



Project	Conceptual Framework - Measurement
Topic	Discussion Paper Questions

Introduction

1. For some time, the Boards have discussed measurement papers written from a preliminary views perspective. That is, those papers have assumed that the ideas evolving from them might form the core of a preliminary views document.
2. This paper uses another perspective. In this paper, the staff proposes a set of questions with alternative views that might be used in a neutral discussion paper. The ideas resulting from past papers are represented in many of those questions and views, although they may not be developed or supported with the same level of detail. Additionally, other questions and views have been included that the Boards have not discussed for some time or have not discussed at all.
3. We have not included a full range of views on every question. For example, questions about the objective of financial reporting and the qualitative characteristics of useful information do not include the view that those concepts are not needed to guide the selection of measurements. The staff reasons that chapters on those concepts have been finalized, and ignoring their guidance in the measurement chapter is incompatible with the purpose of the framework project. Nevertheless, that view could be included with those questions if the Boards think it necessary for the sake of neutrality.
4. During the meeting at which this paper is discussed, the staff plan to ask Board members whether they want to develop a neutral discussion paper rather than a preliminary views paper. There are two reasons that approach might be useful. First, although Board members may agree on some issues presented in past papers, it is likely that they disagree

This paper has been prepared by the technical staff of the FASB and the IASB for discussion at a public meeting of the FASB or the IASB.

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on other issues. In any case, the Boards have yet to express a preliminary view by vote on any of the issues. Developing a neutral discussion paper will provide an opportunity to more fully and clearly articulate the reasons for views on each side of the various issues.

5. The second reason for a neutral discussion paper is that it might present a broader range of views, thus attracting the attention and comments of a greater and more diverse portion of the Boards' constituents. Given the difficult and controversial nature of measurement issues, that result might be desirable.
6. If the Boards decide not to publish a neutral discussion paper, we plan to use this paper as an internal vehicle for clarifying and explaining board members' views.
7. Whether or not the Boards decide to publish a neutral discussion paper, we will ask whether the questions and alternatives proposed in this paper are appropriate and cover all the relevant issues. More specifically, we will ask the Boards whether they want to alter, delete, or add questions or views.
8. The proposed questions are listed below without the accompanying alternatives to provide an overall view. We think the first three questions are the most important ones. The remaining questions are in no particular order.
 - (a) What are the implications of the objective of financial reporting for measurement?
 - (b) What are the implications of the qualitative characteristics of useful information for measurement?
 - (c) What should the measurement chapter accomplish?
 - (d) What should be the scope of the measurement chapter?
 - (e) Should the measurement chapter state that it is intended primarily for use by the Boards in setting standards?
 - (f) How should the term *measurement* be used in the measurement chapter?
 - (g) If *measurement* is used in an informal sense, should the measurement chapter explain the difference between its informal use of the term and the term's formal meaning?
 - (h) Should the measurement chapter classify measurements into categories?
 - (i) Should the chapter make a distinction between initial and subsequent measurement?
 - (j) Should the measurement chapter discuss concepts of capital maintenance?
 - (k) Should the measurement chapter discuss the concept of going concern?

What are the implications of the objective of financial reporting for measurement?

9. The objective of financial reporting is the foundation of the Conceptual Framework. Thus, the concepts and guidance of the measurement chapter of the Framework must logically flow from that objective. (Chapter 1, ¶OB1) Chapter 1 of the Framework (¶2) states that “the objective of general purpose financial reporting is to provide financial information about the reporting entity that is useful in making decisions about providing resources to the entity and in assessing whether the management and the governing board of that entity have made efficient and effective use of the resources provided.”¹
10. Paragraph OB6 of Chapter 1 illuminates what is meant by financial information about the reporting entity that is useful in making decisions about providing resources to the entity. That paragraph explains that existing and potential equity investors, lenders, and other creditors “are directly interested in the amount, timing, and uncertainty of a reporting entity’s future cash flows because those factors directly affect the prices and recoverability of their interests in the reporting entity.”
11. However, there are two views about the implications of Chapter 1 for measurement.

View A

12. Chapter 1 of the Framework implies that measurements included in general purpose financial reports should be selected for their ability both to inform users about the amount, timing, and uncertainty of reporting entities’ future cash flows and to assess whether managements of reporting entities have used resources provided to those entities efficiently and effectively.

