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International Accounting Standards Board

This document is provided as a convenience to observers at IASB meetings, to assist them in following the Board's discussion. It does not represent an official position of the IASB. Board positions are set out in Standards.
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.

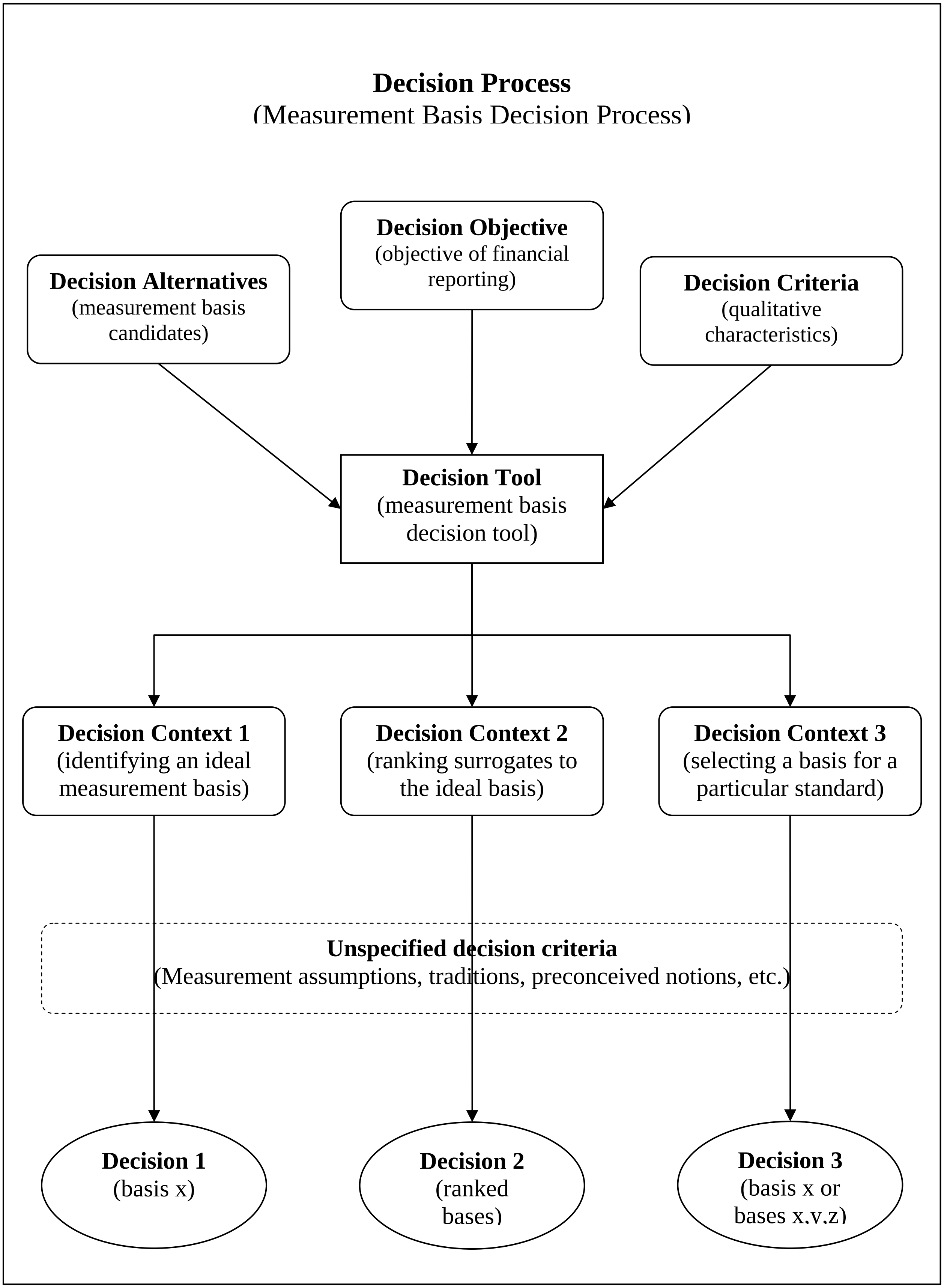
INFORMATION FOR OBSERVERS

IASB Meeting:	**13 November 2007, London**
Project:	**Conceptual Framework**
Subject:	**Measurement 6C: Measurement Basis Decision Tool (Agenda paper 3C)**

1. In September and October 2007, the staff met with IASB and FASB Board advisors and discussed a tool to help the Boards make decisions about measurement basis candidates. This tool is a matrix that helps the decision maker to rank the candidates in a particular context with respect to specified decision criteria. This paper presents a preview of the decision tool and is organized as follows:
   a. The decision tool and its objective
   b. The decision alternatives
   c. The decision criteria
   d. The decision context
   e. An example.

The Decision Tool and Its Objective

2. The diagram on the following page illustrates the process of building a decision tool and then placing the tool in a particular context for making a decision. As illustrated, building the tool requires the decision maker to identify a decision objective. The objective of making decisions about measurement basis candidates is the same as the objective of general purpose external financial reporting of an entity (that is, to provide decision-useful information to providers of the entity's capital).


