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Toronto, Ontario. M1C 1C4**

May 15, 2006

Director, Accounting Standards,
Canadian Accounting Standards Board,
277 Wellington Street West,
Toronto, Ontario. M5V 3H2

Dear Sirs:

Re: Discussion Paper –“ Measurement Basis for Financial Accounting – Measurement on Initial Recognition”.

Attached are my comments on the above noted Discussion Paper.

Should you require clarification on any of these comments, please contact me at my e-mail address: c.martinez@sympatico.ca

Sincerely,

Chris Martinez, MBA, CA

Overall Comments

The research that was carried out in the Discussion Paper has articulated and has highlighted many of the shortcomings of the historical measurement basis. More importantly, it has provided recommendations and courses of action which, in my view, will prove to be beneficial to the financial reporting process.

General Comments

Some observations that I had about the Discussion Paper are as follows:

1. The discussions in the Paper about the shortcomings of the Market Value basis of measurement were somewhat limited compared to the discussion of shortcomings of the alternate measurement bases. In particular, there was little coverage of an inherent property of Market Value which may occur frequently, that being the variability of these values.
2. There was no discussion of the limitation that a market equilibrium price may sometimes only be achieved over a “long run” time period and not for the current period.
3. A further assumption, which appears to be based on the equilibrium concept, is that a market value consists of a single amount. In my view this assumption has not been proven to be an accurate representation for all exchange transactions. However, in recognition of the authors, the Paper did recommend that further research be carried out in this area.
4. A further extension of the equilibrium concept is used to support the assumption that market values include the concept of recoverability and for which it is assumed that the alternative bases of measurement do not. As noted earlier, the applicability of equilibrium theory does not necessarily apply to all exchange transactions. Accordingly, there may be occasions where market values do not include any concepts of recoverability.

Specific Comments

Q1 – Yes, I am in agreement with the various measurement bases that have been identified.

Q2 – The definition of market value provided is reasonable. However, as noted earlier, there are many aspects of market value that have not been discussed.

Q3 – No I do not agree that the two elements described are necessarily the cause of fundamental differences among the various measurement bases.

1. For those assets and liabilities with readily determinable market values, there may not be any difference between acquisition amount and fair value. On the other hand, for self developed assets with no readily available market value, there may be a marked differential between (accumulated) costs and other bases of measurement such as fair value or replacement cost.
2. By definition, replacement cost and net realizable value will frequently differ.
3. If we look only at the Fair Value measurement bases and further reduced the scope to those items where market value is readily available, then entity specific measurement objectives may likely create a fundamental source of difference.

Q4

Yes I am in agreement with the definition of market. At the same time there should be some recognition that there may be imperfections in the use of market values in the “short run”. While there is general support that over the long run most markets will achieve a fairly valued market prices, in the short run there may be imperfections.

Q5

I am also in agreement with the use of market value as opposed to Entity specific measures to record, initially, asset and liability values.

Q6

For the most part, I agree with the comparisons set out in paragraphs 123-129 (of main document). However, i) for the Predictive criteria, I would think that the Entity specific measurement basis would provide much greater insight and would have greater relevance to investors/creditors as compared to the Market valued basis (assuming that reliability is not an issue). At the same time, I believe that management will likely not wish to disclose the competitive advantage of their organization, and ii) while comparability may not be achieved through use of an Entity specific objective, this potential shortcoming could be overcome through an explanation of the changed circumstances between the current and previous year.

Q7

a) No – I do not agree that there is necessarily only 1 market value for an asset or liability.

At a fundamental level, at any given time on an active stock exchange there are wide ranges of buy prices and sell prices for a given security- if there is no recent purchase/sale activity it may be very difficult to establish a “single” market price for a security.

Second, as mentioned earlier, there may be imperfections in market prices over the short term, and third, in a market for specialized or unique items where there is not a great deal of trading, differences in a purchaser’s risk tolerance may affect the market value of that asset.

b) Yes – I agree that both value affecting properties (of assets and liabilities traded in different markets) or entity specific charges or other factors may cause differences in market values for identical items.

Q8

Yes – I am in agreement with the recommendation.

Q9

a) Not necessarily. This concept may not have any applicability for self-constructed assets or transfers within a corporate group. Further, to make it more difficult, the organization may operate within different markets as is the case, for example, with a vertically integrated operation.

b) It is not clear, at least to me, exactly what the “lowest level of aggregation” refers to. In a larger organization, this could involve, for example, any of the following, a product/program, factory or a division. In addition, the phrase “ready to contribute to the generation of cash flow” is also unclear. On the assumption that business owners and management are constantly seeking to show improvements to earnings, then every expenditure would be made for purposes of achieving net positive cash flows. I wonder if the issue is one of being able to establish a direct relationship between the expenditure made and the resultant cash inflow, as opposed to an indirect relationship. Furthermore, the report refers to identifiable assets, how are non-identified assets to be treated? In particular, how is goodwill on acquisition of another business to be treated? The link between Goodwill and future cash flows is very likely to be indirect.

Q10

In those situations where an acquisition market is identifiable, then I am in agreement with the suggestion. However, as noted earlier, this may not be possible for self-developed assets.

Q11

Generally I support the view that transaction costs should not be included in the acquisition price of an asset. This policy is most applicable where there is a well defined, active market for that item. In markets that are not so well defined it may not be easy to readily identify transaction costs. For example, if the commercial practice for an industry is to include the transaction cost within the acquisition price it may be difficult to estimate the “transaction” component.

Q12

The difficulty with the term Relevant is that a particular item may be more relevant to one group of FS readers than to others. The Conceptual Frameworks have intentionally focused on investors and creditors, which sometimes may be detrimental to other Readers. So, in general terms, I agree with the concept of if two measurement bases are judged to be similarly reliable, choosing the more relevant basis, keeping in mind the possible limitations.

Q13

I was and still am unclear what economic indeterminacy covers and its role in creating limitations on measurement uncertainty.

The concept of estimation uncertainty, however, was much more clear.

Further, it is also not clear that these two factors would constitute all of the causes of measurement uncertainty.

Q14

Yes, I am in agreement.

Q15

- a) For assets that are specialized or unique, for which there is not an active established market, a single transaction price that has occurred between arms' length parties, and without duress, should be considered to be a legitimate market price. For assets that are more generic and for which there is an active market, a single price occurring within a period of inactivity may not be considered to be representative of the current market value. One would have to look at greater levels of sales volumes to obtain a more representative view of market values.
- b) In the absence of a recent market transaction, the use of an estimate based exclusively on management beliefs should not be considered to be a market value.

Q16

General comments - the report makes several statements that the Historical Cost, Replacement Cost and other measurement bases are judged to be of lesser ranking than Fair Value since they do not include the concept of recoverability. However, in discussions on Fair Value, including the definition of Fair Value set out in the early part of the Paper, there is little mention made of recoverability. The underlying assumption is that fair value will reflect the single highest value for that asset or liability, commensurate with the attendant level of risk. In my view, these assumptions will only be operational for a commodity type item where there is an established market and where there is constant and active trading. When dealing with situations outside of these assumptions, fair value may not include, automatically, the concept of recoverability. Consequently, fair values may not offer greater relevance than some of the other measurement bases.

a) – e) I am in agreement with the recommendations, except for the issue described above.

Q17

I am in agreement with the recommendation.

Q18

I am in agreement with the recommendation.

Q19

No suggestions for further research topics.