View B

13. Chapter 1 is intended to apply to all facets of financial reporting, not just measurement. It is reasonable to assume that some aspects of the objective of financial reporting are relatively more important to certain areas of financial reporting than to others. Measurement is critical to financial statement users’ decisions. Because decision-making

¹ Because Chapter 1 of the new framework has not been finalized, this language may change. The quotation in paragraph 10 and the wording of paragraph 17(a) of this paper likewise are subject to change.

is primarily forward looking, the measurement chapter should focus on the forward-looking aspect of the objective of financial reporting, which is providing information about the amount, timing, and uncertainty of reporting entities' future cash flows.

14. Measurements also may provide information about management stewardship. However, it is not possible to simultaneously use both the future cash flows and the stewardship aspects of the objective of financial reporting to select measurements unless there is reason to believe that there is a direct and positive correlation between those aspects for all measurements. If such correlation is lacking, then those two aspects would likely point to different conclusions in many measurement selection decisions.

What are the implications of the qualitative characteristics of useful information for measurement?

15. Chapter 3 of the Framework states that the qualitative characteristics of useful financial information identify the types of information that are likely to be most useful to the primary users of financial reports for making decisions about reporting entities that are based on financial information (QC1). It follows that the qualitative characteristics must be considered in selecting measurements. However, there are alternative ways that the measurement chapter could build on that mandate.

View A

16. The qualitative characteristics are adequately described in Chapter 3. The measurement chapter's evaluation of the alternative measurements it describes (or of classes of those measurements) should be based solely on the descriptions of the qualitative characteristics in Chapter 3.

View B

17. The qualitative characteristics may have different implications or degrees of importance for various parts of the framework. Thus, an explanation of how each characteristic particularly relates to measurement may be useful. That explanation might include any or all of the following points:

- (a) Relevance in any decision-making situation is determined by the objective of the decision. For financial reporting, the objective of financial reporting determines a measurement's relevance. Thus, the most relevant measurement in any measurement selection decision is the one that best helps users of financial reports assess their prospects for net cash flows from actual or planned investments in, or extensions of credit to, the entity. Such a measurement should help users assess the amount, timing, and uncertainty of the reporting entity's future cash flows and evaluate management's past use of the resources provided to the entity.
- (b) The concept of value realization can provide insight into the relevance of alternative asset measurements. Assets may have economic value either in use, in exchange, or both. The amount, timing, and uncertainty of a reporting entity's future cash flows may differ depending on whether value is realized in use or in exchange. Understanding the value realization possibilities for a particular asset, or for a class of assets, may facilitate the selection of measurements.
- (c) The concept of value sacrifice can provide insight into the relevance of alternative liability measurements. Extinguishment of liabilities requires the sacrifice of economic value. That sacrifice may result from fulfilling the liability according to its contractual, statutory, or judicial terms; from cancelling the liability and settling with the counterparty; or from a market exchange (either a transfer of the liability to a third party or a purchase of the related asset in a secondary market). The amount, timing, and uncertainty of a reporting entity's future cash flows may differ depending on the way that value is sacrificed to extinguish a liability. Understanding the value sacrifice possibilities for a particular liability, or for a class of liabilities, may facilitate the selection of measurements.
- (d) A financial statement representation of an asset or liability is more than the description of that item and its accompanying measurement on the face of the statement of financial position (SFP), whether that depiction is a separate line item or is included only in a subtotal and total for that statement. A total representation of that item includes related information in the notes to the financial statements, related accrual-basis cash flows reported in the statement of comprehensive income (SCI), related changes in the measurement of that item reported in the statement of comprehensive income, and related cash flows reported in the statement of cash flows.
- (e) The qualitative characteristics, particularly the fundamental characteristics of relevance and faithful representation, should be considered in light of an item's total representation. Generally, SFP information is more important for assets and liabilities whose exchange value is relevant to users. In contrast, SCI information is generally more important for assets and liabilities whose use value is relevant to users.
 - (i) In any case, an item's total representation may be more relevant and complete (part of faithful representation) if additional information about a measurement or a change in that measurement is included in the notes. Moreover, a more relevant and complete

total representation may require showing more than one measurement in the SFP or disclosing a second measurement in the notes. It may also require segregating changes in an item's measurement included in the SCI from accrual-basis cash flows related to that item.

