STAFF PAPER

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Project	Conceptual Framework		
Paper topic	Measurement: Relationship with Qualitative Characteristics (Background Information)		
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Objective and structure paper

1. This Agenda Paper provides the background of the discussions in Agenda Paper 1A. This Agenda Paper is for information only and will not be discussed at this meeting.

2. This paper includes the following Appendices:

   (a) Appendix A reproduces the discussion in the existing *Conceptual Framework* of the qualitative characteristics of useful financial information and of the cost constraint.

   (b) Appendix B reproduces the proposals in the Discussion Paper regarding the relationship between the qualitative characteristics of useful financial information and the cost constraint.

   (c) Appendix C summarises the major comments on the Discussion Paper that relate to this issue.

   (d) Appendix D summarises the decisions made thus far in the IASB's redeliberations.

Appendix A: Qualitative characteristics in the existing *Conceptual Framework*

A1. This Appendix reproduces Chapter 3 from the existing *Conceptual Framework*.

Introduction

QC1 The qualitative characteristics of useful financial information discussed in this chapter identify the types of information that are likely to be most useful to the existing and potential investors, lenders and other creditors for making decisions about the reporting entity on the basis of information in its financial report (financial information).

QC2 Financial reports provide information about the reporting entity's economic resources, claims against the reporting entity and the effects of transactions and other events and conditions that change those resources and claims. (This information is referred to in the *Conceptual Framework* as information about the economic phenomena.) Some financial reports also include explanatory material about management's expectations and strategies for the reporting entity, and other types of forward-looking information.

QC3 The qualitative characteristics of useful financial information apply to financial information provided in financial statements, as well as to financial information provided in other ways. Cost, which is a pervasive constraint on the reporting entity's ability to provide useful financial information, applies similarly. However, the considerations in applying the qualitative characteristics and the cost constraint may be different for other types of information. For example, applying them to forward-looking information may be different from applying them to information about existing economic resources and claims and to changes in those resources and claims.

Qualitative characteristics of useful financial information

QC4 If financial information is to be useful, it must be relevant and faithfully represent what it purports to represent. The usefulness of financial information is enhanced if it is comparable, verifiable, timely and understandable.

Fundamental qualitative characteristics

QC5 The fundamental qualitative characteristics are *relevance* and *faithful representation*.

Relevance

QC6 Relevant financial information is capable of making a difference in decisions made by users. Information may be capable of making a difference in a decision even if some users choose not to take advantage of it or are already aware of it from other sources.

QC7 Financial information is capable of making a difference in decisions if it has predictive value, confirmatory value of both.

QC8 Financial information has predictive value if it can be used as an input to processes employed by users to predict future outcomes. Financial information need not be a prediction or forecast to have predictive value. Financial information with predictive value is employed by users in making their own predictions.

QC9 Financial information has confirmatory value if it provides feedback about (confirms or changes) previous evaluations.

QC10 The predictive value and confirmatory value of financial information are interrelated. Information that has predictive value often also has confirmatory value. For example, revenue information for the current year, which can be used as the basis for predicting revenues in future years, can also be compared with revenue predictions for the current year that were made in past years. The results of those comparisons can help a user to correct and improve the processes that were used to make those previous predictions.

Materiality

QC11 Information is material if omitting or misstating it could influence decisions that users make on the basis of financial information about a specific reporting entity. In other words, materiality is an entity-specific aspect of relevance based on the nature or magnitude, or both, of the items to which the information relates in the context of an individual entity's financial report. Consequently, the Board cannot specify a uniform quantitative threshold for materiality or predetermine what could be material in a particular situation.

Faithful representation

QC12 Financial reports represent economic phenomena in words and numbers. To be useful, financial information must not only represent relevant phenomena, but it must also faithfully represent the phenomena that it purports to represent. To be a perfectly faithful representation, a depiction would have three characteristics. It would be *complete*, *neutral* and *free from error*. Of course, perfection is seldom, if ever, achievable. The Board's objective is to maximise those qualities to the extent possible.

