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**International
Accounting Standards
Board**

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These notes are based on the staff papers prepared for the IASB. Paragraph numbers correspond to paragraph numbers used in the IASB papers. However, because these notes are less detailed, some paragraph numbers are not used.

INFORMATION FOR OBSERVERS

Board Meeting: 22 March 2007, London

Project: Conceptual Framework

Subject: Phase C: Measurement 3A: Plan for Using Measurement Roundtables Comments (Agenda Paper 10B)

INTRODUCTION

1. *Measurement 3: Measurement Roundtables Summary* (FASB Memorandum 50, IASB Agenda Paper 10A) summarizes the comments made at the measurement roundtables held in January and February, 2007, as part of the measurement phase of the conceptual framework (CF) project. This paper contains the staff's proposals for using or otherwise considering those comments and should be read in conjunction with the summary.
2. This paper is organized in three principal sections: (a) recommended changes in the overall plan for the measurement phase (Phase C) of the CF project as a result of the roundtable comments, (b) actions that the staff plans to take in relation to some of the issues in Milestone I and Milestone II after considering roundtable comments, and (c) disposition of roundtable comments not considered in the first two sections.
3. As a reminder, Milestone I of Phase C is currently in process and focuses on developing an inventory of measurement basis candidates, Milestone II will

address the evaluation of those bases using various criteria (including the qualitative characteristics), and Milestone III will include the Boards' selection of a basis or bases, as well as consideration of some of the practical implications of that selection.

4. Please note that throughout this paper the staff refers to paragraph numbers in *Measurement 3*. These references are parenthetical and denoted by the symbol ¶.

CHANGES TO THE OVERALL PLAN

5. One participant in the roundtables expressed hope that the plan for the measurement phase of the CF will remain flexible (¶20). The staff proposed flexibility as a principle in the original plan that was presented to the Boards at their joint meeting in April 2006, and still supports that principle.
6. The original plan included certain recommendations for public consultations and due process documents. The staff recommended holding discussions near the beginning of each of the measurement phase's three milestones as well as other public consultations as needed. The staff also recommended issuing a single due process document at the end of each milestone, namely a milestone draft after Milestone I, a preliminary views document after Milestone II, and an exposure draft after Milestone III.

Public consultations

7. Thus far, the plan has been followed with respect to public consultations in Milestone I. Several meetings with various constituent groups were held between the April 2006 adoption of the measurement phase plan and the roundtables in January and February of 2007. Those meetings, as well as the roundtable discussions, were held in advance of any decision-making meetings of the Boards on Milestone I issues.
8. The staff thinks that the roundtables and other public consultations held during Milestone I (a) achieved the goals of informing constituents about plans for the measurement phase, (b) provided the Boards and staff with feedback, (c)

involved constituents early in the process, and (d) allayed concerns about the direction of the measurement phase of the CF project.

9. Nevertheless, the staff recommends that roundtable discussions not be planned for the beginning of the second and third milestones of the measurement phase, at least not at this time. There are three reasons for the staff's recommendation.
10. First, the roundtables and other consultations held in Milestone I covered not only aspects of and issues related to that milestone, but also the other two milestones as well. Because the roundtable discussions did not follow a rigid format and the milestone issues were given to participants only as part of the background material, that result was unexpected. The staff was particularly satisfied that roundtable comments touched on every issue in the measurement phase to some extent and some issues to a considerable extent.
11. Second, given the breadth of comments made in the roundtable discussions, the staff thinks that most constituents will require more in-depth analysis from the Boards and staff on Milestone II and III issues to advance their thinking or enable them to comment thoughtfully on the Boards' tentative decisions. For that reason, roundtables at the beginning of the next two milestones are unlikely to shed new light on the measurement plan or measurement issues and, thus, would not be a good use of Board, staff, or constituent time.
12. Third, roundtable discussions, even when they serve a good purpose and are successful, are time-consuming. From planning through execution and now reporting, Milestone I roundtables have taken six or seven months. Given the Boards' initial reluctance to accept a plan for the measurement phase that stretches into the year 2010, the staff thinks that is an important consideration.

Due process documents

Milestone I

13. Reflections on the public consultations of Milestone I and a participant comment during the roundtable discussions suggest to the staff that plans for due process documents also should change. The original plan called for a milestone draft to be issued at the end of the first milestone. That document that would represent

the results of the Boards' deliberations and resemble the draft of a preliminary views document. However, it would not ask for comments formally, require a comment period, or require redeliberations before moving on to Milestone II issues.

