

ACCOUNTING STANDARDS ADVISORY FORUM

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CONCEPTUAL FRAMEWORK

How to move the measurement section forward

Purpose

1. This agenda paper outlines key recommendations made by Accounting Standards Advisory Forum (ASAF) members for improving the measurement guidance proposed in the IASB's Discussion Paper "A Review of the Conceptual Framework for Financial Reporting". The IASB is asking for advice from ASAF on what the measurement section should or should not cover, and what the best way forward is. This agenda paper is intended to stimulate that discussion.
2. The IASB project team has asked that the ASAF discussion be strategic in nature and not elaborate on the technical aspects of the issues and recommendations. This agenda paper reflects that focus.

Discussion

Overall

3. ASAF members expressed strong support in their comment letters for the IASB's efforts to improve its Conceptual Framework and, in particular, the need for guidance on measurement (see [Appendix A](#) for the letters consulted).
4. A significant majority of ASAF members agreed or expressed broad support for the IASB's preliminary views on measurement, yet many of those members identified fundamental aspects that need further consideration. A few ASAF members disagreed strongly with some of the preliminary views and recommended developing measurement concepts that will provide a foundation for developing consistent measurement requirements in IFRSs.
5. Overall, these suggestions and recommendations demonstrate a preference that the measurement section in the Conceptual Framework should contain "concepts" but that there is no common and clear explanation of what those concepts should be. Several ASAF members noted that measurement is a controversial yet fundamental topic that needs in-depth analysis and discussion in order to develop high quality and accepted concepts.

Key aspects of measurement that need development

6. Below are the key aspects that many ASAF members think should be included in the measurement guidance after further research and development:
 - (a) *Objective of measurement* –The objective of measurement stated in a revised conceptual framework needs to be helpful as a basis for future standard-setting and result in a consistent approach to developing measurement requirements. Otherwise, topic-specific and possibly different objectives would be used when developing different standards. Consider whether:

- (i) The objective of providing relevant information about “the resources of the entity, claims against the entity and changes in resources and claims” and “how efficiently and effectively the entity’s management and governing board have discharged their responsibilities to use the entity’s resources” are consistent perspectives and, if not, explain when and how these perspectives would be prioritized when determining measurement requirements.
 - (ii) The objective of measurement or its application may differ based on the relevance of the information that should be reported on the statement of financial position from that reported on the statement of performance. Thus, it is important that both of these perspectives are further developed and explained so they can be applied consistently. Also, consider whether the use of different measurement bases for an asset or liability should be minimized in order to limit the use of other comprehensive income.
 - (iii) The objective should be driven by, or linked with, performance reporting in determining and presenting remeasurements in financial statements. This determination is essential to achieving performance reporting that is useful.
 - (iv) The objective should identify concepts that would result in measurements possessing certain qualities, such as amounts being capable of meaningful addition, subtraction and comparison, and their economic significance capable of being understood.
- (b) *Business model* – The role of an entity’s business model (i.e. how it conducts its business activities rather than how it intends to operate) needs to be considered more carefully and developed further as a basis for selecting measurement bases for assets and liabilities. The proposed focus on how assets and liabilities contribute to future cash flows demonstrates how considering the business model can make the measurement guidance more relevant. The business model can provide a foundation for reflecting the economic reality of an asset or a liability. Thus, further

consideration should be given to how assets and liabilities can be used in more than one way in an entity's operations and the relationships between individual assets and liabilities, in order to reduce measurement inconsistencies.

- (c) *Unit of account* –Guidance is needed on how the unit of account should be determined in a standard because the unit of account can affect the selection of a measurement basis and how it is applied. For example, debates continue over whether the fair value of a large block of investment securities ought to be determined in the aggregate or as the sum of the fair values of the individual shares (notwithstanding the current guidance in IFRS 13).
- (d) *Identifying relevant measures* –Guidance is needed on how to determine which measurement bases are relevant. Such work could identify how to determine when one measurement basis would be more relevant than another. Alternatively, further work could strive to be aspirational by identifying the single measurement base that is the most relevant. Work could begin by assessing common properties of measurement such as its representation of “wealth” or “value” and the relationship between wealth or value of an asset or liability and the cash flow that it is capable of producing.
- (e) *Considering opportunities for bias* –An explicit consideration is needed of the effect on measurement of an entity's biases. An entity may have the opportunity to act in its self-interest to the detriment of another party when determining a measurement (based on the concept of “moral hazard” in academic literature – for example, inducing a lender to extend credit by choosing to adopt a measurement basis for assets that results in higher reported measures of total assets and equity). Selection of an appropriate measurement base could reduce the opportunity for bias and result in more neutral information, such as using a probability-weighted expected cash flow measure or not using a cash flow measurement when it would be too subjective.