Decision Process
(Measurement Basis Decision Process)
Decision Alternatives
(measurement basis candidates)
Decision Objective
(objective of financial reporting)
Decision Criteria
(qualitative characteristics)
Decision Tool
(measurement basis decision tool)
Decision Context 1
(identifying an ideal measurement basis)
Decision Context 2
(ranking surrogates to the ideal basis)
Decision Context 3
(selecting a basis for a particular standard)
Unspecified decision criteria
(Measurement assumptions, traditions, preconceived notions, etc.)
Decision 1
(basis x)
Decision 2
(ranked bases)
Decision 3
(basis x or bases x,y,z)

The Decision Alternatives

3. In Milestone I of the Measurement phase, the Boards agreed to a list of measurement basis candidates. The staff intends to discuss all nine of those candidates (at least to some extent) in the Boards' package next February. However, the staff has excluded the following four from this preview of the decision tool:

   a. Past exit price

   b. Current equilibrium price

   c. Future entry price

   d. Future exit price.

4. The staff thinks the tool's usefulness is enhanced by excluding these four candidates, thus focusing the Boards' time on more critical issues and decisions. The specific reasons for excluding them will be further explained as part of a package that the staff will present to the Boards when the tool is populated and the supporting staff analysis is complete. One general reason, however, is that the staff preliminarily evaluated all nine candidates and consistently ranked these four as the lowest, regardless of the context in which they were evaluated.

5. Another general reason is that their concept is limited in current practice. As an example, consider the *past exit price* candidate. A specific asset may be measured at its current exit price in one reporting period. But in subsequent reporting periods, this asset is likely to be remeasured at its then current exit price or to have its past exit price modified. In either scenario, the past exit price of the asset is not reflected in the financial statements because it either is updated each reporting period to a current exit price or it is captured by the *modified past amount* notion. Current equilibrium price and the future entry and exit prices are also candidates that the staff thinks are too impractical to include as decision alternatives in the tool.

6. The table below lists the original nine measurement basis candidates from Milestone I and then checks the five candidate alternatives that the staff suggests including in the decision tool.

Milestone I Candidates	Candidates to Include in Decision Tool
Past entry price	✓
Past exit price	
Modified past amount	✓
Current entry price	✓
Current exit price	✓
Current equilibrium price	
Value in use	✓
Future entry price	
Future exit price	

7. **Do the Boards agree that the four candidates shown in paragraph 3 should be excluded from the list of decision alternatives in the decision tool?**

The Decision Criteria

8. After identifying the candidates, it is necessary to specify the criteria by which those candidates will be evaluated. The staff acknowledges that it is not possible to identify all criteria considered by a Board member when making a measurement basis decision. That is, each Board member brings to the table certain unspecified decision criteria based on underlying personal values, experiences, assumptions, preconceived notions, and traditions. These unspecified criteria are depicted in the diagram on page 2 to show that they may influence the Boards' measurement decisions regardless of the context and the specified decision criteria.

9. The decision tool requires the input of specified decision criteria. The Boards have agreed that these specified criteria should be the qualitative characteristics

of financial reporting information. Evaluating the candidates based on these characteristics will ensure internal consistency throughout the conceptual framework and will also make sure the measurement phase adheres to the overarching objective of general purpose external financial reporting.

10. The decision criteria are listed below:
    a. Relevance
    b. Faithful representation
    c. Verifiability
    d. Comparability
    e. Understandability
    f. Timeliness.

11. Absent from the above list are some criteria the staff originally intended to include but is now excluding. These criteria relate to high-level concepts of measurement and capital maintenance. The staff does not recommend including these concepts because the staff thinks they are implicit in other aspects of the decision tool.

12. For example, the staff presented a paper on measurement concepts in July 2007. This paper suggested that a measurement basis must be a real, present, and observable attribute of an asset or a liability. The staff thinks that these measurement concepts are adequately captured by qualitative characteristics such as faithful representation and verifiability. That is, if a basis candidate is not real, present, or observable, then it cannot be considered to faithfully represent a real economic phenomenon and it is not verifiable.

13. With regard to the concept of capital maintenance, the staff thinks it is not useful as a separate decision criterion for measurement basis decisions. Rather, the preferred concept of capital maintenance (whether physical or financial), depends on a particular decision context and on the particular notion of income (or component of income) within that context.

14. Some users of the tool may consider one criterion to be more or less important than other criteria. Hence, the tool allows the decision maker to indicate a weighting factor on a scale of zero to two in half point increments. The February package will further discuss the reasons for using this range. This factor assigns a greater or lesser weight to the rankings within each criterion when calculating a final score for each decision alternative. The example below, starting in paragraph 18, illustrates how these factors can affect the tool's outcome.

