STAFF PAPER

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IASB Meeting

Project	**Conceptual Framework**		
Paper topic	Sweep issues		

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Purpose of paper

1. On 5 February 2014, the staff issued for comment a pre-ballot draft of the *Conceptual Framework* Exposure Draft. IASB members, a number of accounting firms, members of the Accounting Standards Advisory Forum and staff at the International Public Sector Accounting Standards Board were asked to comment on the document. In addition, members of the IFRS Interpretations Committee were provided with the draft.

2. This paper discusses the following issues that have arisen as a result of comments received on the pre-ballot draft of the *Conceptual Framework* Exposure Draft:
   (a) the treatment of measurement uncertainty (paragraphs 4–6);
   (b) terminology related to reporting financial performance (paragraphs 7–15);
   (c) the use of two measurement bases and recycling (paragraphs 16–29);
   (d) reporting entities (paragraphs 30–34); and
   (e) updating a quote from the *Conceptual Framework* (paragraphs 35–38).

Next steps

3. We are working through the other comments received on the pre-ballot draft and plan to issue a ballot draft of the *Conceptual Framework* Exposure Draft during the week commencing 23 March 2015.

The treatment of measurement uncertainty

4. A number of areas in the *Conceptual Framework* Exposure Draft discuss the role that measurement uncertainty plays in financial reporting:

   (a) Chapter 2—*Qualitative characteristics of useful financial information* discusses how measurement uncertainty can affect the relevance of financial information (paragraphs 2.12 and 2.19).

   (b) Chapter 5—*Recognition and derecognition* explains how measurement uncertainty can affect decisions about recognition (paragraphs 5.11 and 5.19 – 5.20).

   (c) Chapter 6—*Measurement* explains how measurement uncertainty can affect the selection of a measurement basis (paragraphs 6.49 – 6.50).

5. We are not asking you to reconsider your tentative decisions about how measurement uncertainty affects financial reporting. However, we have received a number of comments that the discussion of measurement uncertainty in the pre-ballot draft is unclear, inconsistent and confusing. We are therefore proposing the following changes to the draft:

   (a) We have deleted from paragraph 2.12 the reference to faithful representation. This reference confused reviewers because this paragraph is in a section describing relevance. We have replaced that reference with a statement explaining that an estimate can provide relevant information, even if there is a high level of measurement uncertainty, but the estimate needs to be properly described and disclosed.

   (b) We have deleted from paragraph 2.12 an example that is too specific for the *Conceptual Framework*.

(c) We have expanded in paragraph 2.12 the discussion of the interaction between the level of measurement uncertainty and other factors that make information relevant (that discussion is now in a separate paragraph, numbered 2.12A). We have also introduced there the term 'trade-off'. We believe this term will be a helpful signpost to readers: the pre-2010 version of the *Conceptual Framework* referred to a trade-off between relevance and reliability. Reintroducing that term would make it clearer to readers that a trade-off still exists, although it is now located within relevance, rather than between relevance and another qualitative characteristic.

(d) We have deleted from paragraphs 2.12 and 5.20 reference to 'rare and unusual cases'. We believe that such a reference is unnecessary with the expanded discussion of the trade-off between measurement uncertainty and other factors that affect relevance.

(e) As a result of the changes to paragraphs 2.12 and 2.12A, we believe that most of paragraph 2.19 is no longer needed. That paragraph is in the section on faithful representation. The wording we recommend now simply explains that a faithful representation, by itself, does not necessarily result in useful information. (As a reminder, paragraphs 2.12 and 2.12A are derived from the last two sentences of paragraph QC16 of the existing (2010) *Conceptual Framework*, now paragraph 2.19). The material deleted from paragraph 2.19 either cross-refers unnecessarily to paragraph 2.12A or provides examples that relate more to relevance than to faithful representation.

(f) We have changed the language in Chapters 5 and 6 describing measurement uncertainty, to make it consistent with the language in Chapter 2.

