

# STAFF PAPER

December 2016

## IASB Meeting

Project	Conceptual Framework		
Paper topic	Measurement: comparison of suggested redraft of parts of Chapter 6 with the Exposure Draft		
CONTACT(S)	Andrew Lennard	alennard@ifrs.org	+44 (0)20 7246 6930
	Rachel Knubley	rknubley@ifrs.org	+44 (0)20 7246 6904

This paper has been prepared for discussion at a public meeting of the International Accounting Standards Board (the Board) and does not represent the views of the Board or any individual member of the Board. Comments on the application of IFRS® Standards do not purport to set out acceptable or unacceptable application of IFRS Standards. Technical decisions are made in public and reported in IASB® *Update*.

This paper presents in mark-up form a comparison of the draft in paper 10C with that of the Exposure Draft. Marginal comments have been inserted, for example to show where paragraphs marked as deleted appear in the draft at paper 10C.

Where the marginal comments identify corresponding paragraphs, it implies that the substance is similar, and not that the text is identical.

The table given at paragraph 6.47 in the Exposure Draft is set out in the Appendix to this paper in clean form. The revised draft of the table appears in paper 10C at paragraph 6.44 at pages 7–10.

## Chapter 6—Measurement

### Introduction

6.1 ~~This chapter discusses:~~

- ~~(a) measurement bases and information that they provide (paragraphs 6.4–6.47);~~
- ~~(b) factors to consider when selecting (paragraphs 6.48–6.73);~~
- ~~(c) situations when more than one measurement basis provides relevant information (paragraphs 6.74–6.77); and~~
- ~~(d) measurement of equity (paragraphs 6.78–6.80).~~

6.2 ~~Measurement is the process of quantifying, in monetary terms, information about an entity's assets, liabilities, equity, income and expenses. A measure is the result of measuring an asset, a liability, equity or an item of income or expense on a specified measurement basis.~~

Replaced by  
¶6.3

~~6.1 Elements that are recognised in financial statements are quantified in monetary terms. This requires the selection of a measurement basis. A measurement basis is an identified feature attribute of an item being measured (for example, historical cost, fair value or fulfilment value). Applying a measurement basis to an asset or a liability creates a measure for that asset or liability and for any related income or expense. Paragraphs 6.78–6.80 discuss the measurement of equity.~~

6.32 Consideration of the objective of financial reporting, the qualitative characteristics of useful financial information and the cost constraint is likely to result in the selection of different measurement bases for different assets, liabilities and items of income and expense.

6.3 This chapter discusses:

- ~~(a) The essential features of various measurement bases (paragraph 6.6 to 6.26);~~
- ~~(b) The information provided by each measurement basis (paragraph 6.27 to 6.44); and~~
- ~~(c) Factors to consider when selecting a measurement basis (paragraph 6.45 to 6.79).~~
- ~~(d) situations when more than one measurement basis provides relevant information (not in this draft); and~~
- ~~(e) measurement of equity (not in this draft).~~

ED ¶6.1

~~6.4 This Chapter will assist in the selection of a measurement basis for use in particular Standards. Standards may set out how that basis is to be implemented, which may include:~~

- ~~(a) specifying the techniques to be used to estimate a measure on a particular measurement basis;~~
- ~~(b) specifying a proxy measurement basis, for example where the proxy is likely to provide similar information to the selected measurement basis at less~~
- ~~(c) modifying a measurement basis.~~

New paragraph.  
Discussed in paper 10B.

~~6.4 Measurement bases can be categorised as:~~

- ~~(a) historical cost (paragraphs 6.6–6.18); or~~
- ~~(b) current value (paragraphs 6.19–6.46).~~

6.5 ~~Paragraphs A1–A10 discuss cash~~Cash-flow-based measurement techniques. ~~These techniques~~ are often used to estimate a measure on a particular measurement basis. ~~They are discussed in paragraphs A1–A10 (not in this draft).~~

**Measurement bases and the information they provide**

**Historical cost**

6.6 Measures based on historical cost provide monetary information about assets, liabilities, income and expenses using information derived from the transaction or event that created them. ~~The historical cost measures of assets or liabilities do not reflect changes in prices. However, the measures do reflect changes such as the consumption or impairment of assets and the fulfilment of liabilities.~~

Change in prices—see ¶6.12.

6.7 The historical cost of ~~a non-financial~~ asset at the time of the asset’s acquisition or construction is the value of all the costs incurred in acquiring or constructing the asset, including both the consideration given and the transaction costs incurred. ~~That amount is adjusted over time to depict, if and when applicable: Reporting at historical cost a recently acquired asset is justifiable as it is reasonable to assume, in the absence of evidence to the contrary, that the asset will provide economic benefits that at least recover its cost.~~

New point.. Discussed in paper 10B.

~~(a) — the consumption of the economic resource that constitutes the asset (depreciation or amortisation); and~~

~~(b) — the fact that part of the historical cost of the asset is no longer recoverable (impairment).~~

6.8 The historical cost of a ~~non-financial~~ liability at the time it is incurred is the value of the consideration received, comprising the consideration less the transaction costs incurred in taking it on. ~~Reporting at historical cost a liability that has been recently assumed in exchange for consideration at the consideration received is justifiable as it is reasonable to assume, in the absence of evidence to the contrary, that the liability is no more than the consideration received.~~

New point, corresponding to ¶6.7 for assets.. Discussed in paper 10B.

6.9 The carrying amount of a non-financial asset reported at historical cost is adjusted over time to depict, if and when applicable:

ED ¶6.7.

(a) — the consumption of the economic resource that constitutes the asset (depreciation or amortisation); and

(b) — the effect of events that cause part of the historical cost of the asset to be no longer recoverable (impairment).

