

Summary Report of the Conceptual Framework Measurement Roundtables Hong Kong, London, and Norwalk January and February 2007

INTRODUCTION

1. This report summarizes comments shared by participants at the conceptual framework (CF) project measurement roundtables held in January and February, 2007, with members of the Boards and staff of the IASB and FASB. It may be helpful to read this summary in conjunction with the staff-prepared background materials for the roundtables. Audio tapings of each of the seven roundtable sessions are also available on both the IASB's and FASB's external websites.
2. Unlike other roundtables held by the Boards, those summarized here were not based on a due process document that had already been commented on. Consequently, no detailed set of questions guided the roundtable discussions. Instead, the discussions were open and the content varied somewhat from session to session.
3. Nevertheless, in reviewing the discussions after the roundtables concluded, the staff noted that participants' comments on measurement addressed every issue the staff had previously identified and included in the plan the Boards approved for the measurement phase of the CF project. Comments also touched on the plan as a whole, including underlying assumptions and potentially missing issues. As a result, the staff decided to organize this summary according to the measurement phase milestones and issues outlined in Attachment 1 of the roundtable background materials.
4. Accordingly, the roundtables summary begins with comments that address the measurement phase plan as a whole, then proceeds through each of the fifteen issues identified for the three milestones of the measurement phase of the CF project.
5. Please note that this summary does not include comments or views of Board and staff members who attended the roundtable discussions, some of which differed from those of roundtable participants. The Boards will consider the participant comments summarized in

this report as part of their on-going deliberations in the measurement phase of the conceptual framework project.

COMMENTS ON THE MEASUREMENT PHASE PLAN

Objective of the Measurement Phase

6. The issues presently included in the measurement phase plan implicitly assume that the best way to achieve the objective of providing the Boards with guidance for addressing measurement issues in standards is to develop a conceptual ideal. That ideal would serve as a goal for the Boards in setting standards, but could be subject to modification for practical considerations.
7. Several comments by roundtable participants questioned the appropriateness of searching for such an ideal in the CF project. Some participants stated that the CF should not prejudge the direction of standard setting by selecting a preferred basis or bases. Rather, the CF should present available measurement bases in an organized but neutral manner in the form of a conceptual tool box from which standard setters could select as needed using their own judgment.
8. Other participants supported the tool box analogy but thought that the selection of the appropriate tool or basis should not be the responsibility of the Boards alone. Those participants suggested that the Boards set some limits on the use of available measurement bases, but allow preparers of financial statements and reports some flexibility in the selection of bases as well.
9. Yet other participants favored even greater choice for preparers. Those participants suggested that the Boards use the CF to explain the circumstances for which each available measurement basis is best suited and leave the selection of a basis in practice entirely to preparers.
10. In addition to variations on the tool box analogy, two other views about a conceptual ideal emerged from the discussions as well. One of those views is that process is more important than content. In other words, the way the Boards choose to address measurement issues

and changes in measurement standards is more important than finding a true answer to the question of which measurement basis is theoretically best.

11. The other non-tool-box comment on this topic supported a conceptual ideal, but added that the CF should also tell the Boards when to deviate from that ideal in setting standards.

The Primacy of Assets and Liabilities and Performance Reporting

12. Another assumption used in the measurement phase plan is the conceptual primacy of assets and liabilities among financial statement elements and the dependence of income determination upon that primacy. That assumption is present in the Boards' current frameworks and carried forward in the preliminary views document for Phases A and B of the CF project.
13. Many participants expressed concern about the effect of adopting this assumption (or what they referred to as an asset/liability view) on the quality of performance reporting. General comments indicated that the income statement seems to be missing from the measurement phase of the CF project, that the balance sheet cannot be expected to do everything for financial statement users, and that a true picture of an entity includes not only current economic value, but current economic performance as well.
14. Participant suggestions for addressing the above concerns varied. Some accepted the primacy of assets and liabilities as a starting point, but stressed the need to consider the impact of measurement basis selection on the income statement and performance reporting. While they did not object to focusing on assets and liabilities first, they thought it equally important that the measurement basis or bases selected produce an income statement that is meaningful and useful.
15. Other participants rejected the primacy of the assets and liabilities, stating that the performance statement is of utmost importance to financial statement users and should be the focus of efforts to select a measurement basis or bases. Those participants were of the view that focusing on the right way to arrive at income on the income statement would lead to the right way to measure items on the balance sheet.