(g) We have refined the wording in paragraphs 5.11(c) and 5.20(a) to explain more clearly that:

(i) a high level of measurement uncertainty is a factor considered in assessing whether a measurement is relevant, it is not a separate qualitative characteristic that might prevent the use of a relevant measurement; and

(ii) the factors listed in paragraph 5.11 do not automatically block recognition, and the list of those factors is not intended to be exhaustive.

(h) We have deleted paragraph 5.19 because it duplicates the discussion of the use of estimates in paragraph 2.12.

6. To help you understand the proposed changes:

(a) Appendix A includes a revised draft of the paragraphs dealing with measurement uncertainty;

(b) Appendix B shows changes from the pre-ballot draft as a mark-up; and

(c) Appendix C includes the revised draft of the paragraphs from Chapter 2 dealing with measurement uncertainty showing changes from the 2010 *Conceptual Framework* as a mark-up.

Question 1—Measurement uncertainty
Do you have any comments on the proposed discussion of how measurement uncertainty affects financial reporting?

Terminology related to reporting financial performance

Statement(s) of financial performance

7. The *Conceptual Framework* Exposure Draft uses the term 'statement(s) of financial performance' to refer to the combination of the statement of profit or loss and the statement of other comprehensive income. [1]

8. A few of those who commented on the pre-ballot draft of the Exposure Draft objected to the use of the term because it is not used in existing Standards.

9. We have used the term 'statement(s) of financial performance' because:

(a) it is consistent with the term 'statement of financial position' that is used in the Exposure Draft and in existing Standards;

[1] The Exposure Draft does not specify whether the statement(s) of financial performance comprise a single statement or two statements. For brevity, the Exposure Draft and this Agenda Paper use the terms 'statement of profit or loss' and 'statement of other comprehensive income' to refer both to separate statements and to separate sections within a single statement.

(b) it is preferable to the term 'comprehensive income' because:

  (i) the income recognised in the statement(s) is not comprehensive - the financial statements are not comprehensive in the sense that not all assets and liabilities are recognised;

  (ii) the statements include both income and expense;

  (iii) many people believe that the term 'comprehensive income' implies a single statement of performance; and

  (iv) many people confuse the term with 'other comprehensive income'.

(c) it is shorter and clearer than the term 'statement(s) of profit or loss and other comprehensive income' that was used in the *Conceptual Framework* Discussion Paper.

Question 2—Statement(s) of financial performance
Do you agree that the *Conceptual Framework* Exposure Draft should use the term 'statement(s) of financial performance'?

Other comprehensive income

10. The *Conceptual Framework* Exposure Draft sets out proposals on reporting financial performance, including when the IASB might consider excluding income and expenses from the statement of profit or loss. Income and expenses excluded from that statement would be included in a separate statement (or within a separate section of the statement(s) of financial performance). In existing Standards, that separate statement is called the statement of 'other comprehensive income'.

11. However, the Exposure Draft does not use the term 'other comprehensive income'. Instead, it discusses excluding income and expenses from the statement of profit or loss. The Basis for Conclusions on the Exposure Draft (BC364) explains the decision not to use the term 'other comprehensive income':

> …the terms 'comprehensive income' and 'other comprehensive income' are not particularly descriptive or

well understood, in particular by the investor community, and may therefore need to be reconsidered in a Standards-level project.

12. Some of those who commented on the pre-ballot draft of the Exposure Draft expressed the view that the revised *Conceptual Framework* should use the term 'other comprehensive income' (OCI). They stated that, because the term other comprehensive income is used in existing Standards, it is easier to understand than a reference to income or expenses excluded from the statement of profit or loss. Some also suggested that not giving the statement a title would imply that income and expenses included in that statement have no relevance and can be ignored.