15. **Do the Boards agree to use the qualitative characteristics of financial reporting as the evaluative criteria for making measurement basis decisions?**

16. **Should the staff include any other specified criteria in the decision tool? If so, what should these criteria be and why should they be included?**

The Decision Context

17. Once the decision tool is built, then the decision maker must place it within a particular context for making a decision. The staff foresees the tool being useful in the following three decision contexts which will be considered for the February package for the Boards:

    a. *Identifying a conceptually ideal measurement basis* – this context involves identifying a single measurement basis candidate that conceptually meets the objective of financial reporting better than the other candidates. This context does not consider any practical limitations of implementing an ideal. The staff intends to populate the decision tool within this context and present the supporting analysis next February.

    b. *Ranking surrogates for the conceptually ideal measurement basis* – the staff also intends to use the tool within this context as part of the measurement package next February. This context acknowledges that implementing a conceptual ideal throughout all financial statements is not likely to be feasible presently. Therefore, other measurement bases may need to serve as surrogates for that ideal basis (although with the same measurement objective).

c. *Selecting a basis for a particular standard* – this third context refers to measurement decisions made at the level of a specific standard. This context acknowledges that setting a standard for a particular asset or liability may involve considerations that are not part of either context *a* or context *b.* These considerations might include the difficulty of measuring the ideal basis from context *a,* or the fact that a lower ranked surrogate from context *b* is more cost beneficial in a particular context than the highest ranked surrogate.

An Example

18. To demonstrate how the tool works, assume that candidates A, B, C, D, and E are being evaluated based on the objective and qualitative characteristics of financial reporting information. The context is ranking candidates to use within mixed-basis financial statements because the conceptually ideal measurement basis has practical limitations.

19. Based on these assumptions, the decision maker ranks the alternatives by ordering the measurement basis candidates A through E on a scale of five to one with five representing the highest (best) position and one representing the lowest (worst) position relative to that particular criterion. As an example, the decision maker considers candidate A to be the most relevant alternative to the objective of financial reporting information in the stated context and therefore assigns it a five. On the other hand, candidate E is considered the least relevant to the decision objective and is assigned a one. After ranking each alternative for all six specified criteria, the decision tool calculates a total score and indicates a final rank.

20. The measurement basis candidates A through E and their rankings relative to the decision criteria are purely arbitrary in this example. That is, this example is illustrative only and should not be construed to have any reference to the measurement basis candidates from Milestone I that will actually be considered.

21. This table illustrates the tool's outcome based on the hypothetical candidates and rankings:

Measurement Basis Candidates	**Relevance**	**Faithful representation**	**Verifiability**	**Comparability**	**Understandability**	**Timeliness**	**Total Score**	**Final Rank**
Candidate A	5	1	2	3	4	5	**20**	**1**
Candidate B	4	5	1	2	3	4	**19**	**2**
Candidate C	3	4	5	1	2	3	**18**	**3**
Candidate D	2	3	4	5	1	2	**17**	**4**
Candidate E	1	2	3	4	5	1	**16**	**5**

22. As seen above, candidate A received the highest total score and best final ranking. These results assume that the decision maker considers the decision criteria to be equal in their weighting on the decision and hence, each criterion is implicitly assigned a weighting factor of one. However, a decision maker may consider criteria such as relevance and faithful representation (primary qualitative characteristics) to be twice as important as another criterion such as comparability (an enhancing characteristic). In that case, all the rankings under the relevance and faithful representation columns would be multiplied by two in determining the final score.

23. To further illustrate the effect of changing the weighting factors, assume that the decision maker's rankings are exactly the same as they are in paragraph 21 above. However, the weighting of three criteria is changed as follows: relevance and faithful representation are changed to a factor of two because they are considered primary characteristics of financial reporting information. Verifiability is then changed to one and a half because it is considered more important than comparability, understandability, and timeliness but not as important as relevance and faithful representation. These weightings serve merely as an example of how a decision maker in a specific context may change the weighting factor of one decision criterion relative to others.

24. Based on these different weighting factors (and all else being equal), the total score and final ranking of the candidates change as follows:

Decision weighting factor of each criterion	2.0	2.0	1.5	1.0	1.0	1.0		
Measurement Basis Candidates	**Relevance**	**Faithful representation**	**Verifiability**	**Comparability**	**Understandability**	**Timeliness**	**Total Score**	**Final Rank**
Candidate A	5	1	2	3	4	5	**27**	**3**
Candidate B	4	5	1	2	3	4	**28.5**	**1**
Candidate C	3	4	5	1	2	3	**27.5**	**2**
Candidate D	2	3	4	5	1	2	**24**	**4**
Candidate E	1	2	3	4	5	1	**20.5**	**5**

25. This example demonstrates how the decision tool can be used in a specific context. The example also shows how changing the weighting factors of the

decision criteria can significantly change the tool’s outcome and ultimately, the decision. The February package will further discuss how the decision criteria are sensitive to and interpreted within a particular context.

26. **Do the Boards agree with the decision tool’s design and operation as demonstrated in this example?**