14. The staff continues to support a less formal Milestone I due process document. However, it now suggests that a simpler document, which the staff would call a milestone summary, be posted to the Boards' websites. The milestone summary would summarize the measurement bases agreed on by the Boards for further consideration in Milestone II and could be prepared using a few charts and/or tables with minimal narrative, much like the background materials used for the roundtables. Thus, it would be considerably shorter than a milestone draft that contained suggested CF text and a basis for conclusions.
15. The staff thinks that such a summary would be sufficient and would provide the Boards, staff, and constituents with an easy and ready reference for considering Milestone II issues. That approach would also reduce the length of the measurement phase because the staff would need less time to prepare such a summary.

Milestones II and III

16. Originally, the staff recommended issuing a preliminary views document (PV) at the end of Milestone II and an exposure draft (ED) at the end of Milestone III. The idea behind that recommendation was that the staff could begin working on Milestone III issues during the comment period for the PV, make any changes needed after the roundtables at the beginning of Milestone III, and roll the result into a larger ED at the end of Milestone III.
17. Comments made at the Milestone I roundtables suggest that a different approach may be preferable. First, one participant argued for both a PV and an ED at the end of Milestone III (¶20c). Second, Issue 12 (single-basis model vs. mixed-basis model, ¶¶68-87) in Milestone III seemed to be the central theme of roundtable comments. That suggests that constituents may view Milestone III as the main focus of the measurement phase, with Milestones I and II providing background and analysis for the final milestone.

18. The staff agrees with that view, especially if the Boards take a non-conclusive approach evaluating the measurement bases in Milestone II, such that no measurement basis is eliminated from further consideration during Milestone II for failure to satisfy the requirements of any particular evaluative criterion. The staff proposes that the Boards take such an approach, deferring decisions about particular measurement basis candidates until the results of applying all the evaluative criteria Milestone II can be summarized and viewed in one place.
19. If the Boards agree, the staff suggests that a milestone summary, similar to that of Milestone I, be issued following the completion of Milestone II. The staff also recommends adopting the roundtable participant recommendation to produce both a PV and an ED at the end of Milestone III.

CHANGES RELATING TO MILESTONE I AND II ISSUES

Milestone I

Issue M01: What are the measurement basis candidates?

20. Participants who commented on this issue shared the opinion that the staff has identified too many measurement basis candidates, particularly in the historical category (§§21, 22). Some participants suggested reducing the number of bases, while others suggested grouping them by families. At the Boards' joint meeting in October 2006, some Board members also suggested grouping.
21. The staff thinks that some important distinctions would be lost by eliminating either the historical cost variants or the current entry value variants in its inventory of measurement bases. However, the staff agrees that some additional grouping beyond past, present, and future bases should be done and would not inhibit analysis and evaluation in Milestone II. The next paper that the staff brings to the Boards (planned for April) will be a revision of the October measurement bases paper and will include appropriate changes.

Issue M03b: What is the basic time orientation of each measurement basis?

22. Roundtable participants who commented on this issue did not find the staff's analysis helpful (§28). Some members of the Boards made similar comments at

the October meeting. The most common remedy suggested was to eliminate that analysis.

23. The staff agrees that there is a problem with its current approach to the time frame orientation of measurement bases, but is reluctant to eliminate the analysis at this time. The time frame in which a measurement is made or from which inputs to a calculation, estimate, or model are drawn, are important measurement considerations. As the staff noted in October, such considerations may influence the outcome of measurement basis evaluations in Milestone II. The staff proposes to re-examine its time frame analysis and either improve it or eliminate it in the revision of the measurement bases paper.

Milestone II

Phase A concerns

24. Some roundtable participants objected to proceeding with the evaluation of the measurement basis candidates until decisions have been finalized with respect to the objectives of financial reporting and the qualitative characteristics of decision-useful information in Phase A of the CF project. Other participants countered that delay is neither practical nor necessary (§§32-36).
25. The staff agrees with those participants who favor proceeding without delay. The staff also notes that redeliberations of the Boards' decisions in Phase A of the CF project should be complete and an ED should be in process by the fourth quarter of this year. As Milestone II of the measurement phase is unlikely to be completed before then, the opportunity will remain for the Boards to modify Milestone II decisions to conform to any changes they make in Phase A.
26. In any case, the evaluation of the measurement basis candidates will need to consider some of the issues raised by participants who favor delay. In particular, future analysis should allow for differential evaluation of bases in relation to financial statements on the one hand, and financial reporting beyond the statements on the other. For example, the criterion of verifiability would likely be crucial in evaluating bases for use in the financial statements, but may not be so important for forecasted information intended for a management discussion and analysis report.

