumptions.
43. In addition, as stated in paragraphs 16 to 18 of this paper, the ASBJ believes that it is highly important that 'profit or loss' properly reflects the return that an entity has produced on its economic resources during the period. Thus, the ASBJ also suggests establishing principles that would assist the IASB to properly select the "current market measures" in standard setting process. For details, please see the paper titled, *Role of "Nature of an Entity's Business Activities" in Accounting Standard-Setting*, which explains when to use the "current market measures" in reference to the nature of an entity's business activities conducted.

IV. Identification and Descriptions of Measurement Bases

44. As for identification of measurement bases, the IASB tentatively decided that the "current value" category includes measurement bases such as "fair value", "value in use" and "fulfilment value" (see paragraph 10 of this paper.) At the same time, the IASB did not identify measurement bases at a granular level.
45. There are a number of possible ways to identify measurement bases. For example, as stated in paragraphs 3 and 5 of this paper, the existing *Conceptual Frameworks* of the IASB and the FASB identified different sets of measurement bases. The Glossary of IFRSs identified the following measurement bases:
- (a) Amortised cost of a financial asset or financial liability (IAS 39);
 - (b) Carrying amount (IAS 16, IAS 36 and IAS 38);
 - (c) Cost (IAS 16, IAS 38 and IAS 40);
 - (d) Fair value (as differently defined in IFRS 13 and IFRS 2);
 - (e) Fair value less cost to sell (IAS 36);

- (f) Net realisable value (IAS 2); and
 - (g) Value in use (IFRS 5).
46. As summarised in Appendix of this paper, a number of other ideas have also been tested during the course of the pre-2011 project on the *Conceptual Framework* (mostly discussed jointly by the IASB and the FASB). This indicates that there are various approaches to identify measurement bases, but there is not a clear principle.
47. The ASBJ understands that identifying and describing each of possible measurement bases has values. For example, by doing so, constituents can properly understand different nature of measurement bases. However, the ASBJ suggests that the *Conceptual Framework* should keep the discussion of identification and descriptions of measurement bases at a high level and not discuss details (including the strength and weakness of different measurement bases) for the following reasons:
- (a) Reaching a reasonable consensus on a list of possible measurement bases is considered challenging and even impossible, due to the limitation of not being able to foresee the future needs of the different measurement bases.
 - (b) Trying to identify and describe possible measurement bases extensively is likely to result in the *Conceptual Framework* being very lengthy. Many believe that the *Conceptual Framework* should not be too lengthy, because of its nature as the guiding principle.
 - (c) For the reasons stated in this paper, the ASBJ is of the view, an appropriate classification of measurement bases into categories is more important for the IASB to select relevant measurement bases of assets or liabilities in standard setting.
 - (d) The ASBJ does not think that the strengths and weaknesses of measurement bases can be discussed separately from the selection of a relevant measurement basis. The cited strengths will not be applicable, when a measurement basis is selected inappropriately.

Past Discussion about Identification of Possible Measurement Bases

48. The following paragraphs summarise possible measurement bases that were identified in the course of the pre-2011 project on the *Conceptual Framework*. This is to identify different alternatives that can be considered so as to identify possible measurement bases.

Discussion Paper by Staff of the CASB (November 2005)

49. In November 2005, the IASB published the Discussion Paper “Measurement Bases for Financial Accounting: Measurement on Initial Recognition” developed by Staff of the Canadian Accounting Standards Board (CASB). This DP identified the following measurement bases as the possible bases for measurement on initial recognition.

- (a) Historical cost;
 - (b) Current cost;
 - (c) Net realisable value;
 - (d) Value in use (of an asset)
 - (e) Fair value; and
 - (f) Deprival value.
50. This Discussion Paper explained that this set of measurement bases was developed as a starting reference point based on those currently being used in IFRSs (paragraph 33 of the Discussion Paper).

IASB board meeting (June 2006)

51. The Staff Paper for the June 2006 IASB board meeting (that discussed the measurement phase plan) identified the following classification by way of grouping measurement bases into ‘two families of measurement bases’.

- (a) The historical cost family (including original transaction price, original entry value, accumulated cost, allocated cost, amortised cost, and combination of accumulated, allocated and amortised costs)
- (b) Current value (including current cash equivalent, replacement cost, reproduction cost, deprival value, entry value, exit value, fair value, net realisable value and value in use)

IASB and FASB joint boards meeting (October 2006)

52. The Staff Paper for the October 2006 IASB and FASB joint boards meeting that discussed measurement bases classified measurement bases into the three categories. The Staff Paper also explained that within each category, measurement bases are labelled, defined, and exemplified from the perspective of both assets and liabilities and each basis is also classified as to its type of economic worth indicator (price or value) and its basic time frame orientation (past, present, or future) to the extent possible, which is summarised as follows:

- (a) Historical measurement bases (consisting of past entry price, past gross entry price, accumulated past (gross) entry price, allocated past (gross) entry price, amortised/depreciated price, combined price);
- (b) Current measurement bases (consisting of current entry prices, current exit price, current equilibrium price, current net exit price, current gross exit price, value-in-use, deprival value, relief value); and
- (c) Future measurement bases (consisting of future net exit price and most likely future amount).

IASB and FASB joint boards meeting (April 2007)

53. The Staff Paper for the April 2007 IASB and FASB joint boards meeting that discussed measurement basis candidates and other milestone 1 issues classified measurement bases into nine primary bases.

Past

- (a) Past entry price
- (b) Modified past entry amount
- (c) Past exit price

Present

- (d) Current entry price
- (e) Current exit price
- (f) Current equilibrium price
- (g) Value in use

Future

- (h) Future entry price
- (i) Future exit price

IASB and FASB joint boards meeting (January 2009)

54. The Staff Paper for the January 2009 IASB and FASB joint boards meeting that discussed measurement recasted the set of potential measurement bases for the *Conceptual Framework* into two groups (i.e., actual, estimated and forecast prices and non-price amounts) to reduce the number of potential measurement bases, and presented the following classification:

Actual, Estimated and Forecast Prices

- (a) Adjusted past entry price
- (b) Adjusted estimated past exit price
- (c) Actual or estimated current entry price
- (d) Estimated current exit price

Non-price Amounts

- (e) Prescribed present value computation

(f) Fair value-based amount

IASB and FASB joint boards meeting (June 2009)

55. The Staff Paper for the June 2009 IASB and FASB joint boards meeting that discussed measurement presented the “Sample Measurement Chapter” for consideration to be incorporated into the *Conceptual Framework*. The Sample Measurement Chapter grouped possible measurement bases into five categories as shown in the following table.

Current Measures	Non-Current Measures
Current Prices: Current entry price (actual or estimated) Current exit price (estimated)	Past Prices: Past entry price (actual or estimated) Past exit price (estimated)
Present Value Computations: Value in use Fair value based amounts Other prescribed present value computations	Adjusted Past Prices: Accumulated or accreted Allocated or amortized Combination
	Undiscounted Future Cash Flows