13. The staff continue to believe that the Exposure Draft should not use the term 'other comprehensive income' because the term is not particularly descriptive of what is reported outside the statement of profit or loss, in particular:

(a) 'other comprehensive *income*' includes both income and expenses;

(b) the income recognised in the statement(s) of financial performance is not comprehensive - the financial statements are not comprehensive in the sense that not all assets and liabilities are recognised;

(c) it is unclear what the 'other' in the term refers to; and

(d) if the *Conceptual Framework* does not use the term 'comprehensive income', there is no obvious rationale for using the term 'other comprehensive income'.

14. We believe that developing an alternative term that better describes the statement that includes income or expense reported outside profit or loss is a Standards-level issue that would be better dealt with in the Performance Reporting research project. Indeed, embedding the term 'other comprehensive income' in the *Conceptual Framework* could prevent that project from developing a more appropriate term.

15. Although we believe that the *Conceptual Framework* should not use the term 'other comprehensive income', the staff acknowledge that:

(a) we will need to use the term when discussing the Exposure Draft proposals with external parties;

(b) we will need to use the term in the Basis for Conclusions on the Exposure Draft to explain our decisions; and

(c) the Basis for Conclusions on the Exposure Draft will need to clarify that we do not intend to amend existing Standards to remove references to ‘other comprehensive income’.

Question 3—Other comprehensive income
Do you agree that the *Conceptual Framework* Exposure Draft should not use the term ‘other comprehensive income’?

The use of two measurement bases and recycling

16. The Exposure Draft proposes that the statement of profit or loss is the primary source of information about an entity’s financial performance for the period. However, sometimes excluding income and expenses from the statement of profit or loss may enhance the relevance of the information in that statement. One example when this may be the case is when a current measurement basis is selected for an asset or a liability for the statement of financial position and a different measurement basis is selected for related income and expenses in the statement of profit or loss (‘dual measurement’).

17. The Exposure Draft notes that when a dual measurement is used:

> …the total income or total expenses arising from the change in the current value in the statement of financial position is disaggregated into two components:
>
> (a) the income or expenses measured using the measurement basis selected for the statement of profit or loss, which are included in that statement; and
>
> (b) the remaining income or expenses, which are recognised outside the statement of profit or loss. The cumulative income or expense recognised outside the statement of profit or loss equals the difference between

the carrying amount determined by the measurement basis selected for the statement of financial position and the carrying amount determined by the measurement basis selected in determining profit or loss. That cumulative amount reaches zero by the time that the asset or liability has been derecognised because the two measurement bases converge to zero.

18. The Basis for Conclusions on the Exposure Draft states that no income and expenses should be permanently excluded from the statement of profit or loss, unless there is a compelling reason to do so. Accordingly, there is a presumption that income or expenses reported outside the statement of profit or loss must subsequently be reclassified to the statement of profit or loss (recycled).

19. However, the Exposure Draft states that for dual measurement such recycling will not be necessary. Some reviewers of the draft did not understand that statement and the description of dual measurement. Accordingly, this paper provides an example that illustrates the mechanics of dual measurement and the implications for recycling.

Example

20. On 31 December 20X0, Entity A acquires a zero coupon bond at its then fair value of CU100. Entity A determines that the effective interest rate on the financial asset is 6%.[2] At 31 December 20X1, the fair value of financial asset is CU111. On 30 June 20X2, Entity A sells the financial asset for its then fair value of CU118.

21. If, in accordance with the applicable Standard, Entity A uses the amortised cost measurement basis both in the statement of financial position and in the statement of profit or loss, the financial statements of Entity A would reflect the following amounts:

[2] For simplicity, the example does not take into account impairment of the financial asset. However, a historical cost measurement basis typically reflects impairment.