6.10 The carrying amount of a non-financial liability reported at historical cost is adjusted over time to depict, if and when applicable:

(a) accrual of interest;

(b) fulfilment of the liability; and

(c) ~~any excess in the effect of events that increase~~ the estimated cash outflows ~~over the net consideration received (onerous liabilities). As a~~

~~result, the carrying amount of a liability is increased when it becomes so onerous that the historical consideration is no longer sufficient to depict the requirement required to fulfil the liability.~~

~~6.9 The so that the historical cost of a financial asset (sometimes referred to as amortised cost) is initially the value of the consideration given to acquire the asset plus the transaction costs relating to the acquisition. The historical cost of a financial liability (again, sometimes referred to as amortised cost) is initially the value of the consideration received to take on the liability less the transaction costs incurred in taking it on. no longer faithfully represents the liability (onerous liabilities).~~

~~6.11 The subsequent carrying amount of financial assets and financial liabilities measured using amortised at historical cost reflects subsequent changes such as the accrual of interest, changes in the estimates of cash flows (including the impairment of financial assets) and payments or receipts, but does not reflect subsequent changes in prices caused by other factors. This is sometimes referred to as amortised cost.~~

~~6.10 The derecognition of assets (liabilities) measured at historical cost results in the recognition as income or expenses of any difference between the carrying amount of the asset (liability) and any consideration received (paid) for that asset (liability).~~

~~6.12 Historical cost does not reflect changes in prices, other than those caused by the factors identified in paragraphs 6.9–6.11 above.~~

~~6.11 The assets acquired and the liabilities incurred in transactions that involve no exchange do not have a readily identifiable initial cost. In such cases, current values are,~~

~~6.13 Where assets (are acquired, or liabilities) are incurred as a result of an event other than a transaction on arms-length terms, it may not be possible to readily identify a cost, or the cost may not faithfully represent In such cases, a current value is sometimes used as a proxy for cost (deemed cost) on initial measurement and that deemed cost is then used as a starting point for subsequent measurement. In such a circumstance, it may be necessary to confirm that the deemed cost of the asset is recoverable (or that the amount of the liability is not greater than its deemed cost).~~

~~6.12 The information provided by historical cost measures of assets, liabilities, income and expenses in both the statement of financial position and the statement(s) of financial performance is summarised in Table 6.1, following paragraph 6.47. Paragraphs 6.13–6.17 summarise the main advantages and disadvantages of historical cost.~~

~~6.13 Income and expenses measured at historical cost may have predictive value. For example, for non-financial assets, information about the consideration received from supplying goods and services in the past, and about the past consumption of assets (including services received), can be used as some of the inputs needed in~~

Point made in the ED at ¶6.6.

ED ¶6.11

Now in ¶6.30

~~assessing an entity's prospects for future cash flows from the future supply of goods and services and from the future consumption of existing and future assets (including services to be received). Information about past margins can be used as one input in predicting future margins.~~

~~6.14 Income and expenses measured at historical cost may also have confirmatory value by providing feedback about previous estimates of cash flows or margins.~~

Now ¶6.30

~~6.15 In many situations, it is simpler and less expensive to provide information about historical cost than information using current value measurement bases. In addition, measures prepared using the historical cost measurement basis are generally well understood and, in many cases, verifiable.~~

Now ¶6.72

~~6.16 As noted in paragraph 6.11, historical cost can be difficult to determine when there is no observable transaction price for the asset or the liability being measured. In addition, estimating consumption and identifying impairment losses or onerous liabilities can be subjective. Hence, the historical cost of an asset or a liability can sometimes be as difficult to estimate as a current value.~~

Now ¶6.73

~~6.17 On the historical cost measurement basis, similar assets or liabilities that are acquired or incurred at different times can be reported in the financial statements at very different amounts. This can reduce comparability both between reporting entities and within the same reporting entity.~~

Now ¶6.74

~~6.18 The current cost of an asset (liability) is the cost of (proceeds from) an equivalent asset (liability) at the measurement date. Current cost and historical cost are both entry values (ie they reflect values in the market in which the entity acquires the asset or incurs the liability). Hence, they are different from the current value measurement bases described in paragraphs 6.19–6.46. Information about the current cost of assets or liabilities may sometimes be more relevant than information about their historical cost, particularly when price changes are significant. For example, reporting income and expenses based on current costs:~~

Now ¶6.26, and 6.42, 6.43.

~~(a) may sometimes be more useful for predicting future margins than information based on historical costs.~~

~~(b) may be necessary if a physical capital maintenance concept is used in financial statements. Chapter 8 discusses capital maintenance.~~

**Current value**

~~6.1914 Measures based on current value provide monetary information about assets, liabilities, income and expenses using information that is updated to reflect conditions at the measurement date. Because of the updating, current values capture any reflect both positive or and negative changes, since the previous measurement date, in estimates of cash flows and other factors included in those current values (see paragraph 6.23). Where current values are used, the measure~~

of an asset or liability after initial recognition does not reflect the transaction or event that created the asset or liability.

6.2015 Current value measurement bases include:

- (a) fair value (see paragraphs 6.2116–6.3320); and
- (b) value in use for assets and fulfilment value for liabilities (see paragraphs 6.3421–6.4625).

(c) current cost (see paragraph 6.26)

## Fair value

6.2116 Fair value is the price that would be received to sell an asset, or paid to transfer a liability, in an orderly transaction between market participants at the measurement date.

6.2217 Fair value reflects the perspective of market participants- (participants in a market to which the entity has access). That is, the asset or the liability is measured using the same assumptions that market participants would use when pricing the asset or the liability if those market participants act in their economic best interest.