QC13 A complete depiction includes all information necessary for a user to understand the phenomenon being depicted, including all necessary descriptions and explanations. For example, a complete depiction of a group of assets would include, at a minimum, a description of the nature of the assets in the group, a numerical depiction of all of the assets in the group, and a description of what the numerical depiction represents (for example, original cost, adjusted cost or fair value). For some items, a complete depiction may also entail explanations of significant facts about the quality and nature of the items, factors and circumstances that might affect their quality and nature, and the process used to determine the numerical depiction.

QC14 A neutral depiction is without bias in the selection or presentation of financial information. A neutral information is not slanted, weighted, emphasised, de-emphasised or otherwise manipulated to increase the probability that financial information will be received favourably or unfavourably by users. Neutral information does not mean information with no purpose or no influence on behaviour. On the contrary, relevant information is, by definition, capable of making a difference in the users' decisions.

QC15 Faithful representation does not mean accurate in all respects. Free from error means there are no errors or omissions in the description of the phenomenon, and the process used to produce the reported information has been selected and applied with no errors in the process. In this context, free from error does not mean perfectly accurate in all respects. For example, an estimate of an unobservable price or value cannot be determined to be accurate or inaccurate. However, a representation of that estimate can be faithful if the amount is described clearly and accurately as being an estimate, the nature and limitations of the estimating process are explained, and not errors have been made in selecting and applying an appropriate process for developing the estimate.

QC16 A faithful representation, by itself, does not necessarily result in useful information. For example, a reporting entity may receive property, plant and equipment through a government grant. Obviously, reporting that an entity acquired an asset at no cost would faithfully represent its cost, but that information would probably not be very useful. A slightly more subtle example is an estimate of the amount by which an asset's carrying amount should be adjusted to reflect an impairment in the asset's value. That estimate can be faithful representation if the reporting entity has properly applied an appropriate process, properly described the estimate and explained any uncertainties that significantly affect the estimate. However, it the level of uncertainty in such an estimate is sufficiently large, that estimate will not be particularly useful. In other words, the relevance of the asset being faithfully represented is questionable. If there is no alternative representation that is more faithful, that estimate may provide the best available information.

Applying the fundamental qualitative characteristics

QC17 Information must be both relevant and faithfully represented if it is to be useful. Neither a faithful representation of an irrelevant phenomenon nor an unfaithful representation of a relevant phenomenon helps users make good decisions.

QC18 The most efficient and effective process for applying the fundamental characteristics would usually be as follows (subject to the effects of enhancing characteristics and the cost constraint, which are not considered in this example). First, identify an economic phenomenon that has the potential to be useful to users of the reporting entity's financial information. Second, identify the type of information about that phenomenon that would be most relevant if it is available and can be faithfully represented. Third, determine whether that information is available and can be faithfully represented. If so, the process of satisfying the fundamental qualitative characteristics ends at that point. If not, the process is repeated with the next most relevant type of information.

Enhancing qualitative characteristics

QC19 *Comparability*, *verifiability*, *timeliness* and *understandability* are qualitative characteristics that enhance the usefulness of information that is relevant and faithfully represented. The enhancing qualitative characteristics may also help determine which of two ways should be used to depict a phenomenon if both are considered equally relevant and faithfully represented.

Comparability

QC20 Users' decisions involve choosing between alternatives, for example, selling or holding an investment, or investing in one reporting entity or another. Consequently, information about a reporting entity is more useful if it can be compared with similar information about other entities and with similar information about the same entity for another period or another date.

QC21 Comparability is the qualitative characteristic that enables users to identify and understand similarities in, and differences among, items. Unlike the other qualitative characteristics, comparability does not relate to a single item. A comparison requires at least two items.

QC22 Consistency, although related to comparability, is not the same. Consistency refers to the use of the same methods for the same items, either from period to period within a reporting entity or in a single period across entities. Comparability is the goal; consistency helps to achieve that goal.

QC23 Comparability is not uniformity. For information to be comparable, like things must look alike and different things must look different. Comparability of financial information is not enhanced by making unlike things look alike any more than it is enhanced by making like things look different.

QC24 Some degree of comparability is likely to be attained by satisfying the fundamental qualitative characteristics. A faithful representation of a relevant economic phenomenon should naturally possess some degree of comparability with a faithful representation of a similar relevant economic phenomenon by another reporting entity.