- (ii) In some cases, the change in an item's measurement may need to be bifurcated to isolate persistent components of that change from transitory components. Both the segregation of measurement changes and the isolation of persistent components of those changes may increase the predictability, and thus the relevance, of the total representation.
- (f) Although measurements must be selected for particular assets and liabilities, users rarely are interested in information at that level. Moreover, most financial statement information is aggregated to some degree. Therefore, the relevance of measurements for particular assets or liabilities can be preserved only if all the assets or liabilities with which they are grouped in a financial statement line item (including subtotals and totals) use the same measurement.

What should the measurement chapter accomplish?

View A

- 18. The measurement chapter should be very basic. At most it should:
 - (a) List and describe possible measurements
 - (b) Arrange or classify the measurements in a useful manner
 - (c) Describe the advantages and disadvantages of each measurement in terms of the qualitative characteristics of useful information.

View B

- 19. The measurement chapter should include those aspects mentioned in View A. In addition, the measurement chapter should discuss at a conceptual level how the qualitative characteristics and cost constraints should be considered together as factors in identifying an appropriate measurement. However, that guidance should not go so far as to conclude that a particular measurement should be used in particular situations.

View C

20. The measurement chapter should include those aspects mentioned in View B. In addition, the chapter should prescribe appropriate measurements and the situations in which they should be used.

View D

21. The measurement chapter should prescribe a hierarchy of measurements. In order to accomplish that, the chapter should:
- (a) Reduce the list of possible measurements to a smaller set
 - (b) Evaluate the advantages and disadvantages of each measurement in the set
 - (c) Rank the measurements
 - (d) Provide guidance for determining when to use the second-highest ranked measurement instead of the highest ranked, and so forth down the ranking.

View E

22. The measurement chapter should prescribe a single measurement to be used for all assets and liabilities in all circumstances. In order to accomplish that, the chapter should:
- (a) Reduce the list of possible measurements to a smaller set of measurements that could realistically serve as the sole measurement. At a minimum, that set would include some form of adjusted transaction price and some form of current market price
 - (b) Evaluate the advantages and disadvantages of the alternatives
 - (c) Conclude which single measurement is best
 - (d) Provide guidance for estimating the single measurement when it cannot be quantified directly.

What should be the scope of the measurement chapter?

View A

23. The measurement chapter should be written to address measurement in any aspect of financial reporting for which it may be relevant.

View B

24. The scope of the chapter should be limited to financial statement measurement, including the notes to the statements. Some of the chapter's content might be useful for resolving measurement issues within the purview of financial reporting but outside the financial statements. However, those uses should be discussed if and when the Boards decide to address the boundaries of financial reporting.

Should the measurement chapter state that it is intended *primarily* for use by the Boards in setting standards?

View A

25. No. Because the conceptual framework does not have authoritative status in U.S. GAAP, it is implicitly understood that it is to be used by the FASB. Because the conceptual framework has authoritative status in jurisdictions using IFRS, the measurement chapter could be used not only by the IASB, but also by its constituents if needed measurement guidance were not available in IFRS.

View B

26. Yes. Although the framework has authoritative status under IFRS, it is unlikely that IASB constituents would ever need to rely on the measurement chapter of the conceptual framework to fulfill their responsibilities. The same would be true of FASB constituents if the framework were to become part of U.S. GAAP in the future.

How should the term *measurement* be used in the measurement chapter?

View A

27. *Measurement* should be used in the stricter, formal sense in which it is used in scientific disciplines. Under this view, some amounts assigned to assets and liabilities could be called measurements and others would have to be called by another term, such as

quantifications, carrying amounts, or numeric depictions. Only prices and price estimates would be called measurements under this view.

View B

28. *Measurement* should be used in the broader, informal sense in which it has always been used in accounting. Under this view, all amounts assigned to assets and liabilities would be called measurements.

If *measurement* is used in an informal sense, should the measurement chapter explain the difference between its informal use of the term and the term's formal meaning?

View A

29. No. A statement to the effect that an asset or liability measurement refers to the amount at which that asset or liability is depicted in financial statements would make clear what the measurement chapter means by the term. Those who are familiar with the formal concept of measurement would understand that the usage in the measurement chapter is informal. For those unfamiliar with the formal concept, it would not make any difference; the informal definition would suffice.