Table 1

	31-Dec-20X1 CU	30-Jun-20X2 CU	Notes
Statement of financial position on amortised cost basis			
Opening balance	100	106	
Closing balance	106	-	Sold for CU118
Statement of profit or loss on amortised cost basis			
Interest income	6	3[3]	Opening balance times effective interest rate
Gain on sale	-	9	Sales proceeds (CU118) less carrying amount (CU109)
Total profit or loss	6	12	

22. If, in accordance with the applicable Standard, Entity A uses the fair value measurement basis in the statement of financial position and the amortised cost measurement basis in the statement of profit or loss, the financial statements of Entity A would reflect the following amounts:

[3] Interest income for 6 months ended 30 June 20X2 is rounded to the nearest CU.

Table 2

	31-Dec-20X1 CU	30-Jun-20X2 CU	Notes
Statement of financial position on fair value basis			
Opening balance	100	111	
Closing balance	111	-	Sold for CU118
Note: Total change in fair value	11	7	
Statement of profit or loss on amortised cost basis			
Interest income	6	3	See Table 1 for explanation of computation
Gain on sale	-	9	See Table 1 for explanation of computation
Total profit or loss	6	12	
Statement of other comprehensive income[4]			
Total income (expenses) in other comprehensive income[5]	5	(5)	Difference between income (expenses) on fair value basis and income (expenses) on amortised cost basis

[4] As discussed in paragraphs 10–15 of this Agenda Paper, the staff recommend not using the term 'other comprehensive income' in the revised *Conceptual Framework*.

[5] For simplicity, the illustration does not provide line items and subtotals in the statement of other comprehensive income.

23. As illustrated by Table 2, total income (expenses) reflected in the statement of other comprehensive income (OCI) over the holding period of the financial asset is zero (CU5-CU5).

24. The journal entry for the 6 months ended 30 June 20X2 would reflect, in CU:

Dr Financial asset	3	
Cr Interest income		3
(accretion of interest)		
Dr Financial asset	4	
Cr OCI		4
(remeasurement)		
Dr Cash	118	
Cr Financial asset		118
Cr Gain on sale		9
Dr OCI	9	
(sale)		

25. The total expenses of CU5 reflected in the statement of other comprehensive income in Table 2 for the 6 months ended 30 June 20X2, ie the reporting period in which the financial asset is derecognised, could be described in two ways:

    (a) as the aggregate of:

        (i) income of CU4—an increase in the fair value of the financial asset *in the reporting period* that is not attributable to accretion of interest income reflected in the statement of profit or loss (CU7 [income on fair value basis] less CU3 [interest income]); and

        (ii) expenses of CU9—an increase in the fair value of the financial asset accumulated in OCI *over the holding period* of the financial asset (CU5 in 20X1+CU4 in 20X2) that on derecognition of financial asset is reclassified to the statement of profit or loss as gain on sale; or

    (b) as a result of the disaggregation of the total income for the reporting period on a fair value basis of CU7 into:

(i) income of CU12 included in the statement of profit or loss (comprising interest income of CU3 and a gain on sale of CU9); and

(ii) expenses of CU5 included in the statement of OCI (which could then be further disaggregated into income of CU4 and expenses of CU9 as in (a) above).

26. The description in paragraph 25(a) is consistent with the traditional view of recycling as the reclassification of income and expenses accumulated in OCI into the statement of profit or loss.

27. In contrast, the description in paragraph 25(b) focuses on the idea that when a dual measurement is used, the total income or expenses measured using the measurement basis selected for the statement of financial position (fair value) is disaggregated in each period (including the period in which the financial asset is derecognised) into:

(a) income and expenses measured using the measurement basis selected for the statement of profit or loss (amortised cost)—included in the statement of profit or loss; and

(b) the remaining income or expenses—included in the statement of OCI.

28. The staff think that describing what is happening under dual measurement as disaggregation, and not recycling, has an advantage: it changes the debate about recycling in the context of dual measurement to a debate about whether to use a dual measurement approach (ie the question of whether or not to recycle does not arise because recycling is a necessary consequence of the dual measurement approach and, in the example, the need to reflect an amortised cost view in the statement of profit or loss). The staff think that may help bring clarity to such discussions. The staff note however that this description would not eliminate the need to consider recycling outside of cases of dual measurement.

