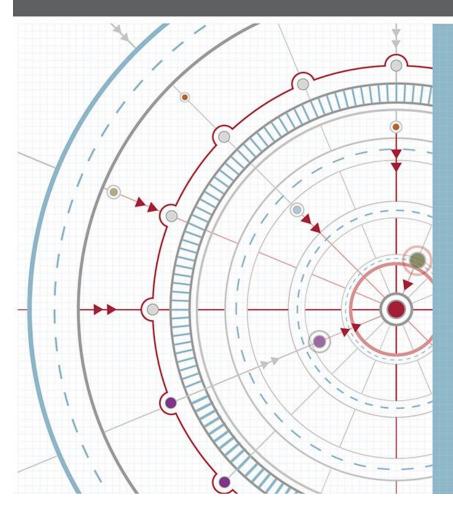
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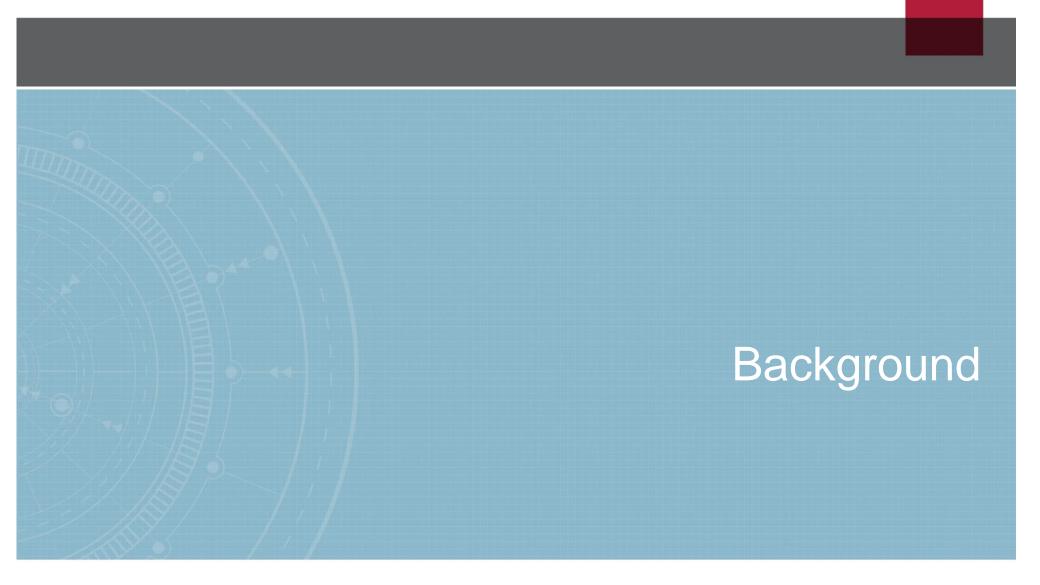
Conceptual Framework: Measurement

Agenda paper 10I, IASB Meeting – September 2016

Board Educational Session

The views expressed in this presentation are those of the presenter, not necessarily those of the International Accounting Standards Board (the Board) or IFRS Foundation.







What did the ED say?

- Different measurement bases for different assets, liabilities, income and expense
- Measurement bases categorised as;
 - cost
 - current values
- Factors to consider include:
 - how the asset/liability contributes to cash flows:
 - property may be realised by sale
 - other assets used to produce goods & services, which are then sold to customers
 - characteristics of the asset, e.g. sensitivity to market and other risks

What respondents said (overview)

- Description of measurement bases
- Factors to consider:
 - contribution of assets to cash flows (which may depend on business activities)
 - characteristics of the asset, e.g. sensitivity to market and other risks
- Chapter fails to provide adequate guidance *



Tentative Board decisions (1)

(see Agenda Paper 10A for this meeting)

- Revised Conceptual Framework should retain a Chapter on measurement
- Discussion to be improved in the light of responses to the ED
- Staff should revise the discussion of factors to consider in selecting a measurement basis, in particular identifying the implications for measurement of:
 - How the asset/liability contributes to future cash flows
 - The characteristics of the asset/liability



Tentative Board decisions (2)

(see Agenda Paper 10A for this meeting)

- Specific implications of faithful representation and enhancing qualitative characteristics should not be added
- The revised Conceptual Framework should discuss current cost, and its advantages and disadvantages, under the heading of current value rather than historical cost
- The revised Conceptual Framework should describe measurement uncertainty as a factor affecting faithful representation rather than relevance