QC25 Although a single economic phenomenon can be faithfully represented in multiple ways, permitting alternative accounting methods for the same economic phenomenon diminishes comparability.

Verifiability

QC26 Verifiability helps assure users that information faithfully represents the economic phenomena. Verifiability means that different knowledgeable and independent observers could reach consensus, although not necessarily complete agreement, that a particular depiction is a faithful representation. Quantified information need not be a single point estimate to be verifiable. A range of possible amounts and the related probabilities can also be verified.

QC27 Verification can be direct or indirect. Direct verification means verifying an amount or other representation through direct observation, for example, by counting cash. Indirect verification means checking the inputs and outputs using the same formula or other technique and calculating the outputs using the same methodology. An example is verifying the carrying amount of inventory by checking the inputs (quantities and costs) and recalculating the ending inventory using the same cost flow assumption (for example, using the first-in, first-put method).

QC28 It may not be possible to verify some explanations and forward-looking financial information until a future period, if at all. To help users decide whether they want to use that information, it would normally be necessary to disclose the underlying assumptions, the methods of compiling the information and other factors and circumstances that support the information.

Timeliness

QC29 Timeliness means having information available to decision-makers in time to be capable of influencing their decisions. Generally, the older the information is the less useful it is. However, some information may continue to be timely long after the end of a reporting period because, for example, some users may need to identify and assess trends.

Understandability

QC30 Classifying, characterising and presenting information clearly and concisely makes it *understandable*.

QC31 Some phenomena are inherently complex and cannot be made easy to understand. Excluding information about those phenomena from financial reports might make the information in those financial reports easier to understand. However, those reports would be incomplete and therefore potentially misleading.

QC32 Financial reports are prepared for users who have a reasonable knowledge of business and economic activities and who review and analyse the information diligently. At times, even well-informed and diligent users may need to seek the aid of an adviser to understand information about complex economic phenomena.

Applying the enhancing qualitative characteristics

QC33 Enhancing qualitative characteristics should be maximised to the extent possible. However, the enhancing qualitative characteristics, either individually or as a group, cannot make information useful if that information is irrelevant or not faithfully represented.

QC34 Applying the enhancing qualitative characteristics is an iterative process that does not follow a prescribed order. Sometimes, one enhancing qualitative characteristic may have to be diminished to maximise another qualitative characteristic. For example, a temporary reduction in comparability as a result of prospectively applying a new financial reporting standard may be worthwhile to improve relevance or faithful representation in the longer term. Appropriate disclosures may partially compensate for non-comparability.

The cost constraint in useful financial reporting

QC35 Cost is a pervasive constraint on the information that can be provided by financial reporting.

Reporting financial information imposes costs, and it is important that those costs are justified by the benefits of reporting that information. There are several types of costs and benefits to consider.

QC36 Providers of financial information expend most of the effort involved in collecting, processing, verifying and disseminating financial information, but users ultimately bear those costs in the form of reduced returns. Users of financial information also incur costs of analysing and interpreting the information provided. If needed information is not provided, users incur additional costs to obtain that information elsewhere or to estimate it.

QC37 Reporting financial information that is relevant and faithfully represents what it purports to represent helps users to make decisions with more confidence. This results in more efficient functioning of capital markets and a lower cost of capital for the economy as a whole. An individual investor, lender, or other creditor also receives benefits by making more informed decisions. However, it is not possible for general purpose financial reports to provide all the information that every user finds relevant.

QC38 In applying the cost constraint, the Board assesses whether the benefits of reporting particular information are likely to justify the costs incurred to provide and use that information. When applying the cost constraint in developing a proposed financial reporting standard, the Board seeks information from providers of financial information, users, auditors, academics and others about the expected nature and quantity of the benefits and costs of that standard. In most situations, assessments are based on a combination of quantitative and qualitative information.

QC39 Because of the inherent subjectivity, different individuals' assessments of the costs and benefits of reporting particular items of financial information will vary. Therefore, the Board seeks to consider costs and benefits in relation to financial reporting generally, and not just in relation to individual reporting entities. That does not mean that assessments of costs and benefits always justify the same reporting requirements for all entities. Differences may be appropriate because of different sizes of entities, different ways of raising capital (publicly or privately), different users' needs or other factors.