27. Additionally, future analysis should acknowledge that the evaluation of measurement basis candidates may depend on the purpose of a particular financial statement, and that purpose should be clearly stated as part of the evaluation. For instance, the relevance of a measurement basis candidate may vary depending on whether the balance sheet is seen as a report of the economic financial position of an entity or simply as a portrayal of the results of the double-entry balancing mechanism.

High-level issues

28. Some roundtable participants thought that certain high-level issues should be addressed before evaluating the measurement bases using the qualitative characteristics. The issues mentioned were capital maintenance, unit of account, and the monetary unit (¶¶37, 38).
29. The staff agrees that those topics are relevant to a thorough analysis of measurement issues. A Board paper that is planned for second or third quarter will address capital maintenance and the monetary unit. For the time being, the CF staff has decided to keep the unit of account issue in Phase B (Elements and Recognition) of the project, although the measurement phase may also discuss it briefly.
30. As a result of both strategic planning and feedback from constituents during the consultations held in 2006, the staff also plans to discuss scientific measurement concepts and principles as a high-level topic in a separate Board paper that is planned for the second or third quarter. In that paper, the staff plans to summarize the two main views of measurement held by members of the scientific community, clarify measurement terms (such as *measurement*, *estimation*, *calculation*, *prediction*, *forecast*), and describe the characteristics of a good measurement basis. Both the capital maintenance (with monetary unit) and the measurement principles papers will precede those that evaluate the measurement bases using the qualitative characteristics.
31. ***Issue M06: Are the measurement bases relevant to economic resource allocation decisions?***

32. Some participants questioned the phrasing of this issue, suggesting that overall decision usefulness or assessment of future cash flows would be a better focus for relevance (¶41). The staff has not reached a conclusion on those suggestions, but will consider them and make any changes before the Boards and staff begin work on Milestone II.
33. Some roundtable participants questioned whether the relevance of measurement bases depends on (a) the nature of particular assets and liabilities, (b) the type of financial report user, or (c) the kind of activity that is accounted for (¶40). Some participants asserted that relevance depends on user *needs*; others asserted that relevance relates to user *wants*. In general, participants questioned whether the measurement basis candidates can be evaluated using the relevance criterion without identifying user needs or wants (¶¶43, 43).
34. The staff intends to address those issues in a separate Board paper on relevance and decision usefulness, rather than as part of one paper that evaluates the measurement bases using all the qualitative characteristics. The separate paper will discuss decision usefulness in general, from the broad perspective of economic decision making, from the point of view of financial statements, and in the context of financial reporting beyond the financial statements. In the final part of the paper, the staff will evaluate the measurement basis candidates using relevance as a criterion.

Issue M07: Can the measurement bases be used to create faithful representations of assets and liabilities that can be verified?

35. Some roundtable participants commented that more detail should be included in this issue to clarify that all components of the faithful representation criterion (and any other criterion with components) will be used in evaluating the measurement basis candidates (¶47). The staff agrees and will make such changes.
36. Despite the replacement of *reliability* with *faithful representation* and the discussion of *faithful representation* and *verifiability* in the PV for Phase A of the CF project, many participants continued to focus on reliability and assign

various incompatible meanings to reliability, faithful representation, and verifiability (§§44-47).

37. The staff plans to clarify those concepts with respect to measurement issues in a separate Board paper on faithful representation and verifiability. However, those concepts and/or the relationships among them may be subject to change during redeliberation of Phase A of the CF project. Therefore, the measurement staff will coordinate with the Phase A staff so that the planned paper is in harmony with the Board's redeliberation decisions. Following the pattern of the separate Board paper on relevance and decision usefulness, that paper will discuss the concepts first, then use them as criteria to evaluate the measurement basis candidates.

Issue M10: Are there concepts in addition to the qualitative characteristics that should be used to evaluate the measurement bases (for example, capital maintenance and scientific measurement concepts)? If so, how do the bases fare against them?

38. Both capital maintenance and scientific measurement concepts were suggested by participants in the roundtables or in the consultations that preceded them as higher-level topics that should be discussed before the qualitative characteristics. As mentioned above, the staff intends to take that course. At the same time, the staff thinks those concepts can be used to evaluate the measurement basis candidates and plans to do so.
39. During the roundtables, participants suggested other evaluative criteria (§§51, 52). Some of those will likely be discussed as part of the papers described above, but not given the status of separate criteria (stewardship, for example). Others will either be subsumed by the evaluative criteria already planned, or will be found incompatible with the planned criteria. In one manner or another, the staff thinks all suggestions will be considered.