Objective of this session

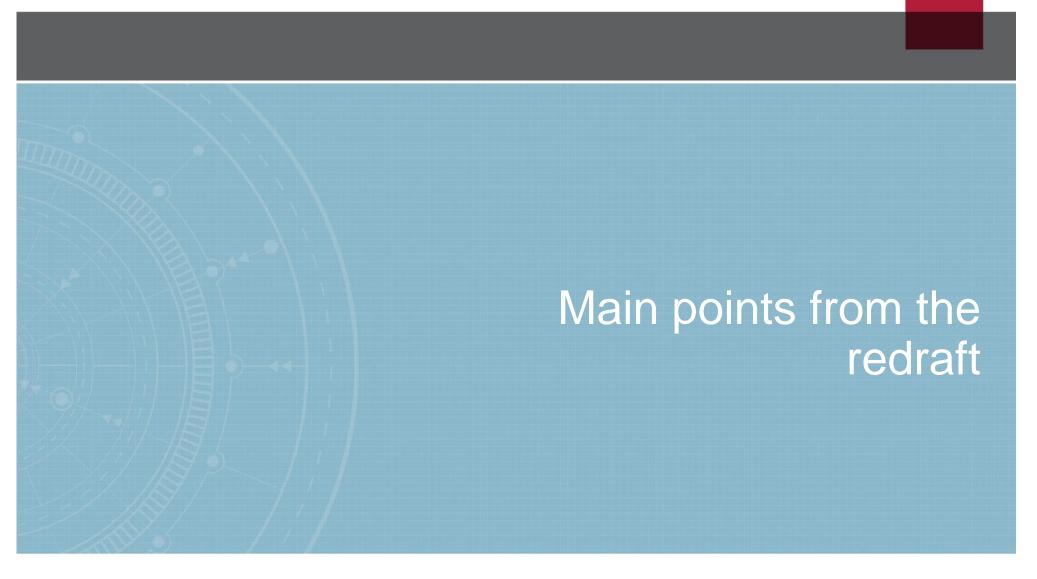
- To obtain initial reactions from Board members on a redraft of key sections of the Measurement Chapter, in particular on the 'factors to consider'
 - Not to make decisions or consider drafting points
- Seek your views on the following questions:
 - The general approach adopted in the redrafting, as reflected in the draft at Paper 10H, at paragraphs 6.54–6.54K
 - The discussion of the contribution of the asset to future cash flows (Paper 10H, paragraphs 6.54A–6.54G)
 - The discussion of the characteristics of the asset or liability (Paper 10H, paragraphs 6.54H–6.54K)
 - Are there any other specific points on which you would wish to comment?



Next steps

- The refdraft will be discussed with ASAF in September
- We will revise the redraft in the light of comments received from the Board and ASAF and plan to ask you for decisions in October







A more structured approach?

- A rigid hierarchy (or decision tree) seems attractive, but doesn't work in all cases
- Increased prominence of the point that importance of factors will vary depending on facts and circumstances (Paper 10H, paragraph 6.49B)



Relevance

- Importance of selecting a <u>relevant</u> measurement basis emphasised, consistent with discussion in qualitative characteristics (Paper 10H, paragraph 6.49A)
- Contribution to cash flows and characteristics of asset/liability discussed in terms of relevance (consistent with Exposure Draft)



Contribution to future cash flows (1)

(Paper 10H, paragraphs 6.54A-6.54G)

- Builds on point in Chapter 1 that:
 - some assets/liabilities generate cash flows directly
 - others are used in combination to generate cash flows indirectly
- Notes that this depends, in part, on the entity's business activities
- Suggests current values (fair value, value in use/fulfilment value) are likely to be relevant for assets/liabilities that produce cash flows directly



Contribution to future cash flows (2)

(Paper 10H, paragraphs 6.54A-6.54G)

- Suggests that where assets/liabilities contribute to cash flows indirectly, a cost-based measurement is likely to be relevant
 - provides information on margins



Contribution to future cash flows (3)

Specific cases

- Liabilities incurred to raise finance are unlikely to be transferred/settled before maturity so cost-based information may be relevant (Paper 10H, paragraph 6.54D)
- Where financial assets held to collect contractual cash flows, cost-based information may be relevant (Paper 10H, paragraph 6.54E)
- For inventory (other than commodity-type inventory), cost-based information may be relevant (Paper 10H, paragraph 6.54F)
- For liabilities for performance obligations to customers cost-based information may be relevant (Paper 10H, paragraph 6.54G)

Characteristics of the asset/liability

(Paper 10H, paragraphs 6.54H-6.54K)

- Where cash flows or value is variable or sensitive to market values or other risks, a current value such as fair value or value in use is likely to be relevant
- Where cash flows are variable—not simply principal and interest—amortised cost cannot be used
- Where value is sensitive, current value is relevant in assessing features identified as being of interest to users in Chapter 1
 - and historical cost might not produce appropriate income and expenses



Questions for the Board

What are your views on the following:

- The general approach adopted in the redrafting, as reflected in the draft at Paper 10H, at paragraphs 6.54–6.54K?
- The discussion of the contribution of the asset to future cash flows (Paper 10H, paragraphs 6.54A–6.54G)?
- The discussion of the characteristics of the asset or liability (Paper 10H, paragraphs 6.54H–6.54K)?
- Are there any other specific points on which you would wish to comment?