6.2318 Fair value reflects the following factors:

- (a) estimates of future cash flows.
- (b) possible variations in the estimated amount and timing of future cash flows for the asset or the liability being measured, caused by the uncertainty inherent in the cash flows.
- (c) the time value of money.
- (d) the price for bearing the uncertainty inherent in the cash flows (ie a risk premium or risk discount). The price for bearing that uncertainty depends on the extent of that uncertainty. It also reflects the fact that investors would generally pay less for an asset (generally expect to receive more for taking on a liability) that has uncertain cash flows than for an asset (liability) whose cash flows are certain.
- (e) other factors, such as liquidity, that market participants would take into account in the circumstances.

6.2419 For a liability, the factors mentioned in paragraph 6.2318(b) and 6.2318(d) include the possibility that the entity may fail to fulfil the liability (own credit risk).

~~6.25 As noted in paragraph 6.23(d), the fair value of an asset or a liability reflects a risk premium. Thus, when an entity takes on a liability in a transaction that involves no exchange and measures it on initial recognition at fair value, the expense recognised at that date includes the risk premium. As the entity is subsequently released from risk, the liability is reduced and income is recognised. Including the risk premium in the measure of the liability depicts the full burden of the liability.~~

Deleted: see paper 10B, paragraph 19.

~~However, users may sometimes find it counterintuitive to recognise an initial expense including the risk premium, and then subsequently to recognise the same amount as income.~~

~~6.266.20~~ The fair value of:

- (a) an asset is not increased by the transaction costs incurred when acquiring the asset. Nor is it decreased by the transaction costs that would be incurred on selling the asset.
- (b) a liability is not decreased by the transaction costs arising when the liability is incurred. Nor is it increased by the transaction costs that would be incurred on transferring ~~or settling~~ the liability.

~~6.27 The information provided by the fair value measures of assets, liabilities, income and expenses in both the statement of financial position and the statement(s) of financial performance is summarised in Table 6.1 following paragraph 6.47. Paragraphs 6.28–6.33 summarise the main advantages and disadvantages of fair value.~~

~~6.28 Information given about assets and liabilities when they are measured at fair value has predictive value, because fair value reflects expectations about the amount, timing and uncertainty of the cash flows (reflecting market participants' expectations and priced in a manner that reflects their risk preferences). It may also have confirmatory value by providing feedback about previous estimates.~~

Now ¶6.33

~~6.29 Income and expenses measured at fair value could be split in various ways to provide information with predictive and confirmatory value. For example, they could be split into:~~

- (a) ~~the return that market participants would have expected from holding the asset during the period;~~
- (b) ~~the difference between that return and the return generated by the entity's actual use of the asset during the period (providing information about the efficiency with which the entity has used the asset); and~~
- (c) ~~the effect of changes in estimates of market participants' expectations about the amount, timing and uncertainty of future returns, combined with changes in estimates of market participants' risk preferences.~~

Now in ¶6.34, but modified. See paper 10B.

~~6.30 However, depending on the item that is being measured and the nature of the business activities conducted by the entity, users may not always find information about estimates of changes in expectations of market participants relevant. Hence, they may not always find income and expenses measured at fair value relevant. In particular, this may be the case when the business activities conducted by the entity do not involve selling the asset or transferring the liability; for example, if assets are held solely for use or to collect contractual cash flows, or if liabilities are to be fulfilled by the reporting entity itself.~~

Now ¶6.37.

~~6.31 Because fair value is determined from the perspective of market participants, instead of the perspective of the entity, and is independent of when the asset or the liability was acquired or incurred, identical assets will (subject to estimation error) be measured at the same amount. This can enhance comparability both between reporting entities and within the same reporting entity.~~

Now ¶6.75.

~~6.32 If the fair value of an asset or a liability can be observed in an active market, the process of fair value measurement is simple and easy to understand, and the fair value is verifiable. If fair value cannot be observed, valuation techniques (sometimes including the use of cash flow based measurements) may be needed to estimate that fair value. Depending on the techniques used:~~

Now in ¶6.75 and 6.76.

~~(a) the estimation process may be costly and complex.~~

~~(b) the inputs into the process may be subjective and it may be difficult to verify both the inputs and the validity of the process itself. As a consequence, entities may measure identical assets or liabilities at different amounts, which reduces comparability.~~

~~6.33 If an entity is estimating the fair value of a specialised item, there may sometimes be little reason for the entity to assume that market participants would use assumptions different from those that the entity itself uses. In that case, measurement from a market participant perspective and measurement from the entity's perspective are likely to produce similar measures.~~

Now in para ¶6.22.

### Value in use and fulfilment value

6.3421 Value in use and fulfilment value are entity-specific values. Value in use is the present value of the cash flows that an entity expects to derive from the continuing use of an asset and from its ultimate disposal. Fulfilment value is the present value of the cash flows that an entity expects to incur as it fulfils a liability.

~~6.356.22 Value in use and fulfilment value are based on entity-specific assumptions rather than assumptions by market participants. However, there may sometimes be little difference between the assumptions that market participants would use and those that the entity itself uses. In that case, a market participant perspective and the entity's perspective are likely to produce similar measures.~~

ED ¶6.33.

6.23 Value in use and fulfilment value cannot be directly observed and are determined using cash-flow-based measurement techniques. In principle, value in use and fulfilment value reflect the same factors as described for fair value in paragraph 6.18, ~~except that, for a liability, the entity's non-performance risk may be excluded from fulfilment value. 23, but are based on entity specific assumptions instead of assumptions by market participants. In practice, to provide the most useful information, value in use and fulfilment value may sometimes need to be customised, for example, it may sometimes be appropriate:~~

ED ¶6.35.