16. A few participants had specific suggestions for replacing the asset/liability primacy approach to income determination. One suggestion was that a transactions approach would be more realistic than an asset/liability approach. Another was that release of risk income accounting would produce a better view of income than the asset/liability approach. One participant commented that the CF project had selected the asset/liability approach based on a misinterpretation of the work of the economist J. R. Hicks. That participant proposed an approach that would be consistent with the asset/liability approach as far as the balance sheet is concerned but would reflect the going concern value of an entity on the income statement.

Articulation of the Measurement Phase with Other Projects

17. Several participants questioned how the measurement phase of the CF project would fit with other projects of the Boards. The fair value measurement and financial statement presentation (FSP) projects were specifically mentioned. With respect to the FSP project, participants stated that, regardless of whether the measurement phase results in the selection of one or multiple measurement bases, presentation and disclosure are critical issues.

Broad Application of Results

18. Some participants expressed concern that the process of selecting a measurement basis or bases would focus solely on the needs of for-profit, publicly-held entities. Those participants stressed the need to find a basis that would apply to the public sector and SMEs as well.

Miscellaneous Comments

19. Various individual participants made comments about the measurement phase plan that do not fit into one of the above categories. Those comments include the following:
 - a. The CF project should use a working group for the measurement phase.
 - b. The plan for the measurement phase should remain flexible.

- c. A preliminary views document should be prepared at the end of Milestone III before moving to an exposure draft.
- d. Some numbers on the financial statements are more important, in the sense of getting them right, than others.
- e. The way an item is valued on the balance sheet is not as important as knowing how it was valued.

MILESTONE I ISSUES

Issue M01: *What are the measurement basis candidates?*

- 20. The general tenor of comments made about the first measurement issue is that there are too many potential measurement bases in the staff's proposed list (Attachment 2 of the background materials). Various participants thought that the staff's list makes the situation seem worse than it really is, that the number of bases presented is artificial, that in reality there are only four or five bases, and that the bases could be grouped into a smaller number of families of which the listed bases would be variants.
- 21. Only the historical group of measurement bases received particular comments. Some participants said that, except for pure past entry value, the various historical measurement bases listed are really techniques rather than measurement bases. Other participants thought that the distinction among the various historical bases is unnecessary, and that referring to all those bases as historical cost is satisfactory.
- 22. In addition to the above views, there were a few comments supporting the staff's effort to improve communication about measurement bases with new terminology. One participant also said that consideration of communication problems should be extended beyond the CF project to the Boards' standards. That is, the Boards should clarify and standardize measurement terminology in their existing standards as well.

Issue M02: *How are the measurement bases defined?*

23. Participants made a few comments about measurement basis definitions, although most of those comments were not about the definitions proposed by the staff. All of the comments related to fair value.
24. One participant said that a distinction is needed between market value (as used by valuation experts) and fair value. That participant thought that market value should be considered as a measurement basis for accounting, but not fair value. Another participant commented that the staff should not equate fair value with exit value. A third participant expressed the view that transaction costs should not be excluded from the definition of fair value. More than one non-U.S. participant opined that the meaning of fair value is too vague and that there is a need to be sure what is being talked about when referring to fair value.

Issue M03: *What are the basic properties of the measurement bases?*

a. *How does each basis relate to prices and values, the building blocks of economic decisions?*

25. One participant commented that the price/value distinction is equivalent to an external/internal distinction.

b. *What is the basic time orientation of each measurement basis?*

26. One participant said that time orientation is important to measurement. Other participants commented that the way time orientation is displayed in Attachment 3 of the background materials is either confusing or unnecessary.

Issue M04: *Are the measurement bases appropriate for both assets and liabilities?*

27. One participant view on this issue was that assets and liabilities should be treated the same with respect to measurement. Another view was that valuation of liabilities is more difficult than that of assets.