Appendix B

B1. This Appendix reproduces the proposals in the Discussion Paper regarding the relationship between the qualitative characteristics of useful financial information and the cost constraint and measurement.

How the objective of financial reporting and qualitative characteristics of useful financial information influence measurement

Objective of measurement

6.6 The foundation of the *Conceptual Framework* is the objective of financial reporting. That objective, and the fundamental qualitative characteristic of useful financial information, which build on that objective, provides the basis for measurement concepts.

6.7 The objective of financial reporting is to provide financial information about the reporting entity that is useful ro existing and potential investors, lenders and other creditors in making decisions about providing resources to the entity.

6.8 Financial information that is useful in making those decisions includes information about the resources of the entity, claims against the entity, and how efficiently and effectively the entity's management and governing board have discharged their responsibilities to use the entity's resources.

6.9 In addition, if financial information is to be useful, it must be relevant and must faithfully represent what it purports to represent. Those two characteristics – relevance and faithful representation – are the fundamental qualitative characteristics of useful financial information.

6.10 Applying the objective of financial reporting to measurement, the IASB's preliminary view is that the objective of measurement is to contribute to the faithful representation of relevant information about the resources of the entity, claims against the entity and changes in resources and claims, and about how efficiently and effectively the entity's management and governing board have discharged their responsibilities to use the entity's resources.

Relevance

6.11 The IASB could decide to measure all assets and liabilities on the same basis. For example, the IASB could decide:

(a) to measure all assets and liabilities at a current market price such as fair value. For assets that are not sold, the income or expense arising from the entity's operations would indicate whether management has used resources more or less efficiently and effectively than was implied by market prices; or

(b) to measure all assets and liabilities at cost-based amounts. If assets are sold (rather than consumed) or liabilities are transferred (rather than settled), the effects of the decision to sell or transfer would be apparent when the entity accounts for the sale or transfer. Similar assets and similar liabilities would be carried at different amounts if their acquisition costs are different.

6.12 Measuring all assets and liabilities on the same basis would result in all amounts in the financial statements having the same meaning, which would make totals and subtotals more understandable than those in financial statements prepared under existing requirements. For example, under existing requirements, the amount presented as total net assets has little meaning because it is an aggregation of items measured using various different measurements.6.13 However, there are problems with this approach:

(a) measuring all assets and liabilities on a cost basis may not provide relevant information to users of financial statements. For example, a cost-based measurement is unlikely to provide relevant information about a financial asset that is a derivative.

(b) for some assets and liabilities, some users of financial statements may consider information about current market prices to be less relevant than information about margins generated by past transactions. For example, some users find cost-based information about property, plant and equipment that is used in operations to be more relevant than information about its current market price. In addition, estimating current market prices when they cannot be obtained directly can be costly and subjective. Consequently, measuring all assets and liabilities at a current market price may not provide users of financial statements with sufficient benefits to justify the costs of determining (or estimating) those prices.

6.14 Because of these problems, the IASB's preliminary view is that the *Conceptual Framework* should not recommend measuring all assets and liabilities on the same basis.

6.15 Measurement affects both the statement of financial position and the statement(s) of profit or loss and other comprehensive income (OCI). Both those statements need to provide relevant information for users of financial statements.

Selecting measurements by considering either the statement of financial position alone or the statement(s) of profit or loss and OCI alone will not usually produce the most relevant information for users of financial statements.

6.16 The IASB believes that the relevance of a particular measurement will depend on how investors, creditors and other lenders are likely to assess how an asset or a liability of that type will contribute to the entity's future cash flows. For example:

(a) some assets contribute directly to cash flows (for example, by being sold). For an asset of this type, users of financial statements are likely to use information about the asset's current market price to assess tits contribution to future cash flows.

(b) some assets do not generate cash flows directly or are used in combination with other assets (for example, property, plant and equipment). Information about current market prices may not provide users of financial statements with relevant information about such assets (particularly if the asset has no alternative use). Instead, users of financial statements will often assess how such assets will contribute to future cash flows by using cost-based information about transactions and the consumption of assets to identify past margins and estimate future margins. Changes in the market price of those assets that happen to be held at the end of a reporting period may not be particularly relevant for this purpose.

