



Memorandum

GASAC Meeting
February 21–22, 2013

To: GASAC Members
From: Roberta Reese, Ken Schermann, Paul Nabhan
c: GASB Members, David Bean, GASB Staff, and Meeting Observers
Date: January 28, 2013
Re: Conceptual Framework Project on Recognition and Measurement Approaches: Changes to Approach to Project and Measurement Attributes

The Board issued a Preliminary Views document, *Recognition of Elements of Financial Statements and Measurement Approaches*, in June 2011 and is in the process of evaluating feedback received on the document and developing an Exposure Draft of a proposed Concepts Statement. This conceptual framework project encompasses both financial statements prepared on the economic resources measurement focus (for instance, the government-wide statement of activities) and the measurement focus for governmental funds financial statements (such as the balance sheet). At the November 2012 GASAC meeting, we reviewed the tentative decisions made by the Board in its redeliberations on the topics of recognition of elements of financial statements in financial statements prepared on the economic resources measurement focus and of measurement approaches. At this GASAC meeting, we are seeking your feedback on the Board's subsequent tentative decisions:

- Separating the measurement and recognition aspects of the project, which will result in the issuance of separate Exposure Drafts for measurement and for recognition
- Modifying the approach to developing concepts for measurement.

SEPARATE EXPOSURE DRAFTS FOR MEASUREMENT AND FOR RECOGNITION

The tentative decision at the Board's December 2012 meeting to issue separate Exposure Drafts for measurement concepts and for recognition concepts stemmed from two issues:

- Concern regarding the timing and schedule for the recognition and measurement approaches project, especially related to the recognition portion of the project.
- The need to coordinate the issuance of the Exposure Draft on fair value measurement and application, which is currently scheduled for June 2013, with the issuance of an Exposure Draft including measurement concepts.

The Board made a tentative decision that an Exposure Draft on measurement concepts should not be issued subsequent to an Exposure Draft on fair value that would set forth how those proposed concepts would be applied. Previously approved technical plans scheduled the issuance of the Exposure Draft on recognition and measurement concepts for June 2013. During the second half of 2012, however, the Board devoted additional discussion time to issues related to measurement concepts. Furthermore, deliberations have reached a point where it is no longer feasible to resolve the issues associated with recognition of elements of financial statements in governmental funds in time to develop an Exposure Draft by June 2013 that includes both recognition and measurement concepts.

As a result, the Board decided to separate this phase of the conceptual framework into two subsections. The first subsection will address measurement approaches, with an Exposure Draft to be issued by the end of June 2013. The second subsection will address recognition concepts for financial statements prepared using either the economic resources measurement focus or the measurement focus for governmental funds. The second Exposure Draft will be issued when the recognition concepts for the measurement focus of government funds are resolved, which is estimated to be in March 2014.

This approach to the project treats measurement concepts as being universal to any measurement focus, not as different depending upon the measurement focus to be applied. Note that in the Preliminary Views, the chapter on measurement indicates that the concepts presented are applicable to both financial statements prepared on the economic resources measurement focus and those prepared using the proposed near-term financial resources measurement focus.

The advantage of this approach to the conceptual framework project is maintaining the proper timing between the fair value project and this conceptual framework project. This approach also

would allow the Board additional time to address the governmental fund measurement focus (recognition) issue. The Board received a significant amount of constituent feedback on its preliminary views related to governmental fund recognition issues.

A disadvantage of this approach is breaking the potential conceptual link between recognition and measurement. During the course of the project, the Board came to believe that the issues related to measurement concepts and to recognition concepts may be interrelated. Consequently, the separate conceptual framework projects on recognition and on measurement were combined into a single project in December 2005. However, it has been noted that other standards setters have issued recognition and measurement approaches concepts separately.

DISCUSSION QUESTIONS

- 1. Do you agree with the Board's tentative decision to issue an Exposure Draft for measurement concepts in conjunction with the Exposure Draft on fair value measurement and application?**
- 2. Do you agree with the Board's tentative decision to issue a separate Exposure Draft for recognition concepts, allowing additional time for development of recognition concepts for the measurement focus of governmental funds?**

CHANGE IN APPROACH TO DEVELOPING MEASUREMENT CONCEPTS

The measurement chapter in the Preliminary Views proposed a framework for when each of two primary measurement approaches should be used. The primary measurement approaches are:

- ***Initial-Transaction-Date-Based Measurement (Initial Amount)***—The transaction price or amount assigned when an asset was acquired or a liability was incurred, including subsequent modifications to that price or amount, such as through amortization or depreciation.
- ***Current-Financial-Statement-Date-Based Measurement (Remeasured Amount)***—The amount assigned when an asset or liability is remeasured as of the financial statement date, including fair value; current acquisition, sales, and settlement price; replacement cost; and value-in-use.