- (a) ~~to use market participant assumptions about the time value of money or the risk premium; or~~
- (b) ~~to exclude from the fulfilment value the effect of the possibility of non-performance by the entity.~~

~~6.36 When an entity incurs a liability in a transaction that involves no exchange and measures it on initial recognition at the fulfilment value, the expense recognised at that date includes a risk premium. As the entity is subsequently released from risk, the liability is reduced and income is recognised. Users may sometimes find that effect counterintuitive (see paragraph 6.25).~~

~~6.376.24~~ Value in use reflects the present value of the transaction costs that the entity expects to incur on the ultimate disposal of the asset.

~~6.3825~~ Fulfilment value includes not only ~~includes~~ the present value of the amounts to be transferred to the liability counterparty, but also the present value of the amounts that the entity expects to transfer to other parties to enable it to fulfil the liability. Thus, it also includes the present value of transaction costs (if any) that the entity expects to incur in undertaking transactions that enable it to fulfil the liability.

~~6.39 The information provided by value in use measures of assets, income and expenses and fulfilment value measures of liabilities, income and expenses in both the statement of financial position and the statement(s) of financial performance is summarised in Table 6.1, following paragraph 6.47. Paragraphs 6.40–6.46 summarise the main advantages and disadvantages of value in use and fulfilment value.~~

### Current cost

~~6.26 The current cost of an asset (liability) is the cost of (proceeds from) an equivalent asset (liability) at the measurement date. Current cost, like historical cost, is an entry value: it reflects values in the market in which the entity acquires the asset or incurs the liability (although it is based on economic circumstances prevailing at the measurement date). Hence, it is different from the current value measurement bases described in paragraphs 6.16–6.25, which are exit values.~~

## Information provided by different measurement bases

### Historical cost

~~6.27 Information about assets and liabilities measured at historical cost may be relevant, as historical cost directly reflects the transactions undertaken by the entity. Because historical cost is reduced to reflect consumption of assets and their impairment, and the carrying amounts of liabilities are increased where they are onerous, historical cost indicates that the entity's recognised assets less liabilities are at least as great as the amount at which they are measured at the reporting date.~~

Deleted: see paper 10B, paragraph 19.

ED ¶6.18

The discussion in paragraphs 6.27–6.32 is expanded from the ED.  
See paper 10B.

- 6.28 If a non-financial asset is measured at historical cost:
- (a) consumption of part of the asset is reported by recognising an expense measured as the historical cost of the part consumed.
- (b) the gain or loss on sale of the asset is reported by recognising an expense measured as the historical cost of the asset (or part of the asset) that is derecognised and by recognising income measured at the value of the consideration. The difference between the income and the expense is the margin resulting from the sale.
- 6.29 Similarly, if a liability is measured at historical cost, the fulfilment of part or all of the liability results in the recognition of income measured as the historical cost of the part fulfilled. That income is generally recognised in the same period as the expense incurred in fulfilling that part of the liability. The difference between the income and the expense is the margin resulting from the fulfilment.
- 6.30 Information about the cost of assets (including services) consumed and the consideration received has predictive value because it can be used as some of the inputs needed to predict future margins and hence an entity's prospects for future cash flows from the future supply of goods and services. Income and expenses measured at historical cost may also have confirmatory value by providing feedback about previous estimates of cash flows or margins.
- 6.31 If financial assets and financial liabilities are measured at amortised cost, the financial statements report the contractual yield and the contractual cost of borrowing. This has predictive value as it may be used as one of the inputs to estimate future returns. It may also have confirmatory value by providing feedback about previous estimates of cash flows or of margins.
- 6.32 Because historical cost measures do not reflect changes in prices (except to the extent assets are impaired or liabilities become onerous), they may not provide relevant information about assets, liabilities, income and expense if price changes are significant. For example, historical cost may not provide relevant information about assets (and their consumption), that are held for a long period such as property, plant and equipment, and is unlikely to provide relevant information about a financial asset or financial liability that is a derivative. Where price changes are significant, margins measured on a historical cost basis may have limited usefulness for predicting future margins, as the future cost of consumption may differ significantly from historical prices. The difficulty of using historical cost measures as inputs to predict future margins is increased when, as is often the case, the user of the financial statements does not know when the assets (liabilities) were acquired.

ED ¶6.13. 6.14.
--------------------

**Fair value**

6.33 Information given about assets and liabilities when they are measured at fair value has predictive value, because fair value reflects market participants’ expectations about the amount, timing and uncertainty of the cash flows (priced in a manner that reflects the market consensus on risk preferences). It may also have confirmatory value by providing feedback about previous estimates.

ED ¶6.28.

6.34 Income and expenses resulting from changes in fair value of an asset or liability that is held throughout the reporting period reflect changes in the factors identified in paragraph 6.18 above. The predictive value and confirmatory value of income and expenses measured at fair value may be enhanced by disaggregating it and reporting separately the effect of changes in different factors: for example, by separately identifying income or expenses that reflect the time value of money.

ED ¶6.29,  
revised.

6.35 Income and expenses reflecting changes in market participants’ expectations and risk preferences may have some predictive value, as they can be used as an input to assess future income and expenses. Such income and expenses may also assist in an assessment of how efficiently and effectively the entity’s management have discharged their responsibilities to use the entity’s resources.

New, see  
paper 10B.

6.36 Where assets and liabilities are measured at fair value, sale or transfer would normally be expected to be for consideration of a similar amount as that at which the assets or liabilities are reported immediately before the transaction. As a result, the net income and net expenses arising on sale or transfer would usually be small, apart from the effect of transaction costs, and may not be particularly relevant.

6.37 Depending on the item that is being measured and the nature of the business activities conducted by the entity, users may not always find information about changes in the price that would be received to sell an asset, or paid to transfer a liability, (reflecting changes in expectations of market participants) relevant. Hence, they may not always find income and expenses measured at fair value relevant. This may be the case when the business activities conducted by the entity do not involve selling the asset or transferring the liability; for example, if assets are held solely for use or to collect contractual cash flows, or if liabilities are to be fulfilled by the reporting entity itself.