Issue M05: *Are there any measurement basis candidates that should be eliminated from consideration for evaluation in Milestone II?*

28. While no participant suggested the elimination of a particular basis, a few participants indicated that it should be possible to eliminate one or more bases before proceeding to Milestone II.

MILESTONE II ISSUES

General Comments

29. Some participant comments that relate to Milestone II reflect opinions or concerns about the process of evaluating measurement bases as a whole rather than thoughts on particular evaluation issues. Those comments fall into two groups, namely (a) comments about the relationship between Phase A of the CF project (Objectives and Qualitative Characteristics) and Milestone II of the measurement phase (Phase C), and (b) comments about ideas of a higher level than the qualitative characteristics.

Phase A concerns

30. Some participants shared the view that the evaluation of measurement bases (Milestone II) should not proceed until the Boards have finalized decisions about certain aspects of Phase A of the CF project. The most frequently mentioned of those aspects were the objectives and scope of financial reporting. In general, participants commented that agreement on the objectives of financial reporting is needed to proceed, and that without agreement on the scope of financial reporting the evaluation exercise will not work.
31. More specifically, participants commented that the Boards need to determine the purpose of financial statements, the balance sheet in particular, in order to determine an appropriate measurement basis. Participants also thought that the Boards need to decide what is to be included in financial reporting beyond the financial statements before selecting a measurement basis or bases. Along this line of thinking, some participants suggested that the Boards think about the consequences of including forecasts of the future in financial reporting. Some participants thought that including forecasts would improve financial

reporting, but observed that such forecasts would not satisfy qualitative characteristics such as auditability.

32. Finally, some participants expressed a need for the Boards to clarify the role of stewardship as an objective of financial reporting. Their general reasoning was that the qualitative characteristics relate to decision usefulness through the ability to assess future cash flows, but stewardship is not the same as assessing future cash flows.
33. Participants also expressed concern that evaluation of measurement bases using the qualitative characteristics could not be performed until the Boards finalize those characteristics in Phase A of the project. In particular, some participants were opposed to the elimination of reliability as a qualitative characteristic and wondered whether it might reappear. Other participants questioned the meaning of faithful representation and its suitability as a replacement for reliability.
34. While the majority of participants who commented on Phase A concerns suggested delaying evaluation of the measurement bases, a significant minority replied that waiting is neither practical nor necessary. Those participants expressed the view that the Boards and staff have sufficient guidance in the preliminary views document for Phase A in order to proceed, and that in any case the Boards can and should circle back from time to time during the CF project to revise and integrate their work.

High-level issues

35. While supportive of evaluating measurement bases using the qualitative characteristics, some participants expressed the view that certain high-level ideas should be considered before proceeding with the evaluation. The high-level ideas that participants identified include capital maintenance, unit of account, and monetary unit.
36. Only the idea of capital maintenance received specific comments. Supportive comments were that capital maintenance should be considered before doing anything else in the measurement phase, that better articulation of capital maintenance is needed, that the CF project could discover a capital maintenance concept that is related to fair value, and that operating capability capital maintenance should be included in any consideration of capital

maintenance. One participant stated that capital maintenance does not belong in the CF project.

Issue M06: *Are the measurement bases relevant to economic resource allocation decisions?*

37. Comments on this issue were of two kinds: (a) those relating specifically to relevance as one of the qualitative characteristics to be used in evaluating measurement bases, and (b) those relating to decision usefulness and users of financial statements and reports as a context for relevance.

Relevance

38. In general, participants' comments affirmed the need to evaluate the relevance of different measurement bases. In addition, two participants stressed the need to use all the components of relevance (confirmatory value, predictive value, and timeliness) to evaluate the bases.
39. Specific views were few and varied. One participant stated that all assets and liabilities have all the measurement bases; the question for the CF project is which basis is most relevant for a particular asset or liability. Another participant suggested that the CF project consider two questions related to relevance: (a) Relevant to whom? And (b) Can relevance mean different bases for different activities? A third participant commented that relevance is more important than reliability.

Decision usefulness and users

40. Some participant comments suggested a slightly different focus for this issue. One participant agreed with using the qualitative characteristics to evaluate measurement bases, but stated that the ultimate criterion should be decision usefulness of the resulting information, including whether the information helps users assess future cash flows. Another said that this issue should focus on cash flows instead of resource allocations.
41. Many more comments focused directly on users. Some participants talked about user needs, others about user wants. Those who mentioned user needs commented that those needs are the bridge between the qualitative characteristics and measurement bases.