After evaluating these measurements approaches in the context of the objectives of financial reporting and qualitative characteristics of information in financial reporting, both presented in

Concepts Statement No. 1, *Objectives of Financial Reporting*, the Board proposed the following preliminary view in the document:

- Initial amounts are more appropriate for assets that are used directly in providing services.
- Remeasured amounts are more appropriate for assets that will be converted to cash (for example, financial assets).
- Remeasured amounts are more appropriate for variable-payment liabilities, such as compensated absences or pollution remediation obligations.

The Board tentatively decided at its December 2012 meeting that the Exposure Draft on measurement concepts should propose concepts for measurement approaches at a high-level only, in contrast to the more detailed level presented in the Preliminary Views. These high-level concepts would include identifying and defining the two measurement approaches: initial amounts and remeasured amounts. How these two measurement approaches relate to the various objectives of financial reporting and demonstrate the qualitative characteristics would be discussed; however, no concepts for when either measurement approach would be more appropriate would be presented, as was the case in the Preliminary Views. The Exposure Draft also would indicate that it is not appropriate to select and apply a single measurement approach to all assets and liabilities. Likely, the Exposure Draft would include the Board's current tentative view that when the objective of presenting information about the cost of current-year services conflicts with the objective of presenting information that can be used to assess the remaining service potential of assets, the information about cost of services is considered more important.

One advantage to this approach to establishing measurement concepts is that it will not be viewed as potentially predetermining the outcome when the Board sets standards in the future.

This approach is favored over the Preliminary Views approach by a majority of the Board members. This option would resolve a potential drafting issue identified in the Board's most recent discussion of proposed measurement concepts—that of the appropriate treatment of all of the qualitative characteristics. The Board has not considered it appropriate to develop a hierarchy

among the qualitative characteristics in the past or as part of this project. Concern was raised that the current discussion in the “applicability” sections of the draft measurement concepts might favor relevance over all other qualitative and limitations characteristics of information in financial reporting.

This approach is similar to the measurement concepts that the Federal Accounting Standards Advisory Board (FASAB) and International Public Sector Accounting Standards Board (IPSASB) have issued or proposed. The measurement concepts issued by FASAB and IPSASB also significantly featured identifying and evaluating the various measurement attributes (or bases) that might be used when determining either an initial or remeasured amount. The Board tentatively decided to include definitions of and discussions about various measurement attributes in the Exposure Draft on measurement concepts. (See the next section of this paper for further discussion.)

A disadvantage of this alternative is that it provides only limited guidance to future Boards when developing accounting standards. The overall objective of Concepts Statements is to provide guidance to future Boards when setting standards, such that accounting standards will be consistent with each other.

DISCUSSION QUESTIONS

3. Do you agree with the Board’s tentative decision to include in its Exposure Draft only high-level measurement concepts?

MEASUREMENT ATTRIBUTES

Although the Board has not entirely completed its evaluation of measurement attributes, the Board has tentatively decided thus far to include the following five measurement attributes in the proposed Concepts Statement: historical cost, fair value, acquisition value, settlement amount, and replacement cost. These measurement attributes are tentatively defined as follows:

- Historical Cost (Proceeds)—The amount paid to acquire an asset or the amount received pursuant to the incurrence of a liability in an actual exchange transaction.

- Fair Value—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.
- Acquisition Value—The price that would be paid to acquire the service potential the entity will obtain from an asset in an orderly market transaction at the acquisition date.
- Settlement Amount—The amount at which an asset could be realized or a liability could be liquidated with the counterparty, rather than through an active market.
- Replacement Cost—The price that would be paid to acquire the service potential the entity will obtain from an asset in an orderly market transaction at the measurement date.

The Board noted that some measurement attributes may be inherently associated with one measurement approach (initial amounts or remeasured amounts) and other measurement attributes may be appropriate for use under both measurement approaches. For example, historical cost could be used only as an initial amount, and settlement amount could be used under either the initial amount or remeasurement amount measurement approaches.

DISCUSSION QUESTIONS

- 4. Do you agree with the Board's tentative decision to include in its Exposure Draft definitions of and discussions about measurement attributes?**
- 5. Do you agree with the Board's tentative definitions of the measurement attributes?**
- 6. Do you believe that the list of measurement attributes is sufficiently complete? If not, what other measurement attribute do you believe should be included? Why?**