

STAFF PAPER

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Project	Conceptual Framework		
Paper topic	More than one relevant measurement basis		
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Purpose of the paper

1. This paper discusses whether any changes are needed to the discussion of more than one relevant measurement basis in the light of the comments received on the Exposure Draft *Conceptual Framework for Financial Reporting* ('the Exposure Draft').
2. Appendix A sets out other comments received on that discussion and provides the staff's response to those comments.

Structure of the paper

3. This paper is structured as follows:
 - (a) staff recommendations (paragraph 4);
 - (b) proposals in the Exposure Draft (paragraphs 5-6);
 - (c) summary of feedback (paragraphs 7-13); and
 - (d) staff analysis and question for the Board (paragraphs 14-29).

Staff recommendations

4. The staff recommend that the revised *Conceptual Framework*:

- (a) state that more than one measurement basis might sometimes be selected to provide information about an asset, liability income or expense as proposed in the Exposure Draft;
- (b) require that both the relevance and faithful representation of information about an asset, liability, income or expenses are considered when selecting more than one measurement basis; and
- (c) clarify that selecting a current value measurement basis for an asset or a liability in the statement of financial position and a different measurement basis in the statement of profit or loss to determine the related income or expense is an example of classifying income and expenses in the statement of profit or loss and in the statement of other comprehensive income.

Exposure Draft proposals (paragraphs 6.74—6.77 and BC6.68)

5. The Exposure Draft proposed that:

- (a) more than one measurement basis might sometimes be needed to provide relevant information about an asset, liability income or expense;
- (b) in most cases the most understandable way to provide that information is by:
 - (i) using a single measurement basis both in the statement of financial position and in the statement(s) of financial performance; and
 - (ii) disclosing in the notes to the financial statements additional information using the other measurement basis;
- (c) in some cases, because of the way in which an asset or a liability contributes to future cash flows (which depends in part on the nature of the business activities conducted by the entity) or because of the characteristics of the asset or the liability, the information provided in the financial statements is made more relevant by using:
 - (i) a current value measurement basis for the asset or the liability in the statement of financial position; and

- (ii) a different measurement basis to determine the related income or expenses in the statement of profit or loss with the remaining income or expense in other comprehensive income.
- 6. The Basis for Conclusions on the Exposure Draft explained that in some cases consideration of the objective of financial reporting and of the qualitative characteristics of useful financial information will indicate that using more than one measurement basis for the same item in the same financial statements could provide useful information to the users of financial statements.

Summary of feedback

- 7. The invitation to comment included a specific question on the discussion of more than one relevant measurement basis. Roughly a half of the respondents commented on this topic.
- 8. This section discusses feedback on:
 - (a) Disclosing a different measurement basis in the notes (paragraph 9); and
 - (b) Using different measurement bases in the statement of financial position and the statement of profit or loss (paragraphs 10-13).

Disclosing a different measurement basis in the notes

- 9. Most respondents who commented on the proposal agreed that sometimes a different measurement basis should be disclosed in the notes to the financial statements. Some of them also stated a view that disclosure in the notes is the best or even the only way to provide information about a different measurement basis. Some respondents disagreed with disclosing a different measurement basis in the notes, or disagreed that such an approach is preferable to using more than one measurement basis in the statement of financial position and the statement of profit or loss. Their comments and the staff's response are set out in Appendix A.

Using different measurement bases in the statement of financial position and the statement of profit or loss

10. Many respondents, including almost all preparers who commented on the topic, supported the proposal on using one measurement basis in the statement of financial position and a different measurement basis in the statement of profit or loss. However, some of these respondents expressed particular reservations about that proposal. Specifically:
 - (a) some respondents asked the Board to provide more guidance on when using more than one measurement basis would be appropriate or stated that the proposals lacked a clear conceptual basis;
 - (b) some respondents commented on the interaction between the use of more than one measurement basis and the use of other comprehensive income. A few respondents suggested that the Board should define performance or define profit or loss before finalising the discussion on the use of more than one measurement basis;
 - (c) some respondents stated it was not clear whether the use of different measurement bases was intended to be an exception. Some suggested that a single measurement basis should normally be used and that using different measurement bases is rather an exception that would be more appropriately addressed in relevant Standards instead of the revised *Conceptual Framework*;
 - (d) in contrast, a few respondents argued that the use of different measurement bases in the statement of financial position and in the statement of profit or loss should not be rare. For example, two preparers from the financial sector stated that financial assets measured at fair value through other comprehensive income represent substantial portions of their portfolios.
11. The staff's response to these comments is set out in Appendix A.
12. About a third of the respondents who commented on the proposals on using different measurement bases in the statement of financial position and the statement of profit or loss, mainly represented by academics as well as accountancy bodies and standard-setters, disagreed with the proposals. They expressed the following concerns:

- (a) Some respondents suggested that using different measurement bases in the statement of financial position and the statement of profit or loss would result in increased cost and complexity and decreased understandability of financial statements. A few respondents suggested there was no conceptual basis or no evidence to support the proposal that using more than one measurement basis would result in more relevant information.
 - (b) A few respondents argued that the proposed discussion contradicts the definitions of elements of the financial statements. They argued that, as income and expenses are defined as increases and decreases in assets and liabilities, it logically follows that a single measurement basis should be used for both underlying assets and liabilities and the corresponding income and expenses.
 - (c) A few respondents stated they did not agree in principle with what they described as non-articulation between the statement of financial position and the income statement. They viewed the proposals as contradictory to the basic accounting equation whereby the changes in the statement of financial position during the reporting period correspond to the amounts reported in the statement(s) of financial performance.
13. Some respondents who *supported* the proposals did not seem to make a distinction between using more than one measurement basis and splitting particular income and expenses between the statement of profit or loss and other comprehensive income. For example, a few respondents referred to pension liabilities in expressing their support for the use of more than one measurement basis even though this is not an example of the use of more than one measurement basis. At the same time, some of the respondents who *disagreed* with the proposals as set out in the Exposure Draft for the reasons discussed in paragraph 12(b) and 12(c) expressed support for the disaggregation of income and expenses between the statement of profit or loss and other comprehensive income as and when appropriate. A few of those respondents suggested that using a different measurement basis in the statement of profit or loss compared to the measurement basis in the statement of financial position is one example of when such disaggregation may be appropriate.

Staff analysis

14. The staff acknowledge the concerns raised by the respondents that disagreed with the proposals on using more than one measurement basis in the statement of financial position and the statement of profit or loss. The staff's response to those concerns is provided in the following sections:
 - (a) increased cost to preparers (paragraph 17);
 - (b) increased complexity of financial statements (paragraph 18);
 - (c) interaction with the definitions of income and expenses (paragraph 19); and
 - (d) interaction with the accounting equation (paragraph 20).
15. The staff's response to other comments made by respondents is set out in Appendix A.
16. Paragraphs 21-23 discuss factors to consider in selecting more than one measurement basis. Staff recommendations are set out in paragraphs 24-29.

Increased costs to preparers

17. The staff agree that using more than one measurement basis in the statement of financial position and the statement of profit or loss would result in increased costs to preparers. However, in selecting a measurement basis, including selecting more than one measurement basis, the Board would be required to weigh the benefits of the information provided to users of financial statements against the cost of providing that information. Accordingly, the Board would only require entities to use more than one measurement basis if the cost to preparers is justified by the benefits to users of financial statements.

Increased complexity of financial statements

18. The staff agree that using different measurement bases in the statement of financial position and the statement of profit or loss would increase the complexity of the financial statements. However, the staff do not agree that it would necessarily result in decreased understandability of the financial statements. In contrast, the staff

continue to think that for complex economic phenomena providing information about more than one measurement basis could be necessary in order to enhance users' understanding of that phenomena. For example, in a business model for managing financial assets whose objectives are achieved by collecting contractual cash flows and selling financial assets information on the amortised cost basis and the fair value basis would both be relevant to understanding the performance of that business model.

Interaction with the definitions of income and expenses

19. The staff note the concerns about the interaction between the definitions of income and expenses and the proposals on using different measurement bases in the statement of financial position and the statement of profit or loss. However, the staff do not agree that the proposals contradict those definitions. This is because changes in assets and liabilities can often be attributed to multiple factors and the effects of those factors on the carrying value of the asset or the liability can be identified and measured separately and presented alongside other items with shared characteristics. For example, a change in the fair value of a financial instrument can be attributed to a combination of changes in credit risk, liquidity risk, time value of money, as well as the passage of time and other factors depending on facts and circumstances. The entire change in fair value of the financial instrument would represent income or expense measured at fair value. At the same time, the components of that change would represent income or expenses attributable to particular factors affecting the overall change in value. Both the entire change in value and the components of that change would fall under the definition of income and expenses in the revised *Conceptual Framework*.