(c) for some types of liability, current market prices will provide the best indication of how that liability will reduce future cash inflows. For other types of liability, current market prices may not provide the best indication of the ultimate cash outflows arising from the liability. For example, the carrying amount of a non-derivative liability with fixed cash flows varies even though the expected cash flows do not this may obscure information about contractual interest flows. In addition, when a liability is measured at current market prices, the resulting gains and losses may make it difficult for users of financial statements to assess the liability's effect on future cash flows (unless those gains and losses are disaggregated in an understandable way).

6.17 Because the way that an asset or a liability will contribute to future cash flows affects the way that users of financial statements assess the prospects for future net cash inflows to the entity, the IASB's preliminary view is that the selection of a measurement:

(a) for a particular asset should depend on how it contributes to future cash flows; and

(b) for a particular liability should depend on how the entity will settle or fulfil that liability.

6.18 Paragraphs 6.73-6.109 discuss the different ways in which:

(a) assets contribute to future cash flows; and

(b) liabilities are settled or fulfilled.

6.19 For some financial assets and financial liabilities (for example, derivatives), basing measurement on the way in which the asset contributes to future cash flows, or the way in which the liability is settled or fulfilled, may not provide information that is useful when assessing prospects for future cash flows. For example, this may be the case:

(a) if the ultimate cash flows are not closely linked to the original cost;

(b) if, because of significant variability in contractual cash flows, cost-based measurement techniques may not work because they would be unable to simply allocate interest payments over the life of such financial assets or financial liabilities; or

(c) if changes in market factors have a disproportionate effect on the value of the asset or the liability (ie the asset or the liability is highly leveraged).

Consequently, current market prices are likely to be the most relevant measure for assets and liabilities of this type.

Faithful representation

6.20 The fundamental qualitative characteristic of faithful representation has fewer implications for measurement than relevant does. However, faithful representation does have some implications.

6.21 A perfectly faithful representation is free from error. However, this does not mean that measurements must be perfectly accurate in all respects. An estimate of an unobservable price can be faithfully represented if it is described clearly and accurately as being an estimate, the nature and limitations of the estimating process are explained and no errors have been made in selecting and applying an appropriate process for developing the estimate.

6.22 When deciding whether a particular measurement faithfully represents an entity's financial performance, the IASB may need to consider how best to portray any link between items. When assets and liabilities are related in some way, using different measurements for those assets and liabilities can create a measurement inconsistency (sometimes called an 'accounting mismatch'). Measurement inconsistencies can result in financial statements that do not faithfully represent the reporting entity's financial position and performance. Consequently, the IASB may conclude in some circumstances that requiring (or permitting) the same measurement approach for related assets or liabilities may provide more useful information for users of financial statements than using different measurement approaches. This may be particularly likely when the cash flows from one item are contractually linked to the cash flows from another item.

Enhancing characteristics

Understandability

6.23 The enhancing qualitative characteristic of understandability (see paragraph QC30-QC32 of the existing *Conceptual Framework*) also has an important implication for setting measurement requirements. Users of financial statements need to be able to understand the measurements used. The more measurements that are used, and the more changes there are in the types of measurement used for particular items, the harder it is to understand how those measurements interact to depict the entity's financial position and financial performance. Consequently, the IASB's preliminary view is that it should limit the number of different measures used to the smallest number necessary to provide relevant information.

6.24 The IASB believes that it should also avoid unnecessary changes in the types of measurement used for a particular item and require clear explanations of the reasons for unnecessary changes, and the effects of those changes. That means that the subsequent measurement should be the same as, or at least consistent with, the initial measurement. To do otherwise would result in recognising income or expense that does not depict transactions or changes in economic conditions. Similarly, optional changes in measurements should be avoided because otherwise entities could manage earnings by choosing to change measurement at an opportune time to recognise a gain or loss.

6.25 Avoiding measurement changes would not preclude:

(a) cost-based measurements such as depreciated cost with adjustments for impairments. Impairment adjustments result from economic changes, rather than from changes in the measurement approach, and therefore provide relevant information that is understandable and can faithfully represent those economic changes.