ED ¶6.30.

**Value in use and fulfilment value**

6.38 Value in use provides information about the present value of the estimated cash flows from the continued use of an asset and from its disposal at the end of its useful life. This information has predictive value and can be used in assessing the prospects for future cash flows, particularly if the asset will contribute to future cash flows by being used.

ED ¶6.40–  
6.42.

6.4139 Fulfilment value provides information about the present value of the estimated cash flows to fulfil a liability. That information has predictive value, particularly if the liability will be fulfilled instead of transferred or settled by negotiation.

6.4240 Updated estimates of value in use and fulfilment value, combined with information about ~~actual~~subsequent cash flows, have confirmatory value because they provide feedback about previous estimates of value in use and fulfilment value.

~~6.43 Value in use and fulfilment value are determined using cash flow based measurement techniques. As noted in paragraph 6.32, depending on the techniques used:~~

- ~~(a) the estimation process can be costly and complex; and~~
- ~~(b) the inputs into the process may be subjective and it may be difficult to verify both the inputs and the validity of the process. As a consequence, entities may measure identical assets or liabilities at different amounts, which reduces comparability.~~

6.4441 Because value in use and fulfilment value ~~are determined from~~reflect the perspective of the reporting entity, those measures could differ for identical assets and liabilities in different entities, arguably reducing comparability. In contrast, because fair value uses market participant assumptions, in theory, different entities that have access to the same markets should arrive at identical estimates of fair value for identical items.

~~6.45 For many assets that are used in combination with other assets, the value in use cannot be determined meaningfully for individual assets. Instead, the value in use is determined for a group of assets and the result is then allocated to individual assets. Hence, determining the value in use of an asset used in combination with other assets can be a costly and complex process and value in use may not be a practical measurement basis for periodic remeasurements of such assets. However, it may be useful for occasional remeasurements of assets (for example, when it is used in an impairment test to determine whether a historical cost measure is fully recoverable).~~

~~6.46 In addition, estimates of value in use and fulfilment value may inadvertently reflect synergies with other assets and liabilities and so may not measure only the item that they purport to measure.~~

## **Summary of information provided by different measurement bases**

### **Current cost**

~~6.42 Like historical cost, current cost provides information on the cost of consumption of an asset (or income from the fulfilment of liabilities) and hence provides part of the margin. The difference is that current cost reports consumption (fulfilment) at~~

Now covered  
in ¶6.77.

Now in  
¶6.78.

Expansion of  
point made in  
the ED at  
¶6.18.

current prices (that is prices prevailing at the time of consumption (fulfilment) rather than prices prevailing when the asset (liability) was acquired (incurred)). This information may be more relevant than historical cost where price changes are significant, as future cost of consumption (satisfaction) is more likely to resemble current prices than to resemble historical prices.

6.43 To report the current cost of consumption (or income from fulfilment) it is necessary to disaggregate the change in carrying amount in the reporting period into the effect of changes in prices (sometimes referred to as holding gains and holding losses) and the current cost of consumption (fulfilment).

6.4744 Table 6.1 summarises the information provided in the statement of financial position and the statement(s) of financial performance by the measurement bases described in paragraphs 6.6–6.4643.

**Table 6.1—Information provided by various measurement bases**

[The table as in the Exposure Draft is set out in an Appendix to this paper.]

**Factors to consider when selecting a measurement basis**

~~6.48 The discussion in paragraphs 6.4–6.47 describes, for each~~

~~6.45 When selecting a measurement basis, it is important to consider the information # provides that measurement basis will produce in both the statement of financial position and its advantages and disadvantages. the statement(s) of financial performance.~~

ED ¶6.53

6.46 The following paragraphs discuss factors to be considered in selecting a measurement basis for an asset or a liability and for the related income and expenses.

6.47 The relative importance of each of the factors will depend upon facts and circumstances. In most cases, no one factor, considered in isolation, will be conclusive as to the measurement basis that should be selected.

ED ¶6.48.

~~6.4948~~ For information provided by a particular measurement basis to be useful to the users of financial statements, it must be relevant and it must faithfully represent what it purports to represent. In addition, the information provided should be, as far as possible, ~~be~~ comparable, verifiable, timely and understandable.

~~6.50 As with all other areas of financial reporting, cost constrains the selection of a measurement basis. Hence, the benefits of the information provided to the users of financial statements by a particular measurement basis must be sufficient to justify the cost of providing that information.~~

Now in ¶6.66.

~~6.516.49~~ As is explained in paragraph [2.21], the most efficient and effective process for applying the fundamental qualitative characteristics is to identify the information about an economic phenomenon that would be most relevant if it is available and

New, see paper 10B.

can be faithfully represented. If that information is not available or cannot be faithfully represented, the next most relevant type of information is considered. Factors that affect the relevance of measures of assets, liabilities, income and expenses are discussed in paragraphs 6.52–6.60; faithful representation is discussed in paragraphs 6.61–6.64, and the enhancing qualitative characteristics (comparability, verifiability, timeliness and understandability) are discussed in paragraphs 6.65–6.79.

6.50 Measures of assets, liabilities, income and expenses are used in the measurement of recognised items, and in presentation and disclosure. The following discussion focuses on the factors to be considered in selecting a measurement basis ~~focuses on the selection~~ for recognised items. Nevertheless, some of that discussion may also apply to the selection of a measurement basis for disclosure in the notes to the financial statements of measures of unrecognised assets and unrecognised liabilities: and of changes in them. In some cases relevant information is disclosed in the notes to the financial statements using a measurement basis different from that used in the statement of financial position and the statement(s) of financial performance (see paragraph 6.XX) [not in this draft].