Milestone II should identify who users are and focus on their needs. Furthermore, the evaluation of measurement bases should not proceed until there is agreement on user needs. Participants also said that the CF project should avoid looking for a theoretically correct measurement basis and instead find what provides information to users. However, users do not need accountants to do their work for them. Users need model inputs rather than model outputs in order to make their own forecasts of future cash flows. Nevertheless, accounting should not focus on providing information for the very short-term needs of professional analysts. One comment suggested that a user decision-making model is the right starting point for determining user needs. Finally, one participant stated that there is too much focus on investor needs and the CF project should balance the needs of all users.

42. Participants who commented about user wants said that the measurement basis selection process should start with asking what users want. Some participants said that users want fair values or current values, while other participants replied that users don't want just fair value. Rather, different users want different things. One participant warned against always believing what users say they want: users change their minds over time and later accept things that they initially rejected. Yet another participant said that it is not easy to find users in order to learn what they want.

Issue M07: *Can the measurement bases be used to create faithful representations of assets and liabilities that can be verified?*

43. Some participants shared comments that relate directly to this issue through faithful representation. Other participants made comments that relate to this issue less directly, by addressing reliability instead of faithful representation.
44. Of those who commented about faithful representation, some were supportive and stressed the need to have accounts reflect true economics or economic reality. One participant said that the totals on the financial statements should make sense, too. Two other participants made overall comments to the effect that more detail is needed in this issue. That is, all components of faithful representation (including verifiability, neutrality, and completeness) should be used in evaluating the measurement bases. Other participants said Issue M07

was problematic or questionable because faithful representation may not be accepted as a qualitative characteristic.

45. Comments supportive of reliability included views that reliability should be the primary focus of evaluation using the qualitative characteristics, that if a measurement basis is not reliable, it cannot be relevant, that reliability means getting the same result each time, and that precise numbers are better than relevant numbers. Other participants said that more emphasis should be placed on the representational faithfulness idea of reliability than on the auditability idea, that relevance and reliability are not mutually exclusive, and that verifiability does not equate to relevance.
46. One participant made a neutral comment that verifiability, as associated with either faithful representation or reliability, should include the ability of the user to trace how an accounting number was derived.

Issue M08: *Would using the measurement bases contribute to comparability?*

47. One participant commented that consistency is an important consideration in selecting a measurement attribute. Another said that analysts, in particular, would like to see consistency. Yet other commentators expressed the views that consistency in measurement bases is needed for initial and subsequent recognition, across assets and liabilities, and across entities.

Issue M09: *Would using the measurement bases contribute to understandability?*

48. Participants who commented on understandability said that whatever attribute selected by the Boards needs to be understandable to users. Participants also said that the amounts on the balance sheet need to be understandable and that financial reports should provide as much information as possible to help users understand the numbers in the reports.

Issue M10: *Are there concepts in addition to the qualitative characteristics that should be used to evaluate the measurement bases (for example, capital maintenance and scientific measurement concepts)? If so, how do the bases fare against them?*

49. A number of participants suggested additional criteria for selecting a measurement basis or bases. Some participants commented that a basis should be selected that considers or incorporates the risks and rewards of holding an asset or liability, or that focuses on the assessment of value creation. Other participants thought that measurement basis selection should be related to or driven by management objectives, management intentions, or the nature of particular industries or business activities, or focus on entity-specific values. However, some participants voiced concerns about measurement bases that rely on management intent or entity-specific values, citing lack of auditability in particular.
50. Yet other participants suggested closeness to cash, cash generation capability, or stewardship as selection criteria. One participant suggested that the concepts of communication science are needed to select a measurement basis for accounting.

MILESTONE III ISSUES

Issue M11: *Given the individual evaluations in Milestone II, how do the measurement bases compare with one another? Can they be ranked according to their overall satisfaction of the qualitative characteristics?*

51. One participant commented that it is not possible to rank measurement bases according to their satisfaction of the qualitative characteristics. All other comments that relate to this issue were either in support of or against historical cost or current value (usually fair value).