Interaction with the accounting equation

20. The staff note the concerns about the non-articulation between the statement of financial position and the statement of profit or loss. However, in accordance with the Board's tentative decisions on presenting information about financial performance, the statement (or section) of profit or loss is the primary but not the only source of information about financial performance. The statement (or section) of other comprehensive income represents another source of such information. Accordingly,

there is articulation between the statement of financial position and the statement of comprehensive income which includes statements (or sections) of profit or loss and other comprehensive income.

Factors in selecting more than one measurement basis

21. The Exposure Draft proposed that more than one measurement basis can be selected if that is necessary to provide relevant information about an asset, liability, income and expenses. The anchor to relevance was consistent with the Exposure Draft proposals on the use of profit or loss and other comprehensive income. Those proposals stated that income and expenses can be included in other comprehensive income if that would enhance the relevance of information provided by the statement of profit or loss for the period.
22. However, in June 2016 the Board tentatively decided that income and expenses could be included in other comprehensive income if that would enhance either the relevance or faithful representation of information in the statement of profit or loss. This is because the revised *Conceptual Framework* will discuss not only relevance but also faithful representation as a factor in making classification decisions. In addition, the Board noted that the reference to faithful representation as an anchor for the use of other comprehensive income could be particularly appropriate in some circumstances, for example for cash flow hedges.
23. The staff think that similar considerations apply to using more than one measurement basis. That is, in accordance with the Board's tentative decisions made in December 2016, not only relevance but also faithful representation of information is a factor in selecting a measurement basis. Accordingly, it could also be a factor in selecting more than one measurement basis for presentation or disclosure purposes. In addition, including faithful representation as a factor in selecting more than one measurement basis would be consistent with the Board's tentative decisions on the use of other comprehensive income.

Staff recommendation

24. The staff note that:

- (a) most respondents who commented on disclosing a different measurement basis in the notes to financial statements agreed with that proposal; and
 - (b) many respondents agreed with using different measurement bases in the statement of financial position and the statement of profit or loss.
25. Accordingly, the staff recommend that the Board confirms that more than one measurement basis might sometimes be selected to provide information about an asset, liability income or expense.
26. For the reasons discussed in paragraphs 21-23, the staff also recommend that both the relevance and faithful representation of information about an asset, liability, income or expense are considered when selecting more than one measurement basis for presentation or disclosure purposes.
27. In addition, the staff think that the Board should clarify the interaction between using more than one measurement basis and related aspects of the Exposure Draft. As discussed in paragraphs 10-13, some respondents, including both those who agreed with the proposals on using more than one measurement basis in the statement of financial position and the statement of profit or loss and those who disagreed, were either unclear or concerned about the interaction of the proposals with the related aspects of the Exposure Draft such as the definitions of income and expense and presentation of information about financial performance. In addition, some respondents disagreed with the notion of using a different measurement basis in the statement of profit or loss but supported the notion of disaggregating income and expenses into components attributable to different factors.
28. The staff do not think that the Board intended for the proposals on using different measurement bases in the statement of financial position and the statement of profit or loss to constitute a concept of its own. Rather, the staff think that the Board intended for those proposals to represent a specific example of classifying income and expenses between the statement of profit or loss and the statement of other comprehensive income. Indeed, paragraph 7.25 of the Exposure Draft stated that one example of when income and expenses will be included in other comprehensive income is when a current value measurement basis is selected for an asset or a liability

for the statement of financial position and a different measurement basis is selected for determining the related income and expenses in the statement of profit or loss.

29. Accordingly, the staff recommend that the Board clarify that selecting a current value measurement basis for an asset or a liability in the statement of financial position and a different measurement basis in the statement of profit or loss to determine the related income or expense is an example of classifying income and expenses in the statement of profit or loss and in the statement of other comprehensive income.

Question for the Board

Does the Board agree with the staff recommendations that the revised *Conceptual Framework*:

- a) state that more than one measurement basis might sometimes be selected to provide information about an asset, liability income or expense as proposed in the Exposure Draft;
- b) require that both relevance and faithful representation of information about an asset, liability, income or expense are considered when selecting more than one measurement basis; and
- c) clarify that selecting a current value measurement basis for an asset or a liability in the statement of financial position and a different measurement basis in the statement of profit or loss to determine the related income or expense is an example of classifying income and expenses in the statement of profit or loss and in the statement of other comprehensive income?

Appendix A—Other comments on using more than one measurement basis

- A1. This appendix sets out other comments received on using more than one measurement basis and provides the staff's response.