~~6.52~~ ~~Paragraphs 6.53–6.63 discuss the factors to be considered in selecting a measurement basis by reference to the qualitative characteristics of useful financial information. Paragraphs 6.64–6.73~~

6.51 Paragraphs 6.XX–6.XX [not in this draft] discuss additional factors to consider in selecting a measurement basis on initial recognition. Initial measurement and subsequent measurement cannot be considered separately. If the initial measurement basis and subsequent measurement basis are not consistent, income and expenses will be recognised solely because of the change in measurement basis. Recognising such income or expenses might appear to depict a transaction or other event when, in fact, no such transaction or event has occurred. Hence, the choice of measurement basis for an asset or a liability and the related income or expenses is determined by considering both the initial measurement and the subsequent measurement.

## Relevance

~~6.53~~ ~~When selecting a measurement basis, it is important to consider what information that measurement basis will produce in both the statement of financial position and the statement(s) of financial performance.~~

~~6.54~~ ~~To produce relevant information, it is important to consider the following factors when selecting a measurement basis~~

6.52 The relevance of a measurement basis for an asset or a liability and the related income and expenses is affected by:

(a) the characteristics of the asset or the liability; and

Now at ¶ 6.45

ED ¶ 6.54

- (b) how that asset or liability contributes to future cash flows. ~~This will depend in part (b) the characteristics of the asset or the liability (for example, the nature or extent of the variability in the item’s cash flows, or the sensitivity of the value of the item to changes in market factors or to other risks inherent in the item).~~

**Characteristics of the asset or liability**

- 6.53 ~~The relevance of a measurement basis depends on the characteristics of the asset or liability, in particular, whether the cash flows are highly variable, or the value is sensitive to market factors or other risks.~~
- 6.54 ~~If the cash flows of a financial asset or financial liability are variable—particularly if they comprise more than principal and interest—amortised cost may not provide relevant information. Amortised cost allocates interest revenue or expense to the relevant period, based on contractual cash flows. If the cash flows of a financial asset or financial liability are variable, use of amortised cost is complex and may be costly.~~
- 6.55 ~~If the value of an asset or liability is sensitive to market factors or other risks, its historical cost might be significantly different from its current value at the reporting date. That current value of assets or liabilities may provide information that is more relevant than historical cost for user’s assessment of the following features identified in paragraph [1.13]:~~
- ~~(a) the reporting entity’s financial strengths and weaknesses;~~
  - ~~(b) the entity’s liquidity and solvency;~~
  - ~~(c) the entity’s need for additional financing and how successful it is likely to be in obtaining that financing; and~~
  - ~~(d) management’s stewardship of the reporting entity’s economic resources.~~
- 6.56 ~~Furthermore, if historical cost is used, changes in value are not reported when that value changes, but only when the asset or liability is disposed of (derecognised). This could be incorrectly interpreted as implying that all the income or expenses arose from events in the period of disposal (derecognition), rather than from events in the periods during which the asset or liability was held. Measurement at historical cost also does not communicate the entity’s exposure to risk arising from holding the asset or liability.~~

**Contribution to future cash flows**

- 6.57 ~~As noted in paragraph [1.14], some economic resources generate cash flows directly; in other cases, economic resources are used in combination to generate cash flows, and thus generate cash flows indirectly. How economic resources~~

Largely new, down to ¶6.60, see paper 10B.

generate cash flows depends, in part, on the nature of the business activities conducted by the entity.

~~6.58 For example, if a property is realised by sale, it will produce cash flows from that sale, but if a property is used in combination with other assets to produce goods and services, it will help produce cash flows from the sale of those goods and services.~~ assets and liabilities that produce cash flows directly, such as assets that can be sold independently, without a significant economic penalty, a measurement basis that reflects the present value of the future cash flows: that is, fair value or value in use (for liabilities, fulfilment value) is likely to be relevant.

~~6.55 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 paragraphs 2.12–2.13). A high level of measurement uncertainty does not prevent the use of an estimate that provides the most relevant information. However, in some cases, the level of measurement uncertainty is so high that a different measurement basis may provide more relevant information. Moreover, if no measurement basis for an asset or a liability would provide relevant information, it is not appropriate to recognise the asset or the liability (see paragraph 5.13).~~

~~6.56 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. Nevertheless, outcome uncertainty 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 estimating a current value of that asset may depend on a model whose validity is untested and that requires inputs that are difficult to verify.~~

6.59 When a business activity involves the use of several resources that generate cash flows indirectly, by being used in combination to produce and market goods or services to customers, a cost-based measurement basis is likely to provide relevant information. The expense reported will then reflect the cost of assets consumed in a period, and a comparison of that expense with the revenue of the period provides information on the margins achieved in the period. Information about margins can be used as some of the inputs needed to predict future margins and hence in assessing the entity's prospects for future cash flows (see paragraphs 6.28–6.30 above). Often an entity cannot sell assets held for use in such an activity without a significant economic penalty, and its inventory typically cannot be sold to a customer, except by using other resources in the entity's production and marketing activities. Where these activities are significant, cost-based information, which reports the cost of consumption and the margin made on sales of products or services, may be more relevant than fair value which reflects the amount that would be received on a transaction that is unlikely to take place.

Now see ¶6.3. 6.64.



6.60 Where assets and liabilities are held as part of a business activity that is managed with a view to collecting contractual cash flows, a cost-based measurement basis may provide relevant information on the margin between the contractual yield and the entity's cost of borrowing. However, if the cash flows of a financial asset or financial liability are changed by factors other than principal and interest, the reported margin on an amortised cost basis would include the effect of those other changes, which may make it less relevant.