29. However, describing the dual measurement approach this way also has a disadvantage: it conflicts with how most people are used to thinking about the issue and so may confuse people. The staff think that adding a simple example to the Basis for Conclusions on the Exposure Draft and expanding the discussion of dual measurement will help readers understand the concept of dual measurement.

The staff do not intend the proposed description of dual measurement in the revised *Conceptual Framework* to change the presentation and disclosure of movements in OCI in financial statements.

Question 4—The use of two measurement bases and recycling
Does the IASB have comments on the discussion in paragraphs 16–29? Does the IASB agree with the staff recommendation to include an illustrative example and expand the discussion of dual measurement in the Basis for Conclusions on the Exposure Draft?

Reporting entities

30. The IASB has tentatively decided that:

    (a) a reporting entity is an entity that chooses, or is required to present general purpose financial statements;

    (b) a reporting entity is not necessarily a legal entity. It can comprise a portion of an entity or two or more entities.

31. Because the Exposure Draft proposes to define a reporting entity broadly, it is important that reporting entities clearly describe the set of economic activities that the financial statements depict. Consequently, paragraph 3.16 of the pre-ballot draft states that in order to give a faithful representation of the reporting entity, financial statements must describe the set of economic activities included within the reporting entity.

32. Some of those who commented on the pre-ballot draft have expressed concerns that this guidance does not place sufficient restrictions around what can and what cannot be a reporting entity. In particular, they note that an entity could choose to report on an incomplete set of economic activities. For example, a reporting entity that is a portion of a legal entity could exclude its share of overheads from its financial statements as long as it describes the set of economic activities that have been included in the financial statements.

33. To avoid this problem, the IASB could consider adding the following guidance to the *Conceptual Framework*:

(a) In order to meet the objective of financial reporting the financial statements of the reporting entity must provide information that is useful to the users of financial statements in making decisions about providing resources to the entity.

(b) To be useful the financial statements must faithfully represent the economic activities of the reporting entity. In particular, those economic activities should constitute a complete set of economic activities.

34. The staff believe that it is beyond the scope of the *Conceptual Framework* to describe what constitutes a complete set of economic activities. It will depend on facts and circumstances.

Question 5—Guidance on a reporting entity
Do you think that guidance similar to that described in paragraph 33 should be added to the *Conceptual Framework*?

Updating a quote from the *Conceptual Framework*

35. In addition to the *Conceptual Framework* Exposure Draft the staff issued for comment a pre-ballot draft of the Exposure Draft *Updating References to the Conceptual Framework for Financial Reporting*. This separate Exposure Draft proposes to update references to, and some quotes from, the *Conceptual Framework*, so that they refer to the revised *Conceptual Framework*.

36. We have received a comment about an additional quote that may need to be amended. Appendix A to IFRS 2 *Share-based Payment* contains a footnote to the definition of an equity instrument:

equity instrument	A contract that evidences a residual interest in the assets of an entity after deducting all of its liabilities. [5]

[5] The *Conceptual Framework for Financial Reporting* defines a liability as a present obligation of the entity arising from past events, the settlement of which is expected to result in an outflow from the entity of resources embodying economic benefits (ie an outflow of cash or other assets of the entity).

37. In the *Conceptual Framework* Exposure Draft the IASB proposes to amend the definition of a liability, which would make the above footnote inconsistent. We think the IASB should propose updating the footnote to refer to the newly proposed definition of a liability. The updated footnote would be: 'The *Conceptual Framework for Financial Reporting* defines a liability as a present obligation of the entity to transfer an economic resource as a result of past events.'

38. We think that this amendment will not have a significant effect on the requirements of the Standard.

Question 6—Updating a quote

Do you agree that a proposal to update a quote in Appendix A of IFRS 2 should be added to the Exposure Draft *Updating References to the Conceptual Framework for Financial Reporting*?