(b) changing measurement requirements to improve the relevance of the information presented. However, the effects of any such changes would need to be transparent.

Other enhancing characteristics

6.26 In addition to understandability, there are three enhancing characteristics that make financial information useful – timeliness, verifiability and comparability – and the IASB needs to consider each of them when establishing measurement requirements.

6.27 Timeliness means providing information while it still has the potential to be useful. Timeliness has no specific implication for measurement that is not already embodied in the fundamental characteristic of relevance. If changes in prices or value are relevant, the measurement used should result in recognising them when they occur (rather than in some point in the future).

6.28 Verifiability implies using measurements that can be independently corroborated either directly (such as observing prices in transactions in which the entity participated or can observe) or indirectly (such as by checking inputs to a model). If a particular measurement cannot be verified, the IASB believes that it should consider using a different measurement, or requiring disclosures that enable users of financial statements to understand the assumptions used.

6.29 Comparability implies using measurements that are the same between periods and between entities. Using the smallest number of measurements, as discussed in the context of understandability in paragraphs 6.23-6.25, would contribute to comparability.

Cost constraint

6.30 The cost constraint described in paragraph QC35 of the existing *Conceptual Framework* should also influence the IABS’s decisions about measurement requirements. Cost depends greatly on the availability of information. Many measurements are estimates, and the information needed for inputs to those estimates may not be freely available. Costs will be incurred in gathering, processing and verifying the information. In general, the costs associated with a particular measurement increase as the subjectivity associated with the measurements increases.

6.31 At the same time, even if a measurement is potentially the most relevant, the benefit to users of financial statements declines as it becomes more subjective (and thus more costly to produce). Unfortunately, a measurement with no subjectivity may not be relevant. For example, a current market price is clearly the most relevant for a derivative instrument with no fixed cash flows or an asset that is certain to be sold without significant selling effort. However, if the current market price is unknown and if little or no market information is available about the factors affecting the cash flows of the derivative instrument, any estimate of the current market price would be highly subjective and uncertain.

6.32 In such a case, the cost of the estimate is likely to be high and the benefit (relevance) may be low. The cost of a different measure, for example, the original transaction price to acquire the derivative mentioned in the previous paragraph, may be very low and the amount may be certain. However, its benefit (relevance) is zero or nearly zero because the cost provides little or no information about the ultimate cash flow.

6.33 Where this is the case, the IASB believes that it will need to balance the costs of providing the most relevant available information (in the example of the a derivative in paragraph 6.31: an estimate of a market price) with the benefit to users of financial statements (which, if the estimate is very subjective, may not be great). The IASB also believes that it should consider different measurement when the relevance of a particular measurement is too low or its cost is too high.

6.34 Some argue that when the subjectivity of a particular measurement is very high, the measurement cannot be a faithful representation of the item it depicts. However, a highly uncertain estimate will be faithfully represented if it is properly described (for example, not as a market price but as a highly uncertain estimate of a market price). Thus the factors that the IASB will need to consider for a highly uncertain measurement are:

(a) whether that measurement is relevant; and

(b) if that measurement is relevant, how best to disclose information about that measure.

Section 4 covers situations when the IASB might decide that an entity need not or should not recognise an asset or a liability because no measure of the asset or the liability would result in a sufficiently faithful representation of the asset or the liability and of changes in the assert or the liability, even if all necessary descriptions and explanations are disclosed.

Summary

6.35 Consideration of the objective of financial reporting, and of the qualitative characteristics of useful financial information, has led the IASB to the following preliminary views about measurement:

(a) the objective of measurement is to contribute to the faithful representation of relevant information about the resources to the entity, claims against the entity and changes in resources and claims, and about how efficiently and effectively the entity's management and governing board have discharged their responsibilities to use the entity's resources.

(b) a single measurement basis for all assets and liabilities may not provide the most relevant information for users of financial statements.

(c) when selecting the measurement ot use for a particular item, the IASB should consider what information that measurement will provide in both the statement of financial position and the statement(s) of profit or loss and OCI.

(d) the selection of a measurement:

  (i) for a particular asset should depend on how that asset contributes to future cash flows; and

  (ii) for a particular liability should depend on how the entity will settle or fulfil that liability.