## Faithful representation

6.5761 As noted in paragraphs [2.15] and [2.19], a perfectly faithful representation is free from error, but this does not mean that measures must be perfectly accurate in all respects. For example, an estimate of an unobservable price can be faithfully represented if it is described as being an estimate, if the nature and limitations of the estimating process are explained, and if no errors have been made in selecting and applying the process for developing the estimate.

6.5862 When assets and liabilities are related in some way, using different measurement bases for those assets and liabilities can create a measurement inconsistency (an 'accounting mismatch'). Measurement inconsistencies can result in financial statements that do not faithfully represent the entity's financial position and financial performance. Consequently, in some circumstances, using ~~a similar~~ the same measurement basis for related assets or liabilities may provide more useful information for users of financial statements than using dissimilar measurement bases. This may be particularly likely when the cash flows from one item are ~~contractually~~ directly linked to the cash flows from another item.

## Measurement uncertainty

6.63 Measurement uncertainty affects whether information provided by a measurement basis provides a faithful representation of the financial position and financial performance of an entity (see paragraphs [2.12–2.13]). A high level of measurement uncertainty does not prevent the use of a measurement basis that provides the most relevant information. However, in some cases, the level of measurement uncertainty is so high that information generated by a measurement basis may not provide a faithful representation, in which case a different measurement basis should be selected. Moreover, if no measurement basis for an asset or a liability would result in a faithful representation, it is not appropriate to recognise the asset or the liability (see paragraph [5.13]).

6.64 Measurement uncertainty is different from 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. Nevertheless, outcome uncertainty may sometimes contribute to measurement uncertainty. For example, there may be

ED ¶6.55, 6.56.
--------------------

a high level of uncertainty about the cash flows that a unique asset will produce (outcome uncertainty) and estimating a current value of that asset may depend on a model whose validity is untested and that requires inputs that are difficult to verify.

**Enhancing qualitative characteristics and the cost constraint**

~~6.59~~65 The enhancing qualitative characteristics of comparability, verifiability and understandability also have implications for the selection of a measurement basis. However, the enhancing qualitative characteristic of timeliness has no specific implications for measurement.

~~6.60~~66 As with all other areas of financial reporting, cost constrains the selection of a measurement basis. Hence, to justify the selection of a measurement basis, the benefits of the information provided to the users of financial statements by that measurement basis must outweigh the cost of providing that information.

ED ¶6.50.

~~6.67~~ The following paragraphs discuss general implications of the enhancing qualitative characteristics and the cost constraint for the selection of a measurement basis. Implications specific to historical cost are discussed in paragraphs 6.72 to 6.74; implications for fair value and value in use are discussed in paragraphs 6.75 to 6.78; and implications for current cost are discussed in paragraph 6.79.

~~6.68~~ Comparability implies using measurement bases that are the same between periods and between entities. ~~Reducing the number of measurement bases used contributes to comparability.~~

~~6.69~~ A change in measurement basis can make financial statements less understandable. However, a change may be justified if other factors outweigh the reduction in understandability; for example, if the change results in more relevant information. In such cases, disclosures may be needed to enable users to understand the effect of the change in measurement basis.

ED ¶6.63.

~~6.62~~70 Understandability depends partly on the number of different measurement bases used and on whether they change over time. In general, if the number of measurement bases used in a set of financial statements increases, the resulting information becomes more complex (and, hence, less understandable), and the totals or subtotals in the statement of financial position and the statement(s) of financial performance become less meaningful. However, it could be appropriate to increase the number of measurement bases used if that is necessary to provide more relevant information.

ED ¶6.62.

~~6.71~~ Verifiability implies using measurement bases that result in measures that can be independently corroborated either directly (such as by observing prices) or indirectly (such as by checking inputs to a model). If a ~~particular measure~~measure cannot be verified, disclosures may be needed in the notes to the financial statements to enable users of financial statements to understand the inputs used. In

ED ¶6.61.

some such cases, it may be necessary to specify the use of a different measurement basis.

**Historical cost**

6.72 In many situations, it is simpler and less expensive to provide information about historical cost than information using current value measurement bases. In addition, measures prepared using the historical cost measurement basis are generally well understood and, in many cases, verifiable.

ED ¶6.15.

6.73 However, estimating consumption and identifying and measuring impairment losses or onerous liabilities can be subjective. Hence, the historical cost of an asset or a liability can sometimes be as difficult to estimate as a current value. In addition, as noted in paragraph 6.13, historical cost can be difficult to determine when there is no observable transaction price for the asset or the liability being measured. For this reason, some amounts reported on historical cost basis may lack verifiability.

ED ¶6.16.

6.74 Using the historical cost measurement basis, similar assets or liabilities that are acquired or incurred at different times can be reported in the financial statements at very different amounts. This can reduce comparability both between reporting entities and within the same reporting entity.

ED ¶6.17.

**Fair value and value in use**

6.75 Because fair value is determined from the perspective of market participants, instead of the perspective of the entity, and is independent of when the asset or the liability was acquired or incurred, identical assets will, in principle, be measured at the same amount by entities that have access to the same markets. This can enhance comparability both between reporting entities and within the same reporting entity.

ED ¶6.31.

6.76 If the fair value of an asset or a liability can be observed in an active market, the process of fair value measurement is low-cost, simple and easy to understand, and the fair value is verifiable.

6.77 Valuation techniques (sometimes including the use of cash-flow-based measurements) may be needed to estimate fair value where it cannot be observed in an active market, and are generally needed when to determining value in use and fulfilment value. Depending on the techniques used:

- (a) the estimation process may be costly and complex.
- (b) the inputs into the process may be subjective and it may be difficult to verify both the inputs and the validity of the process itself. As a consequence, entities may measure identical assets or liabilities at different amounts, which reduces comparability.

ED ¶6.31,  
6.32, 6.43.