For historical cost

52. The most frequent comment about historical cost was that it is reliable. One participant said that the most reliable number is what you originally paid. Other participants commented that historical cost is simple and precise, whereas every other basis is subject to inaccuracy. Some participants focused on historical cost for its use in analysis and decision

making, saying that historical cost is useful for measuring performance (for example, book yield of debt securities), for measuring capital employed and management's efficiency in employing capital, and for predicting future cash flows (for example, amortized debt). One participant opined that even when items are shown at fair value in the financial statements (for example, debt instruments), users still need historical cost information about them.

53. Some proponents of historical cost admitted that it has some limitations as it is used presently. For example, downward adjustments or impairments are allowed or required in order to reflect recoverable cost, but upward adjustments are either not allowed or not required. There was agreement that that is not conceptually correct. However, the proponents thought that impaired historical cost numbers give users important information, while recognizing asset appreciation through the use of current values is not a good way to communicate value changes to users. One participant noted that there is a need to articulate what is wrong with historical cost, but that its imperfections are small.

Against historical cost

54. The most frequent criticism made about historical cost was that it is not relevant. Participants also said that historical cost is not as reliable as portrayed by its advocates. A few participants noted that historical cost is not comparable; it gives different numbers for the same items. Some participants said that although historical cost may be useful to management, it is not useful for investors. In particular, participants thought that historical cost overstates net income, distorts return on assets analysis, and gives incomplete information for stewardship assessments. One participant expressed the view that the only reason for using historical cost is cost/benefit.

For current value

55. The most common comment in favor of a current value was that fair value is the most relevant attribute of an asset or liability. The reason most frequently given for a current value's greater relevance is that contemporary information is more useful to financial statement users in making decisions. Participants also said that current market value is the

most important information for pursuing the goal of resource optimization and that fair value is the best way to inform investors about management's stewardship of resources.

56. Some participants who supported fair value favored measuring all assets and liabilities at fair value, including operating assets. Even current value advocates who supported a current value basis other than fair value stated that those valuations should be reflected in the balance sheet, not just in disclosures. Other supporters of fair value said that assets and liabilities should only be recognized at fair value if that value can be reliably measured. Whatever assets and liabilities are measured at fair value on the balance sheet, some participants said they do not want to see the effects of fair value on the income statement, unless those effects are segregated. Furthermore, some participants thought that whenever fair value is used to measure assets and liabilities, additional information should be provided to users to help them understand what the fair value numbers mean (that fair value is a range of numbers, for example).
57. While most participants who commented on current values specifically referred to fair value, other participants mentioned additional types of current value. One participant noted that the asset definition implies that at least value in exchange and value in use should be used as measurement bases. Other participants said that value in use, going concern value, deprival value, or replacement cost are more relevant and/or reliable than fair value and are more familiar to management. Yet other participants regretted that fair value is sometimes interpreted as scrap value or liquidation value.
58. In defense of fair value, one participant admitted that practical limitations of fair value need to be considered, but that too much exactitude is required of fair value by its critics. Another participant expressed the view that difficulty of valuation should not be a factor in selecting a measurement basis, as much of historical accounting is difficult and full of estimates, but everyone has become used to it anyway.

Against current value

59. Most comments against current value specifically referred to fair value. Some participants objected to fair value on the grounds that it is not reliable. More specific comments made

the point that fair value is not objective, that it is not precise, that it is subject to too many assumptions, and that investors are sceptical of mark-to-model numbers.