(e) the number of different measurements used should be the smallest number necessary to provide relevant information. Unnecessary measurement changes should be avoided and necessary measurement changes should be explained.

(f) the benefits of a particular measurement to users of financial statements need to be sufficient to justify the cost.

Appendix C

C1. This Appendix summarises the feedback received on the Discussion Paper that relate to the relationship between the qualitative characteristics and measurement.[1]

Objective of Measurement

C2. Most of those who commented on the measurement objective stated that they agreed with the suggested objective of measurement.

C3. A few welcomed the clear link from the suggested objective measurement to the objective of financial reporting and the qualitative characteristics of useful financial information.

C4. However, some disagreed with the suggested measurement objective. Most of those who disagreed with the objective steed that it simply repeats the objective of financial reporting and the qualitative characteristics of useful information and, consequently, would be unlikely to provide useful guidance to the IASB in setting measurement requirements.

C5. A few respondents suggested that the two components of the measurement objective (to provide information about resources and claims and information about how management has discharged their responsibilities) might lead to different conclusions about the most appropriate measurement basis and that the *Conceptual Framework* should therefore provide a basis for balancing these components.

C6. In addition, a few respondents suggested:

(a) separate measurement objectives for the statement of financial position, profit or loss and OCI;

(b) separate measurement objectives for particular types of assets and liabilities;

[1] Agenda Paper 10G for the March 2014 IASB meeting summarises the feedback received on the measurement section of the Discussion Paper.

(c) replacing the reference to faithful representation in the suggested objective with a reference to reliability; and

(d) referring to the information needed to help users assess the prospects for future cash flows to the entity.

Relevance

Considering both the statement of financial position and the statement(s) of profit or loss and OCI

C7. Most respondents who commented on this question agreed that the IASB should consider both the statement of financial position and the statement(s) of profit or loss and OCI when selecting a measurement.

C8. However, a few respondents stated that:

(a) the IASB should give more weight to the effect a particular measurement would have on the statement(s) of profit or loss and OCI, rather than the statement of financial position, when selecting a measurement;

(b) if the IASB is to consider the effect of measurement on both statement of financial position and the statement(s) of profit or loss and OCI when selecting a measurement, the *Conceptual Framework* will need to include more guidance on the objectives of those statements;

(c) the IASB should normally require the same measurement for both profit or loss and the statement of financial position (that is, there should be few cases when one measurement basis is used for the statement of profit or loss and a different measurement basis is used for the statement of financial position, with the difference in OCI). However, a few other respondents supported the use of different measurements for the statement of financial position and profit or loss in situations where more than one measure of an asset or liability was considered relevant.

Other implications of relevance – reliability

C9. Some respondents to the Discussion Paper suggested that one of the factors that should be considered in selecting a measurement basis is the reliability of different measurement bases (ie the degree of measurement uncertainty associated with a particular measurement).

Faithful representation

C10. The Discussion Paper did not include a specific question on how the qualitative characteristic of faithful representation could affect measurement. Consequently, few respondents commented on this issue:

(a) A few respondents disagreed with the idea that an estimate of an unobservable price could be a faithful representation if adequate disclosures were made. These respondents agreed that an estimate of an unobservable price could be a faithful representation of that estimate. However, if uncertainties associated with that estimate are too large, the estimate could not be a faithful representation of the item being depicted.

(b) One respondent stated that it is not possible to consider whether an item has been faithfully represented without first identifying the measurement objective for that item. For example, historical cost faithfully depicts the purchase price of an asset, fair value faithfully depicts the price for which the entity could sell the asset.

(c) One respondent stated that the suggestions in the Discussion Paper gave too much prominence to relevance and understated the importance of faithful representation.

(d) A few respondents stated that including the effects of changes in own credit in the remeasurement of liabilities may not result in a faithful representation if those effects are not expected to be realised.

(e) One respondent stated that hedge accounting may be required to ensure that the links between related items are faithfully represented.

Understandability

C11. Many of those who commented agreed with the IASB's preliminary view that the number of measurement bases used should be the smallest number necessary to provide relevant information. The main reasons cited were that limiting the number of measurement bases would increase the comparability and understandability of financial statements.