6.78 For many assets that are used in combination with other assets, value in use cannot be determined meaningfully for individual assets. Instead, the value in use is

ED ¶6.45.  
6.46.

determined for a group of assets and the result is then allocated to individual assets. This requires consideration of the appropriate group of assets, and care to exclude the effect of synergies with other assets, which is often subjective. Hence, determining the value in use of an asset used in combination with other assets can be a costly process and its complexity and subjectivity reduces verifiability. For these reasons, value in use may not be a practical measurement basis for periodic remeasurements of such assets. However, it may be useful for occasional remeasurements of assets (for example, when it is used in an impairment test to determine whether a historical cost measure is fully recoverable).

### **Current cost**

6.79 Application of current cost can be complex and subjective. For example, if prices are available only for new assets, the current cost of a used asset might be estimated by adjusting the price of a new asset to reflect the current age and condition of the asset that is held by the entity. Furthermore, because of changes in technology and business practices, many assets would not be replaced with identical assets, so a further subjective adjustment to the price of a new asset would be required in order to estimate the current cost of the existing asset. Furthermore, the disaggregation of changes in current cost carrying amounts between holding gains and losses and the cost of consumption (see paragraph 6.43 above) may be complex and require arbitrary assumptions. Because of these difficulties, current cost measures may lack verifiability and understandability.

New see  
paper 10B.

\* \* \* \* \*

**Appendix**

The table given at paragraph 6.47 in the Exposure Draft is set out below in clean form. The revised draft of the table appears in paper 10C at paragraph 6.44 at pages 7–10.

**Table 6.1—Information provided by various measurement bases**

**Assets**

	Historical cost measures	Current value measures	
		Fair value (market participant assumptions)	Value in use (entity-specific assumptions)
<b>Statement of financial position</b>	Recoverable cost of the unconsumed (or uncollected) part of an asset (includes transaction costs incurred on acquisition).	Price that would be received to transfer the asset.	Present value of cash flows estimated to arise from the continuing use of the asset and from its disposal at the end of its useful life (includes present value of future costs of transfer).
<b>Statement(s) of financial performance<sup>(a),(b)</sup></b>	Income or expenses on initial recognition of exchanges of unequal value.	Income or expenses on initial recognition of exchanges of unequal value.	Income or expenses on initial recognition of exchanges of unequal value.
	–	Transaction costs on acquiring the asset.	Transaction costs on acquiring the asset.
	Historical cost of the economic resources consumed in the period (through cost of sales, depreciation or amortisation, etc).	Fair value, at the time of consumption, of economic resources consumed during the period.	Value in use, at the time of performance, of economic resources consumed during the period.
	Interest income (financial assets only).	Interest income (if identified separately).	Interest income (if identified separately).
	Impairment losses (compared with previous historical cost).	Impairment losses (if identified separately).	Impairment losses (if identified separately).
	Income or expenses on sales of assets during the period (includes transaction costs incurred then, which may or may not be identified separately).	Transaction costs incurred on disposal. Also, net income (or net expense) if consideration received exceeds (or is less than) the fair value at the date of disposal.	Transaction costs incurred on disposal. Also, net income (or net expense) if consideration received exceeds (or is less than) the value in use at the date of disposal.
	–	Remeasurement caused by: (a) changes in estimates of cash flows; (b) changes in interest rates; and (c) changes in the amount of risk or in its price.	Remeasurement caused by: (a) changes in estimates of cash flows; (b) changes in interest rates; and (c) changes in the amount of risk or in its price.
(a)	Not all items will arise in every period.		
(b)	Chapter 7 discusses the presentation and disclosure of items of income or expense in the statement(s) of financial performance.		

**Table 6.1 continued**

**Liabilities**

	Historical cost measures	Current value measures	
		Fair value (market participant assumptions)	Fulfilment value (entity-specific assumptions)
<b>Statement of financial position</b>	Net consideration for taking on the unfulfilled part of a liability, plus any excess of the present value of the estimated cash flows over that net consideration (consideration is net of the transaction costs).	Price that would be paid to transfer the liability.	Present value of cash flows estimated to arise in fulfilling the liability.
<b>Statement(s) of financial performance</b> <sup>(a),(b)</sup>	Income or expenses on initial recognition of exchanges of unequal value.	Income or expenses on initial recognition of exchanges of unequal value.	Income or expenses on initial recognition of exchanges of unequal value.
	–	Transaction costs on incurring the liability.	Transaction costs on incurring the liability.
	Consideration provided by customers (or others) for obligations fulfilled by the entity during the period.	Fair value, at the time of performance, of performance obligations fulfilled by the entity during the period.	Fulfilment value, at the time of performance, of performance obligations fulfilled by the entity during the period.
	Interest expenses.	Interest expenses (if identified separately).	Interest expenses.
	Losses on liabilities that have become (more) onerous during the period.	Losses on liabilities that have become (more) onerous during the period (if identified separately).	Losses on liabilities that have become (more) onerous during the period (if identified separately).
	Income and expenses on settlement or transfers of liabilities in the period (includes transaction costs incurred then, which may or may not be identified separately).	Transaction costs incurred on settlement or transfer. Also, net expense (or net income) if consideration paid exceeds (or is less than) the fair value at the date of settlement or transfer.	Transaction costs incurred on settlement or transfer. Also, net expense (or net income) if consideration paid exceeds (or is less than) the fulfilment value at the date of settlement or transfer.
	–	Remeasurement caused by: (a) changes in estimates of cash flows; (b) changes in interest rates; and (c) changes in the amount of risk or in its price.	Remeasurement caused by: (a) changes in estimates of cash flows; (b) changes in interest rates; and (c) changes in the amount of risk or in its price.
(a)	Not all items will arise in every period.		
(b)	Chapter 7 discusses the presentation and disclosure of items of income or expense in the statement(s) of financial performance.		