Appendix A—Revised drafting for paragraphs dealing with measurement uncertainty

Chapter 2—Qualitative characteristics of useful financial information

…

2.12 One factor affecting the relevance of financial information is the level of measurement uncertainty. Measurement uncertainty arises when a measure for an asset or liability cannot be observed directly and must instead be estimated. The use of reasonable estimates is an essential part of the preparation of financial information. An estimate can provide relevant information, even if the estimate is subject to a high level of measurement uncertainty, but the estimate needs to be properly described and disclosed.

2.12A If measurement uncertainty is high, an estimate is less relevant than that estimate would be if it were subject to low measurement uncertainty. Thus, there is a trade-off between the level of measurement uncertainty and other factors that make information more or less relevant. For example, one piece of information might be of high interest to users of financial statements, but subject to high measurement uncertainty. Another piece of information about the same economic phenomenon may be of lower interest to users of financial statements, but subject to lower measurement uncertainty. In such cases, judgement is needed to determine which piece of information is more relevant. Moreover, for some estimates, the level of measurement uncertainty may be so high that the resulting information may have little relevance, even if the estimate is properly described and disclosed.

2.19 A faithful representation, by itself, does not necessarily result in useful information. To be useful the information must also be relevant. For example, an estimate can be faithfully represented if the reporting entity has properly applied a process, properly described the estimate and explained any uncertainties that significantly affect the estimate. However, if the estimate is not relevant the information provided will not be useful.

…

Chapter 5—Recognition and derecognition

…

5.11 When one or more of the following factors applies, recognition may not provide relevant information:

(a) it is uncertain whether an asset exists, or is separable from goodwill, or whether a liability exists (see paragraphs 5.12–5.15);

(b) an asset or a liability exists, but there is only a very low probability that an inflow or outflow of economic benefits will result (see paragraphs 5.16–5.18); or

(c) a measurement of an asset or liability is available (or can be obtained) but the level of measurement uncertainty is so high that the resulting information has little relevance and no other relevant measure is available or can be obtained (see paragraph 5.20).

It will often be a combination of these factors, rather than any single factor, that causes information to lack relevance. Moreover, other factors may also cause information to lack relevance.

…

5.20 As noted in paragraph 2.12A, for some estimates, the level of measurement uncertainty may be so high that the resulting information may have little relevance, even if the estimate is properly described and disclosed. A measurement may not provide relevant information if, for example:

(a) the range of possible outcomes is extremely wide and the likelihood of each outcome is exceptionally difficult to estimate. In such cases, the most relevant information for users of financial statements might relate to the range of outcomes and the factors affecting their likelihoods. When that information is relevant (and can be provided at a cost that does not exceed the benefits), disclosure of that information may be appropriate, regardless of whether the entity also recognises the asset or the liability. However, in some cases, trying to capture that information in a single number as a measure may not provide any further relevant information. In such cases, if no relevant measure is available, or can be obtained, recognition would not provide relevant information.

(b) measuring the resource or obligation requires unusually difficult or exceptionally subjective allocations of cash flows that do not relate solely to the item being measured.

…

Chapter 6—Measurement

…

6.49 One factor affecting the relevance of the information provided by a measurement basis is the level of measurement uncertainty in estimates of that information (see paragraph 2.12A). In some cases, the level of that measurement uncertainty is so high that a different measurement basis may provide more relevant information. If no measurement basis for an asset or liability would provide relevant information, it is not appropriate to recognise the asset or liability (see paragraph 5.11(c)).

6.50 Measurement uncertainty is not the same thing as outcome uncertainty. For example, if the fair value of an asset is observable in an active market, no uncertainty is associated with the measurement of that fair value, even though it is uncertain how much cash the asset will ultimately produce. On the other hand, uncertainty of outcome may sometimes contribute to measurement uncertainty. For example, there may be a high level of uncertainty about the cash flows that a unique asset will produce (outcome uncertainty), and measuring a current value of that asset may depend on a model whose validity is untested and that requires inputs that are difficult to verify.