C12. However, some respondents disagreed with this preliminary view stating that there should not be an artificial limit on the number of measurement bases used. A different measurement basis should be used if the IASB believes it will provide relevant information to the users of financial statements.

C13. Some respondents noted that if the IASB adopted a single measurement basis for all assets and liabilities, the need to minimise the number of measurement bases used would not arise.

C14. Few respondents commented on the suggestion that unnecessary changes in measurement bases should be avoided. However, those that did comment agreed with this suggestion.

Timeliness, verifiability and comparability

C15. The Discussion Paper did not include a specific question on how considering the enhancing qualitative characteristics of timeliness, verifiability and comparability could affect decisions on measurement. Consequently, few respondents commented on this section of the Discussion Paper. Those commenting suggested that:

(a) verifiability has a significant role to play in the selection of measurement bases; and

(b) comparability could be enhanced by removing the ability for preparers to choose between different measurement bases.

Cost constraint

C16. The Discussion Paper suggested that the IASB should consider when selecting a measurement basis whether the benefits of a particular measurement to users of financial statements are sufficient to justify the cost.

C17. Nearly all who commented on this preliminary view agreed that the benefits of a particular measurement to users of financial statements need to be sufficient to justify the cost. However, a few stated that, because cost is acknowledged in Chapter 1 of the existing *Conceptual Framework* as a pervasive constraint on financial reporting, it is unnecessary (and potentially confusing) to identify it separately as a factor to consider in particular areas of the *Conceptual Framework*, such as when selecting a measurement.

Appendix D

D1. This Appendix summarises the tentative decisions made by the IASB regarding the relationship between the qualitative characteristics and measurement in its redeliberations.

Objective of Measurement

D2. On 23 July 2014 the IASB discussed the objective of measurement and tentatively decided that the Exposure Draft should:

(a) *not* define a separate measurement objective; and

(b) describe as follows how measurement contributes to the overall objective of financial reporting:

> Measurement is the process of quantifying in monetary terms information about the resources of an entity, claims against the entity and changes in those resources and claims. Such information helps users to assess the entity's prospects for future cash flows and assess management's stewardship of the entity's resources.

Implications of the qualitative characteristics of useful information for measurement

D3. On 23 July 2014 the IASB discussed the implications of the qualitative characteristics of useful financial information for measurement and tentatively decided that the Exposure Draft should:

(a) state that when the IASB selects a measurement basis, it should consider the nature and relevance of the resulting information produced in both the statement of financial position and the statement(s) of profit or loss and other comprehensive income (OCI).

(b) state that:

(i) the level of uncertainty associated with the measurement of an item is one of the factors that should be considered when selecting a measurement basis; and

(ii) if a measurement is subject to a high degree of measurement uncertainty, that fact does not, by itself, mean that the measurement does not provide relevant information.

(c) not make explicit use of the term ‘reliability’ when describing the level of measurement uncertainty associated with the measurement of an item.

(d) retain the discussion of faithful representation included in the Discussion Paper.

(e) discuss in the measurement section that a faithful representation by itself does not necessarily result in useful information. The information provided by the representation must also be relevant.

(f) explain the need to weigh the benefits of introducing a new or different measurement basis against any increased costs or complexity. This would replace the statement in the Discussion Paper that the number of measurement bases should be the smallest necessary to provide relevant information.

(g) retain the discussion of necessary and unnecessary changes in measurement bases included in the Discussion Paper.

(h) retain the discussion of other enhancing qualitative characteristics included in the Discussion Paper.

(i) state explicitly in the measurement section that the cost-benefit constraint is one of the factors the IASB should consider when selecting a measurement.

Business model

D4. On 24 July 2014 the IASB tentatively decided that the Exposure Draft should not provide a single over-arching description of how the nature of an entity’s business activities would affect standard-setting. Instead, the IASB should describe, for each area affected, how consideration of an entity’s business activities would affect standard setting. The IASB also indicated that the nature of an entity’s business activities is likely to affect measurement, the unit of account, the distinction between profit or loss and OCI, and presentation and disclosure. It is less likely to affect other areas covered by the *Conceptual Framework*.