- (f) *Applying other characteristics* – In selecting measurement bases, consider requiring that a measurement be capable of reasonable substantiation and practical implementation. Consider also the role of disclosures in representing economic phenomena faithfully and the extent to which timeliness, verifiability and comparability enhance the usefulness of financial information.
7. Several of the key aspects identified above are overarching or fundamental concepts that relate to other Conceptual Framework topics or were identified as separate topics in the Discussion Paper (for example, the discussion of performance reporting in section 8 and the discussions of business models and unit of account in section 9). Given that the concepts are inter-related, it is important that these concepts and sections are developed together.
8. Other areas identified on which high-level measurement guidance should be provided included:
- (a) specifying the circumstances in which an asset or liability should be remeasured;
 - (b) identifying the factors that should be considered in cash-flow-based measurements;
 - (c) deciding whether discount rates should reflect any forms of risk and, if so, the criteria for considering risk;
 - (d) considering the effect of inflation in current prices; and
 - (e) identifying the underlying nature of translation of foreign currencies (for example, whether it is a remeasurement or something else, such as a change in the denomination of financial statement items).

Different regions are more sensitive to some issues than to others, relative to their unique economic circumstances (for example, extent of foreign currency transactions or inflation).

How to move forward

9. Many of the aspects of measurement identified as needing to be addressed in the measurement section are fundamental issues in accounting that have remained unresolved and undecided for a long time. They are challenges. In addressing these challenges, many ASAF members have supported the view that the Conceptual Framework must be of high quality and further advance the approach to setting consistent measurement requirements. Ideally, the measurement concepts will provide a sound basis to improve financial reporting in the future rather than documenting current practices and deliberations.
10. Time is needed to identify the conceptual underpinnings, assess alternatives, discuss and develop revised and agreed upon measurement proposals. Several ASAF members have encouraged the IASB to reach out to National Standard Setters and others to understand stakeholders' views better before developing the exposure draft.
11. The IASB's current project timeline is to develop an exposure draft in 2014 and finalize the revised Conceptual Framework in 2015. It may not be possible to create a well-developed conceptual measurement model within this timeline. A practical way forward needs to be identified unless the timeline is revised.
12. To be practical, the scope of the work on measurement could be narrowed and fewer key aspects of measurement developed. Separate work or further research could continue to be done to further advance the concepts of measurement.
13. To provide advice to the IASB on how to proceed, it would be helpful to consider the overall nature of the measurement concepts that could be developed in the next two years and identify more specifically the key aspects that should be addressed in that time, and those that should not.

Nature of the measurement guidance

14. Below is a range of options describing the nature of the measurement guidance that could be issued in the next two years:

- (a) Retain current guidance and devote resources to the separate work of developing improved guidance on a separate timeline.
- (b) Remove current guidance and leave a placeholder for future guidance (i.e. “to be developed”).
- (c) Replace current guidance with some basic or initial guidance (i.e. description of measurement bases and attributes of those measurement bases).
- (d) Replace current guidance by further developing the preliminary views set out in the Discussion Paper.
- (e) Replace the current guidance with another approach.

When to address the key aspects of measurement

15. To provide more specific advice to the IASB, ASAF members are asked to identify the key aspects of measurement described in this paper that:

- (a) should be further developed and either:
 - (i) included in the proposed revised measurement section of the conceptual framework (assuming there is support for replacing the existing guidance, i.e. options (c), (d) or (e) in paragraph 14); or
 - (ii) should be developed separately and included later; or
- (b) should not be included in the measurement section (i.e. addressed elsewhere in the framework or not at all).

To focus discussion, please complete the table below as preparation for the discussion:

Key aspects of measurement	Proposed guidance	Separately	Not in guidance
Clarify the measurement objective: (a) Assess dual perspectives (information about resources and efficient and effective use of those resources) (b) Further develop how to assess relevance from both the statement of financial position and the statement of performance perspectives and apply this approach consistently (c) Consider link with performance reporting (d) Identify qualities of measurement			
Consider role of business model			
Develop unit of account guidance			
Identify relevant measures			
Consider opportunities for bias			
Apply other characteristics			

Questions – How best to move the measurement section forward

- (A) What do ASAF members recommend should be the nature of the measurement guidance that will be issued in the next two years (i.e. which option(s) in paragraph 14 do you support) and why?
- (B) Which of the key aspects of measurement described in this paper do ASAF members recommend should: (i) be further developed and included in the proposed revised measurement guidance; (ii) be developed separately and included later; or (iii) not be included in the measurement section (see the table above) and why?

Appendix A

Comment letters

A1. The follow comment letters were provided by the IASB project team and consulted when developing this analysis:

- (a) CL 49 from the South African Institute of Chartered Accountants;
- (b) CL 55 from the Financial Reporting Council in United Kingdom;
- (c) CL 93 from the Accounting Standards Committee of Germany;
- (d) CL 94 from the Instituto de Contabilidad y Auditoria de Cuentas (Spain);
- (e) CL 98 from the China Accounting Standards Committee;
- (f) CL 118 from the Financial Reporting Standards Committee in South Africa;
- (g) CL 129 from the Zambia Institute of Chartered Accountants
- (h) CL 133 from the Canadian Accounting Standards Board;
- (i) CL 146 from the Group of Latin American Accounting Standard-Setters;
- (j) CL 185 from the Accounting Standards Board of Japan;
- (k) CL 186 from the Asian-Oceanian Standard-Setters Group;
- (l) the [draft response](#) of the European Financial Reporting Advisory Group, as of September 26, 2013; and
- (m) the draft response from the Australian Accounting Standards Board, as of January 30, 2014.