…

Appendix B—Revised drafting for paragraphs dealing with measurement uncertainty showing changes from the pre-ballot draft as mark-up

Chapter 2—Qualitative characteristics of useful financial information

…

2.12 ~~The~~ One factor affecting the relevance of financial information ~~can be affected by~~ is the level of measurement uncertainty. Measurement uncertainty arises when a measure for an asset or liability cannot be observed directly and must instead be estimated. The use of reasonable estimates is an essential part of the preparation of financial information ~~and does not undermine its relevance~~. An estimate can provide relevant information, even if the estimate is subject to a high level of measurement uncertainty, but the estimate needs to be properly described and disclosed. ~~A faithful representation can be achieved if estimates are properly described and disclosed.~~

2.12A If measurement uncertainty is high, an estimate is less relevant than that estimate would be if it were subject to low measurement uncertainty. Thus, there is a trade-off between the level of measurement uncertainty and other factors that make information more or less relevant. For example, one piece of information might be of high interest to users of financial statements, but subject to high measurement uncertainty. Another piece of information about the same economic phenomenon may be of lower interest to users of financial statements, but subject to lower measurement uncertainty. In such cases, judgement is needed to determine which piece of information is more relevant. ~~However, in unusual and rare cases,~~ Moreover, for some estimates, the level of measurement uncertainty ~~in an estimate~~ may be so high that the resulting information may have little relevance ~~will not be particularly relevant~~, even if ~~supporting disclosures are given~~ the estimate is properly described and disclosed. ~~For example, the level of uncertainty associated with an estimate of the fair value of an internally generated intangible asset may be so high that the estimate will not be particularly relevant. Nonetheless, a high level of measurement uncertainty does not prevent the use of an estimate if that estimate provides the most relevant information.~~

…

2.19 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.~~ To be useful the information must also be relevant. ~~An estimate of an unobservable fair value~~ For example, an estimate can be faithfully represented if the reporting entity has properly applied ~~an appropriate~~ a process, properly described the estimate and explained any uncertainties that significantly affect the estimate. However, if the estimate is not relevant the information provided will not be useful. ~~However, if the level of uncertainty in such an estimate is too high, that estimate may not be particularly relevant (see paragraph 2.12).~~

…

Chapter 5—Recognition and derecognition

…

5.11 When one or more of the following factors applies, ~~Recognition~~ recognition may not provide relevant information ~~when, for example, one or more of the following factors applies~~:

(a) it is uncertain whether an asset exists, or is separable from goodwill, or whether a liability exists (see paragraphs 5.12– 5.15);

(b) an asset or a liability exists, but there is only a very low probability that an inflow or outflow of economic benefits will result (see paragraphs 5.16 –5.18); or

(c) ~~all relevant measurements that are available, or can be obtained, have an exceptionally high level of uncertainty~~ a measurement of an asset or liability is available (or can be obtained) but the level of measurement uncertainty is so high that the resulting information has little relevance and no other relevant measure is available or can be obtained (see paragraph~~s 5.19–~~5.20).

It will often be a combination of these factors, rather than any single factor, that causes information to lack relevance. Moreover, other factors many also cause information to lack relevance.

