

**Memo**Issue Date **September 9, 2015**Meeting Date **Joint BM September 23, 2015**

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Project	<b>Conceptual Framework –Cover Memo</b>
Project Stage	<b>Initial Deliberations</b>
Issue(s)	<b>Tentative Decisions to Date</b>

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**Purpose of These Memorandums**

1. In January 2014, the FASB decided to reactivate work on the conceptual framework, focusing on concepts for presentation and measurement. The Board decided to focus its efforts on presentation and measurement first for several reasons. First, the Board considers these areas to be the most deficient. Second, sound presentation concepts may help the Board resolve conflicts in measurement. Discussions of measurement often start from the perspective of the asset or liability being measured, choices of measurements are always influenced by the revenues, expenses, gains, or losses that will result.
2. Those apparent conflicts have sometimes resulted in measurements that some consider suboptimal or recognition of revenues, expenses, gains, or losses that might be considered to mask or deemphasize trends. That is sometimes described as the “volatility issue” (reporting gains and losses that some consider to be “transient” or “artificial”).
3. Careful presentation and descriptions might help resolve those apparent conflicts. For example, determining how to present separately and appropriately label unrealized gains and losses that result from estimates with high levels of uncertainty might be one of the most critical considerations.

## Presentation

4. Concepts Statement 5 addresses financial statements that should be provided and how those statements contribute to the objective of financial reporting. However, there are two questions that are not addressed in Concepts Statement 5 that should be addressed in a Concepts Statement:
  - (a) How to determine which line items should be included in a particular financial statement and in which line item (or line items) should individual recognized items be included?
  - (b) How should line items be ordered or grouped?
5. The FASB has developed two broad concepts to address the questions above. A summary of those concepts and other tentative decisions reached to date are discussed in FASB Memo 28/IASB Agenda Paper 10C.

## Measurement

6. Despite the fact that the title of Concepts Statement 5 includes the word *measurement*, it says very little about measurement and does not achieve the objective suggested in paragraph 5. There are only seven paragraphs about measurement. In summary, Concepts Statement 5 states the following:
  - (a) Items in financial statements are measured differently. Rather than characterize attempts to select a single attribute and force changes in practice so that all classes of assets and liabilities use that attribute, this Concepts Statement suggests that use of different attributes will continue.
  - (b) Five different attributes of assets and liabilities are used in present practice:
    - (i) Historical cost (historical proceeds)
    - (ii) Current cost
    - (iii) Current market value
    - (iv) Net realizable (settlement) value

- (v) Present (or discounted) value of future cash flows.
  - (c) All five attributes may have the same amounts at initial recognition.
  - (d) Historical cost might be better described as historical exchange price.
  - (e) Measurements are in nominal dollars, but if inflation increases so that distortions become intolerable, some other scale may need to be used.
7. Currently, Concepts Statement 5 is of no help to the Board in establishing measurement requirements. That may be the single most significant gap in the FASB's existing framework.
  8. The FASB has held several public meetings to discuss measurement concepts. The decisions to date are described in FASB Memo 29/IASB Agenda Paper 10D.

### **Next Steps**

9. Deliberations on the presentation concepts are substantially completed. At this point, we anticipate deliberations on the measurement concepts to be completed by the end of the year. The Board plans to issue Exposure Drafts on the proposed measurement and presentation concepts concurrently.