	Respondents' comments	The staff's response
A1	A few respondents suggested that a different measurement basis disclosed in the notes is often based on highly uncertain estimates and therefore would not provide relevant information to users of financial statements while increasing the cost to preparers.	The Board has acknowledged that measurement uncertainty could decrease the usefulness of information provided in the financial statements. In May 2016, the Board tentatively decided to describe measurement uncertainty as a factor affecting faithful representation. However, the Board also noted that a trade-off can exist between the fundamental qualitative characteristics of relevance and faithful representation. Accordingly, in selecting a measurement basis that involves a level of measurement uncertainty, including selecting more than one measurement basis, the Board would weigh the qualitative characteristics of relevance and faithful representation.
A2	An international accounting firm suggested that the discussion about disclosing a different measurement basis in paragraph 6.75(b) of the Exposure Draft should not be included in the revised <i>Conceptual Framework</i> pending the outcome of work on the boundaries of disclosure in the Principles of Disclosure project.	The revised <i>Conceptual Framework</i> will set out high level concepts for presentation and disclosure. Principles of Disclosure project is aiming to provide more specific requirements for presentation and disclosure based on the concepts included in the revised <i>Conceptual Framework</i> .
A3	Two respondents expressed a concern that providing information about a different measurement basis would result in information overload. One of those respondents, a regulator from Europe, suggested that disclosure of a different measurement basis should only be required by the Board after careful consideration of its added value.	In selecting more than one measurement basis, the Board would consider the relevance and faithful representation of information of an asset, liability, income and expenses. The Board would only require entities to provide information about more than one measurement basis if the Board concludes that that would result in useful information for users of financial statements.
A4	Some respondents asked the Board to	As discussed in paragraph 26, the staff

	Respondents' comments	The staff's response
	provide more guidance on when using more than one measurement basis would be appropriate or stated that the proposals lacked a clear conceptual basis.	recommend that the Board considers both the relevance and faithful representation of information about an asset, liability, income or expense in selecting more than one measurement basis. Such guidance would be consistent with both the discussion of the factors to consider in selecting a measurement basis and the guidance on the use of other comprehensive income in the revised <i>Conceptual Framework</i> .
A5	Some respondents commented on the interaction between the use of more than one measurement basis and the use of other comprehensive income. A few respondents suggested that the Board should define performance or define profit or loss before finalising the discussion on the use of more than one measurement basis.	<p>In June 2016, the Board tentatively decided not to define profit or loss or performance in the revised <i>Conceptual Framework</i>.</p> <p>However, as discussed in paragraphs 27-29, the staff recommend that the Board clarifies the interaction between using more than one measurement basis and presentation of information about financial performance.</p>
A6	Some respondents stated it was not clear whether the use of different measurement bases was intended to be an exception. Some suggested that a single measurement basis should normally be used and that using different measurement bases is rather an exception that would be more appropriately addressed in relevant Standards instead of the revised <i>Conceptual Framework</i> .	In June 2016, the Board tentatively decided that the revised <i>Conceptual Framework</i> would state that income and expenses would only be included in other comprehensive income in exceptional circumstances. Using different measurement bases for the statement of financial position and the statement of profit or loss is one case when other comprehensive income would be used. Accordingly, selection of different bases for the statement of financial position and the statement of profit or loss would also only occur in exceptional circumstances. However, that would not be the case for requiring a different measurement basis to be disclosed in the notes to the financial statements.

	Respondents' comments	The staff's response
A7	A few respondents argued that the use of different measurement bases in the statement of financial position and in the statement of profit or loss should not be rare. Two preparers from the financial sector stated that financial assets measured at fair value through other comprehensive income represent substantial portions of their portfolios.	The staff acknowledge that portfolios of assets or liabilities for which different measurement bases are selected in the statement of financial position and the statement of profit or loss could be significant for particular entities. However, the cases when such different measurement bases would be selected by the Board would still be rare.
A8	A few respondents suggested that the Board explicitly states in the revised <i>Conceptual Framework</i> that a different measurement basis selected for the statement of profit or loss would be historical cost. One respondent, an international accounting firm, suggested that the opposite can also be the case. That is, a current value measurement basis can be selected for the statement of profit or loss and historical cost for the statement of financial position.	<p>The staff do not agree with those comments. The staff think that a different measurement basis selected for the statement of profit or loss would not necessarily always be historical cost. Rather, it can also be a different current value measurement basis.</p> <p>The staff also note that in the case of using different measurement bases for the statement of financial position and the statement of profit or loss a current value measurement would have to be used in the statement of financial position. This is due to the interaction between using such different measurement bases and the Board's tentative decisions on the use of other comprehensive income. According to those decisions, only changes in current values of assets and liabilities can be included in other comprehensive income. It therefore follows that current values would have to be used for those assets and liabilities on the statement of financial position.</p>