View B

30. Yes. It may be helpful for those who read the measurement chapter to understand that the Boards are aware of the formal concept, even though the term *measurement* is used informally in the chapter. That understanding may be particularly important for constituents who themselves understand the difference. Furthermore, an acknowledgement that some accounting amounts qualify as measurements in the strict sense whereas others do not may help Board members when they make standard-setting decisions about measurement.

Should the measurement chapter classify measurements into a smaller group of categories?

View A

31. No. A list of measurements that the Boards might select from in setting standards, accompanied by definitions and descriptions, would be sufficient. That list could be organized without classifying the items in it. If the measurement chapter were to prescribe only one or a smaller set of measurements, then there would be even less need to classify measurements.

View B

32. Yes. Some kind of classification would be helpful, both to the Boards and its constituents. There is a long list of measurements currently in use. Classifying those measurements would highlight some similarities and differences among them. That might make it easier to identify appropriate measurements. Furthermore, it may be easier and more efficient to consider the chapter's concepts at a category level initially rather than at the level of an individual measurement. Possible classifications include:
- (a) *Past, current, or future*; or *current or non-current* according to the time frame to which measurements refer. Alternatively, measurements could be arranged along a continuum from those describing strictly past cash flows (past transaction price) to those describing strictly future cash flows (expected outcome).
 - (b) *Historical cost, fair value, or other* to correspond to the categories that are most often used presently to discuss measurement issues.
 - (c) *Prices and price estimates, value estimates, or accounting constructs*² to clarify the relationship of measurements to economic concepts of value. *Prices and price estimates* are the natural place to look first for measurements to represent exchange value. *Value estimates* are the first place to look for measurements to represent use value. *Accounting constructs* include computations that approach price or value estimates but omit some element(s) of those estimates. That category may also include some computations that have no relationship to value realization.

² In December 2009, we suggested a two-category classification of *prices and price estimates* and *prescribed computations*. The categories of *value estimates* and *accounting constructs* together are equivalent to the former category of *prescribed computations*. The three-part categorization in View C relates more clearly to the concept of value realization, and thus to relevance. Furthermore, some Board members thought the term *prescribed computations* was pejorative.

Should the chapter make a distinction between initial and subsequent measurement?

View A

33. No. If measurement concepts suggest that a particular measurement or class of measurements would be appropriate for a particular asset or liability, then that should hold true whether the measurement is intended for initial measurement or subsequent measurement. If there are non-conceptual reasons for making a distinction, those reasons should be considered at the standard-setting level.

View B

34. Yes. To the extent that some guidance can be provided that is not inconsistent with the rest of the measurement chapter, the distinction should be made. The chapter could discuss possibilities, such as using the same measurement for both initial recognition and subsequent measurement for any particular asset or liability, with the selection of that measurement depending on the guidance provided in the chapter. The chapter could also discuss using an item's transaction price for initial recognition and a subsequent measurement that is determined using the chapter's guidance.

Should the measurement chapter discuss concepts of capital maintenance?

View A

35. No. Capital maintenance concepts would provide relatively little basis for supporting a particular measurement if the measurement chapter prescribed a single measurement. If the measurement chapter allows multiple measurements, whether in a hierarchy or not, capital maintenance concepts would be largely irrelevant. Furthermore, a discussion of capital maintenance concepts would not facilitate the Boards' deliberations on measurement at the standards level. To the extent that capital maintenance is an issue, it should be dealt with at the standard-setting level.

View B

36. Yes. Capital maintenance concepts are mentioned or discussed in the Boards' current frameworks. Therefore, the measurement chapter either should provide a converged view of those concepts or explain why a capital maintenance concept is not needed.

Should the measurement chapter discuss the concept of going concern?

View A

37. No. A discussion of that concept in the measurement chapter would not help the Boards apply the chapter's concepts to measurement issues. In fact, the reverse situation might hold. That is, the measurement chapter's concepts might inform measurement decisions when going concern is an issue.
38. Yes. Going concern is mentioned in the IASB's current framework. Therefore, the measurement chapter should provide a converged view of that concept.

Questions for the Boards

Question 1: Neutral discussion paper

Do the Boards want to issue a neutral discussion paper for the measurement phase or do the Boards want to continue to discuss these issues as a means of reaching agreement on preliminary views?

Question 2: Questions and alternative views

Are the questions and alternative views proposed in this paper appropriate? Are there any questions or alternatives that the Boards would add, delete, or modify?