60. Many more participants argued that fair value is either partially or totally irrelevant for measuring assets and liabilities, for various reasons. One view given was that fair value is relevant for measuring investment assets or assets held for sale, but is not relevant for measuring operating assets. One participant challenged proponents of fair value to demonstrate how it could be used for strategic or operating assets. Another view shared was that fair value should be used for financial instruments, but not for other assets and liabilities. However, some participants expressed an opinion that not even all financial instruments should be measured at fair.
61. Various reasons were given for not using fair value, or any current value, on the balance sheet at all. One participant said that fair value should be prohibited, another said that fair value is a notion of something that does not really exist, and yet another thought that there is no need to value capital gains in the balance sheet because markets already incorporate such values in share prices. One participant noted that the fact that current values are better for making many decisions does not mean that they should be shown on the balance sheet. A view was expressed that using exit values on the balance sheet does not make sense because the sum of those exit values would not equal the value of the business. Another view was that fair value equates to liquidation value, which is irrelevant because of the going concern assumption. Finally, one participant argued against fair value because it does not address synergy between assets.
62. Another set of participant comments focused on the difficulty and complexity of fair value measurements. Participants said that without liquid markets for most assets, fair value is too difficult to measure or estimate, and there is not enough current guidance to measure many things at fair value. Participants also commented that fair values are difficult to audit, that auditors don't know which fair value estimation models are best, and that auditors need more fair value guidance from standard setters.
63. Participants included a number of miscellaneous arguments against current or fair value in their comments. More than one participant thought that fair value is too costly as a

measurement basis and noted that there is a higher cost to using fair value on a recurring basis than on initial recognition.

64. Two comments were made to the effect that measuring some things (like debt) at fair value is misleading and sometimes leads to counterintuitive results (for example, gain recognition when credit rating falls). Two other participants suggested that the case for using fair value everywhere is overstated by its proponents. One of those participants admitted that fair value is decision useful, but asked whether it is the silver bullet. The other said that there should not be a goal of making the lives of analysts easier by using fair value everywhere. Along that line of thinking, another participant said that users should let standard setters know whether the fair value of a particular asset or liability is useful or not.
65. Finally, one participant said that fair value measurement suffers from a market capacity problem, and another stated that value in use is not a good measurement basis because it recognizes future income currently.

Issue M12: *Should one measurement basis be used for all financial statement purposes, or could different bases be used for different purposes (for example, initial vs. subsequent measurement, assets vs. liabilities, and different types of assets and liabilities)?*

66. Issue M12 represents the single most discussed topic of the roundtables. A majority of comments on this issue favored a mixed-basis model over a single measurement basis, although participants shared different views of what a mixed-basis model would mean. The comments for this issue are organized into four sections, namely (1) those supporting a single basis, (2) those supporting a mixed-basis model, (3), those proposing a rationale for choosing between historic cost and fair value when both are used on the same balance sheet, and (4) those proposing alternatives to using both historic cost and fair value on the same balance sheet.

Single basis model

67. Among the minority of participants who commented in favor of selecting a single measurement basis, some supported historical cost as that basis while others supported fair value. However, comments from participants in both groups suggest that not all supporters

of a single measurement basis hold an extreme view. For instance, one participant favoring historical cost clarified that it should be the only basis **if** only one basis is to be selected by the Boards. Likewise, some fair value supporters indicated that while fair value as the only basis is conceptually preferable, they would not use it when it could not be measured reliably.

68. The primary reasons that participants gave for supporting a single measurement basis included simplicity and understandability. One participant said that a single basis model would be easier to use; another that a single basis would be ideal. A third noted that balance sheet and income statement totals are not meaningful in a mixed-basis model. When one participant stated that the average financial statement user doesn't have a chance of understanding a mixed-basis financial statement, another participant agreed and suggested that even professional analysts find our current mixed-basis model confusing. Finally, one commentator expressed the view that users need to understand that financial statements have limitations and can't show everything.
69. Participants gave two other reasons for using a single-basis model. One was that no conceptual difference exists between assets held for investment or sale and those used in operations; therefore, the two groups should not be accounted for using different measurement bases. The second reason given was that a mixed-basis model results in the mismatching of some assets and liabilities, particularly financial instruments.

Mixed-basis model

70. Many participants based their support for a mixed-basis model on practical reasons. Some participants thought that a single-basis model might be conceptually preferable, but would be neither simple nor practical in use and would be too expensive. One participant said that the Boards should not even try to find a conceptually superior measurement basis, especially if that basis is fair value.
71. Other views focused on current practice, saying that the current system is better than some give it credit for, that a mixed model has worked well in the past, that we cannot disregard where we are today, that it would not be possible to get away from the current mixed model

for a long time, or that multiple bases are inevitable. Related comments expressed the views that doing things in different ways, as is done now, isn't necessarily a problem, and that accountants shouldn't feel guilty about having too many measurement bases. However, some participants who were otherwise satisfied with today's mixed-basis model said that standard setters should reduce the number of bases used or narrow the range of options for using them.