…

~~5.19 In many cases, measurements must be estimated and are subject to uncertainty. The use of reasonable estimates is an essential part of the preparation of financial statements and does not undermine their usefulness. A faithful representation is achieved if amounts that are estimates, or that are the result of allocations, are described as such, and the nature and level of uncertainties, if material, are disclosed.~~

5.20 ~~In unusual and rare cases, as~~ As noted in paragraph 2.12A, for some estimates, the level of measurement uncertainty ~~in an estimate is so high that the estimate will not be particularly relevant, even if supporting disclosures are provided~~ may be so high that the resulting information may have little relevance, even if the estimate is properly described and disclosed. ~~An estimate~~ A measurement may not provide relevant information if, for example:

(a) the range of possible outcomes is extremely wide and the likelihood of each outcome is exceptionally difficult to estimate. In such cases, the most relevant information for users of financial statements might relate to the range of outcomes and the factors affecting their likelihoods. When that information is relevant (and can be provided at a cost that does not exceed the benefits), disclosure of that information may be appropriate, regardless of whether the entity also recognises the asset or the liability. However, in some cases, trying to capture that information in a single number as a measure ~~for recognition in the statement of financial position~~ may not provide any further relevant information. In such cases, if no relevant measure is available, or can be obtained, recognition would not provide relevant information.

(b) measuring the resource or obligation requires unusually difficult or exceptionally subjective allocations of cash flows that do not relate solely to the item being measured.

…

Chapter 6—Measurement

…

6.49 ~~The level of uncertainty associated with a measurement basis is one factor that affects the relevance of the information provided by that measurement basis~~ One factor affecting the relevance of the information provided by a measurement basis is the level of measurement uncertainty in estimates of that information (see paragraph 2.12A). In some cases, the level of that measurement uncertainty ~~associated with a measurement basis~~ is so high that a different measurement basis may provide more relevant information. ~~If all measurement bases are highly uncertain, the asset or liability may not meet the criteria for recognition (see paragraphs 5.19–5.20).~~ If no measurement basis for an asset or liability would provide relevant information, it is not appropriate to recognise the asset or liability (see paragraph 5.11(c)).

6.50 Measurement uncertainty is not the same thing as outcome uncertainty. For example, if the fair value of an asset is observable in an active market, no uncertainty is associated with the measurement of that fair value, even though it is uncertain how much cash the asset will ultimately produce. On the other hand, uncertainty of outcome may sometimes contribute to measurement uncertainty. For example, there may be a high level of uncertainty about the cash flows that a unique asset will produce (outcome uncertainty), and measuring a current value of that asset may depend on a model whose validity is untested and that requires inputs that are difficult to verify.

…

Appendix C—Proposed drafting for paragraphs in Chapter 2 dealing with measurement uncertainty showing changes from the 2010 *Conceptual Framework* as mark-up

Chapter 2—Qualitative characteristics of useful financial information

The mark-up shows changes from the version of this Chapter issued in 2010.

…

2.12 One factor affecting the relevance of financial information is the level of measurement uncertainty. Measurement uncertainty arises when a measure for an asset or liability cannot be observed directly and must instead be estimated. The use of reasonable estimates is an essential part of the preparation of financial information. An estimate can provide relevant information, even if the estimate is subject to a high level of measurement uncertainty, but the estimate needs to be properly described and disclosed.

2.12A If measurement uncertainty is high, an estimate is less relevant than that estimate would be if it were subject to low measurement uncertainty. Thus, there is a trade-off between the level of measurement uncertainty and other factors that make information more or less relevant. For example, one piece of information might be of high interest to users of financial statements, but subject to high measurement uncertainty. Another piece of information about the same economic phenomenon may be of lower interest to users of financial statements, but subject to lower measurement uncertainty. In such cases, judgement is needed to determine which piece of information is more relevant. Moreover, for some estimates, the level of measurement uncertainty may be so high that the resulting information may have little relevance, even if the estimate is properly described and disclosed.

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2.19 ~~QC16~~ A faithful representation, by itself, does not necessarily result in useful information. To be useful the information must also be relevant. ~~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 a faithful representation~~ For example, an estimate can be faithfully represented if the reporting entity has properly applied ~~an appropriate~~ a process, properly described the estimate and explained any uncertainties that significantly affect the estimate. However, if the estimate is not relevant the information provided will not be useful. ~~However, if the level of uncertainty in such an estimate is sufficiently large, that estimate will may 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.~~

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