
Project	Cross-cutting issues—measuring uncertain future cash flows
Topic	Overview of exercise

Background

- 1 In several of their projects, the boards propose to require entities to measure assets and liabilities by reference to estimates of future cash flows. In many cases, the future cash flows are uncertain—more than one outcome is possible and/or the amount or timing of the cash flows associated with each outcome is uncertain. In some but not all such cases, the boards propose to require the entity to estimate the expected value of the future cash flows. The expected value takes into account the cash flows from all the possible outcomes—or from a representative sample of possible outcomes—weighted according to their estimated probabilities.
- 2 The feedback that the boards are receiving indicates that constituents have concerns about expected values. Because the arguments are similar across the range of projects, the boards intend to consider them as a cross-cutting exercise.

Plan

- 3 The staff propose that the boards should conduct the exercise in two steps:

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- (a) *STEP 1: at this meeting* compare different measures of uncertain future cash flows (expected value, most likely outcome etc) and consider the circumstances in which each measure might be more suitable than the others.
 - (b) *STEP 2: at future meetings* consider which measure might be most suitable for specific assets or liabilities. At that time, the staff would consider both the general conclusions from step 1 and the practical issues that entities might encounter when estimating the future cash flows for the specific assets or liabilities under consideration.
- 4 The staff envisage that step 2 will focus initially on the projects due for completion by June 2011. However, the decisions reached in this exercise may also guide the boards on other projects that aim to address measurement uncertainty, such as:
- emissions trading schemes (joint);
 - IAS 37 liabilities (IASB); and
 - uncertain tax positions (IASB).

Papers for this meeting

- 5 *IASB agenda paper 2A / FASB memo 1A* compares six measures for uncertain future cash flows. The staff reach several conclusions and seek the boards' views on those conclusions.
- 6 *IASB agenda paper 2B / FASB memo 1B* provides additional background comments on expected cash flow measurement techniques—the development of the techniques, why standard setters have adopted them and some of the continuing controversies surrounding them. **THIS SHORT PAPER DOES NOT SEEK ANY DECISIONS FROM THE BOARDS** but provides additional information that you might find useful.