72. A number of participants supported a mixed-basis model with reasons that were more conceptual. Most of their reasoning centered on decision usefulness. Participants said that it is not logical to have only one measurement basis, and that both historical cost and current value measurements convey valuable information to users. Participants also said that there is no such thing as a one-size-fits-all financial statement, and that users need an information set that cannot be provided by one measurement basis or a single number on the balance sheet. Some commentators also noted that general purpose financial reporting is meant to serve a wide range of users; not only does a particular user have needs that can't be met by one basis, but different users have different needs that require multiple measurement bases.
73. Some comments consistent with the above reasoning focused on finer points. A number of participants talked about the relevance of measurement bases, saying that the most relevant attribute might vary from asset to asset or liability to liability. Others thought that the relevant basis for a particular asset or liability might vary from one purpose or analysis to another. In particular, one participant said that it is not possible to reflect the amount, timing, and uncertainty of future cash flows in any one number, while another stated that the need for information about the past, the present, and the future makes it impossible to use only one measurement basis.
74. Some of those who commented seemed to agree that while a mixed-basis model is more relevant to users, different preparers should not be allowed to use different measurement bases for the same asset or liability. Furthermore, one participant thought it wrong to look for the right measurement basis on an individual item basis, that an item should be considered in relation to the whole. For example, a liability might be associated with a

particular asset, and using different bases for the two could produce undesirable results. Somewhat to the contrary, one participant opined that a diversity of measurement bases on the balance sheet is not a problem because most users focus on individual items, not on the total.

Choosing between historical cost and fair value

75. A majority of participants who supported multiple measurement bases in their comments seemed to prefer a model like that in current use, with some assets and liabilities showing at historical cost and others at fair value (or some other current value) on the balance sheet. Many of those participants also appeared to favor improving the current model by basing the choice between historical cost and fair value for a particular asset or liability on a coherent rationale or selection principle.
76. Several rationales were suggested, including those listed below (where “at HC” = should be shown “at historical cost” and “at FV” = should be shown “at fair value”). The language of the rationales focused on assets, but liabilities were implied as well.
 - a. *Operating assets at HC, investment assets at FV*
 - b. *Assets that management intends to use at HC, assets that management intends to sell at FV*
 - c. *Assets that are not close to cash or that the business model designates as for use at HC, assets that are close to cash or that the business model designates as for sale at FV*
 - d. *Assets that are managed in operating uses at HC, assets that are managed in investing uses at FV*
 - e. *Assets that the firm’s business model assigns to the generation of operating income at HC, all other assets at FV*
 - f. *Assets that are used to add value to the business at HC, all other assets at FV*
 - g. *Assets that are not released from risk at HC, assets that are released from risk at FV*

h. *Non-financial assets* at HC, *financial assets* at FV

77. A comment shared by some proponents of rationales a through g was that such divisions between the use of historical cost and fair value would have favorable implications for the income statement, because they would help to isolate operating income. Support for rationale h seemed to focus on the relative ease of measuring financial assets at fair value compared to non-financial assets.
78. Several participants criticized the rationales. A frequent criticism of rationales a through g was that they are merely different labels for management intent and that the latter should not drive measurement basis selection because it is subjective and managers sometimes make wrong decisions. One participant also said that the strategy of the firm and asset valuation are separate issues. Some proponents responded that rationales based on a firm's business model or how assets are actually deployed are not equivalent to a rationale based on how management intends to use assets.
79. Another criticism was that firms cannot consistently segregate assets into the two classes of the various rationales (regardless of whether those rationales mean the same thing or not). Proponents, however, thought that firms, or at least their auditors, could make the distinction and that standard setters should not be involved.
80. Some participants expressed the view that changes in business models and markets over time would make it difficult to justify the use of the above rationales in the long term.
81. A few participants made comments beyond those summarized above. Two participants suggested a mixed-basis model using value to the business instead of historical cost for operating assets and fair value for investment or for-sale assets. There was also a suggestion for mixing bases in the measurement of single assets in some cases, such as revaluing property, plant, and equipment at fair value, then depreciating it. However, another participant said that bases should never be combined in the measurement of one asset or liability. Finally, one participant noted that the decision to select between historical cost and fair value may only be needed after initial recognition, as the two are usually the same at initial recognition.