CONSIDERATION OF OTHER ISSUES

40. Roundtable comments not addressed in the previous two sections can be grouped into three categories, namely (a) supportive comments, (b) comments

for future use, and (c) concerns about the measurement phase in general. Each of these categories is discussed below.

Supportive Comments

41. Some of the comments not addressed here support the issues the measurement plan includes and/or the way the Boards and staff plan to address them. The staff expresses appreciation to the participants who made those comments and will do its best to carefully and fairly analyze the measurement phase issues as approved by the Boards.

Comments for Future Use

42. Most of the comments not addressed in the previous two sections of this paper represent positions, views, and ideas about issues that the Boards already plan to address but that do not, in the staff's view, require any change to the measurement phase plan, the measurement issues, or any other disposition at this time. Those comments will be reviewed and considered in due course as the staff analyzes particular measurement issues.
43. The preponderance of comments on a single-basis model versus a mixed-basis model (Issue M12, ¶¶68-87), and the general tenor of those comments has already figured into the staff's proposal to change planned due process documents, as discussed earlier in this paper. However, the individual comments relating to that issue, as well as those on the merits of historical cost versus the merits of fair or current value (Issue M11 (¶¶53-67) fall into the category of comments that will be considered carefully at the appropriate time, but deferred for now. Many of those comments may provide the staff with useful details or alternatives to consider.

Overall Concerns

44. Some roundtable participants seemed uneasy with the overall direction of the measurement phase of the CF project, aside from any objections or concerns that relate to the milestones and their particular issues. Those concerns are discussed here, because the staff does not think that they should result in changes to the

measurement phase plan or its issues, but does think they should be brought to the attention of the Boards now.

Conceptual ideal

45. A number of participants seemed concerned that the Boards were using the measurement phase of the CF project to find a conceptual ideal, whether that be a single basis or a mixture of bases. The staff interprets their comments (¶¶8-11) as a desire to see a less conceptual and more practical approach in the measurement phase from beginning to end, resulting in a more organized inventory of extant measurement bases, with suggestions for their use, but stopping far short of a conceptual mandate for widespread change in standards.
46. The staff thinks the search for a conceptual ideal is appropriate for at least two reasons. First, the primary purpose of the CF, including the measurement phase, is to provide the Boards with guidance in their standard-setting responsibilities. The staff acknowledges that many constituents may not want to see changes in the CF because they do not want standards to change as a result. That concern ignores the fact that although the current frameworks often may be viewed as conflicting with standards or practices, such conflicts have not led to precipitous change. The Boards have been very deliberate in making changes stemming from the current frameworks and should not be expected to proceed any differently with respect to the improved and converged frameworks. Second, it seems preferable for the Boards and staff to aim for an ideal and fall short of the goal than to aim low in the first place. The CF project is, after all, a *conceptual* project.

Asset/liability view

47. Some participants objected to the primacy of the asset/liability view that is inherent in the preliminary views document for Phase A of the CF project and has been implicitly adopted by the staff for the measurement phase (¶¶14-17). In response, the staff thinks that the asset/liability view is the correct approach to the issues in Phase A and that the measurement phase would be largely fruitless if it took an approach inconsistent with that of Phase A.

48. One participant objected to the Phase A interpretation of income based on economist J. R. Hicks' work (¶17). The staff plans to address that participant's criticism, either in its capital maintenance paper or elsewhere.

Non-profits and SMEs

49. Some participants expressed concern that the measurement phase might not consider the needs of non-profit organizations and SMEs. The staff acknowledges those concerns. However, the Boards have decided that the CF project will focus first on business entities generally. To the extent that the results of the measurement phase do not appear to satisfy the needs of non-profit entities and SMEs, later work in the CF project will address those needs.

Working group

50. One participant suggested that a working group be formed to support the measurement phase of the CF project (¶20a). In response, the staff observes that the advisory councils to the FASB and the IASB (FASAC and SAC, respectively) are performing that role for the CF project, including the measurement phase. The CF staff meets regularly with those bodies, which are also among the groups the measurement staff consulted with prior to the roundtables. The staff plans continued consultation with FASAC and SAC as the measurement phase progresses.

MILESTONE I AND II BOARD PAPERS TIMETABLE

51. [Paragraph omitted from Observer Notes].