Segregating historical cost and fair value

82. For some participants, a mixed-basis model meant using both historical cost and fair value (and possibly other bases) in financial reports, but not on the same balance sheet in a mixture dictated by asset or liability type. Participants supporting that view of a mixed-basis model suggested two broad approaches, which the staff has labelled the “multiple presentation approach,” and the “primary basis approach.”
83. Under a multiple presentation approach, historical cost, fair value, and any other basis selected would be given equal prominence in financial reports. As a variation, historical cost and fair value (or another current value) would be used with equal prominence for operating assets, while only fair value (or another current value) would be used for investment assets.
84. Participants suggested three ways to accomplish the objective of equal prominence. One way would be to prepare multiple balance sheets and income statements within a single set of financial reports, one for each basis selected by the Boards. Another way would be to use multiple columns in balance sheets and income statements, one for each basis. Yet another way would be to prepare two sets of financial reports, one using historic cost for management, a second using fair value for external users.
85. Under a primary basis approach, one basis would be given prominence in financial reports and one or more others would be used in a secondary manner. Participants provided two suggestions for using this approach. One suggestion was that the primary basis would be used in the financial statements and the secondary basis or bases would be disclosed in notes to the statements. The other suggestion was that the primary basis and secondary bases would be arranged in a hierarchy, with the primary basis at the top of the hierarchy. The primary basis would be used whenever possible. If for some reason the primary basis could not be used, the secondary basis in the hierarchy would be used, and so on. Departures from using the primary basis would be disclosed in the notes to the financial statements.

Issue M13: *Should the same basis (bases) used for financial statements also be used for other aspects of financial reporting, or could different bases be used outside the financial statements?*

86. Participants commented on two aspects of Issue M13. First, as noted in paragraph 33 in the summary of general comments on Milestone II, some participants thought the Boards should consider including management forecasts in the financial reports. Except for participants who would support measuring items in the financial statements at their expected ultimate outcomes, that suggests the use of one or more bases other than what would be used in the financial statements themselves.
87. Second, as the summary of comments in paragraph 87 demonstrates, some participants supported the disclosure of one or more secondary bases after using a primary basis in the financial statements themselves.

Issue M14: *What are the practical problems of using the selected basis (bases)? Should the problems preclude their use in some or all situations? Are there ways to address those problems without diminishing the relevance, representational faithfulness, comparability, and understandability of financial reporting representations that use the basis (bases)?*

88. In general, participants favored the idea of addressing implementation issues as well as conceptual issues in selecting a measurement basis or bases. One participant even suggested that the CF project not try to find the best basis (conceptually speaking), but focus on what works best. On the other hand, another participant cautioned that while practicality is important, the conceptual question of why users want information is more so.
89. Some participants said that cost/benefit considerations should be part of the practical considerations in Milestone III. One participant commented that users might want certain information from a conceptual viewpoint, but might not want that information if they knew the cost/benefit of obtaining it.
90. A number of participants thought that practicalities should be considered earlier in the measurement phase as measurement bases are being evaluated. In particular, some

participants commented that cost/benefit should be addressed in Milestone II. One participant stated that cost/benefit should be an explicit evaluative criterion in Milestone II.

91. One participant suggested that the Boards select one basis, then look at the practicalities of that basis.
92. Another participant stressed that accountants are practical, and that measurement basis questions are empirical questions. That participant asked whether the Boards would be gathering evidence and commissioning research to support its conclusions in Milestone III.

Issue M15: *What can standard setters, preparers, and auditors do to improve the quality of accounting measurements that use the selected basis (bases)?*

93. Participants had two comments about what could be done to make sure that the selected basis or bases eventually would lead to better accounting measurements. One was that the Boards and staff should look back at the completion of Milestone III to review and/or reconsider what has been done. A second comment was that anything the Boards decided on in Milestone III should be tested in practice before finding its way into standards.