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Paris, the 17 JAN. 2013

Mr Alex MILBURN
PhD, FCA

The Canadian Institute of Chartered Accountants
277 Wellington Street West,
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CANADA

Dear Mr Milburn,

The ANC wants first of all to highlight the importance and urgency of clarifying the issue of measurement principles to be applied in IFRS, which is currently missing in the IASB Conceptual Framework. This situation has led to indesirable consequences in the past as well as to inconsistencies in the development of new accounting standards that should be avoided. Therefore, the ANC thinks that it is both useful and timely to engage in a debate on a conceptual framework for measurement and that determining the right concepts in this respect is a key necessary step to achieve a relevant representation of the performance and financial situation of an entity. However, the ANC considers that the paper "Toward a Measurement Framework for Financial Reporting by Profit-Oriented Entities" (the Paper) approaches the issue in a totally erroneous way. Discussions held with European counterparts of the ANC has led us to believe that this view was largely shared.

The ANC also believes that assessing the stewardship of the management is a major issue that users of financial statements could expect accounting standards to address. In this perspective, the ANC is concerned that this objective has been undermined in the new version of the IASB Conceptual Framework, where it now appears as a secondary objective. Therefore, the ANC welcomes consideration taken in the Paper on assessing the stewardship of the management when working on the Measurement Framework.

MINISTÈRE DE L'ÉCONOMIE
ET DES FINANCES

The search of an ideal measurement attribute superior to all the others is not the right approach

The ANC regrets that the Paper seems out of time in this debate by continuing to promote the idea that there would be an ideal measurement attribute that would be superior to all the others. This idea was at the origin of the proposal, made twice, in 1997 and 2001, to measure all financial instruments at fair value, one unique measurement method at that time presented as the ideal measurement attribute for these elements. These two proposals were rejected by most constituents and the IASB did not adopt them. When the FASB proposed in 2010 to provide in the financial situation information on all financial instruments with the same measurement attribute, the vast majority of the two thousands comment letters it received also rejected this proposal. Since then, the IASB has recognised in the new standard IFRS 9 issued in October 2010 the usefulness of different measurement methods coexisting, depending on circumstances and – especially - on the business model applied, none of them being considered as superior to the others. The Paper does not bring new arguments in this old discussion and would have provided a more useful contribution to the debate if it had taken into account these evolutions.

In this respect, the ANC considers that a measurement framework should aim at helping accounting standard-setters to identify the right method for distinguishing which measurement method could be considered as the best one under given circumstances. The ANC is convinced that progress could be made by taking into account the way in which elements subject to measurement are used and contribute to a business cycle through the analysis of *business models* .

The ANC notes that the notion of *business model* has been introduced in IFRS 9, however in a limited way. It has been used for determining the more relevant measurement method for only one kind of business model and together with conditions on the characteristics of the financial instruments concerned that prevent its full effect in the accounts. The ANC believes that all implications of a proper consideration of business models for recognition and measurement purposes should be taken into account in IFRS 9 as well as in all other existing or new accounting standards. Moreover, it should be included in the future revised conceptual framework as a key notion that business models should be systematically taken into account for the purpose of relevance and faithful representation. It follows that this notion of business model should be key and therefore should impact each accounting standards for recognition and measurement purposes.

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The ANC thinks that the reasoning and the conclusions of the Paper are based on a number of premises which are highly questionable:

The Paper is based on a controversial "semi-strong" form of efficient market hypothesis

The ANC notes that the Paper is based on the controversial efficient market hypothesis (EMH). This theory and the theoretical market valuation models which had been developed in this perspective are questioned by many constituents, including academics, especially since the financial crisis arose in 2007. Dysfunctioning of markets is not an exceptional event, contrary to what the Paper asserts. We observe that crises (and bubbles) tend to follow one another at increased pace and the resulting dysfunctionings tend to become a permanent state. Some may argue that bubbles and crises are a part of the normal functioning of efficient financial markets. However, it is hard to believe that financial markets were efficient in determining the intrinsic value of assets during the "internet and telecom" bubble in 2000 or on securitised sub-prime loans in 2005 and 2006.

In fact, the Paper acknowledges in its Appendix B that markets are not perfectly efficient and that there is unequivocal evidence of significant market inefficiencies. It also highlights that the level of market efficiency varies depending on the quality of information that is publicly available and on the effectiveness of the institutions that regulate a market. The ANC agrees that market efficiency is linked to the quality of information publicly available, but notes that quality of information and therefore market efficiency would not be improved if financial information provided to markets would mirror markets' expectations. That would precisely be the case with accounting standards centered around a Current Market Value based on incomplete or low quality information. Supplying market participants with such "circular" information will not help them to correct valuation errors and will encourage phenomena of "self-fulfilling prophecy".

Nevertheless, the paper concludes that the "semi-strong" form of the EMH that results from these imperfections is sufficient for being used as a premise and would be presumed to exist in informed, open, active and orderly markets. The ANC notes that situations where markets could be considered as informed, open, active and orderly are much more the exception than the rule, especially where markets beyond the few regulated financial markets are concerned. Therefore, the ANC thinks that the existence of the "semi-strong" form of the EMH, on which this paper is based and which leads to conclude that the Current Market Value is the most ideal measurement basis, cannot be presumed.

The Paper is based on a measurement attribute that is available in exceptional cases only

The ANC also notes that the Paper's approach is founded on the premise that the purpose of profit-oriented businesses is to create additional value ultimately realised in the market place by transforming input market values into output market values determined by competitive market forces. The Paper concludes from this statement that current market prices should play a critical role in financial reporting measurement theory.

The ANC agrees that profit-oriented entities aim at capturing added value through the realisation of operations in the context of competitive market forces. However, the ANC thinks that the Paper makes a simplistic shortcut between this statement and the conclusion that current market prices should be given a critical role in terms of measurement. As previously mentioned, the definition of the Current Market Value refers to the existence of open, active and orderly markets. But such market conditions would rarely be observed in practice. Most transactions would be realised in split-up markets and/or would include specific exchange conditions, not to mention that many outputs sold on these markets would not be standardised, making them difficult to compare with other outputs. This would result in the related transaction prices not being relevant as market price references. Therefore, it is not obvious that current market prices have to play a critical role in the financial reporting measurement theory.

There is also an issue on how to take into account measurement factors which are specific to an entity. One example would be the higher liquidity risk of an entity that holds such quantity of items that the related market could not absorb it without prices falling.

The Paper itself recognises that similar situations on a market place may be rather the exception than the rule. In order to by-pass these situations, the Paper proposes to use the most relevant substitute when Current Market Value is not practicable for faithful representation, but does not provide guidelines in such a respect. The ANC notes that the ideal measurement attribute would therefore apply in exceptional cases, while the most common situations would be treated as exceptions, with measurement attributes limited to degraded substitutes to the ideal measurement attribute.

The ANC thinks that this back-to-front approach is not the right approach. Accounting standard-setters should address the most common situations first on the basis of general principles to be observed and subsequently plan, where necessary, specific arrangements for particular cases. Having in mind the above-mentioned situations, the ANC thinks that in most cases the transaction price that results from the specific transactions would be the most relevant measurement attribute to represent the reality of the transactions. As it could not be presumed in most cases, it would be recognised <u>only</u> when the related transaction is achieved.

The Paper bases the superiority of the Current Market Value on questionable properties

The Paper claims that Current Market Value is the most ideal measurement basis, when available, as it embodies seven properties that enhance its relevance in faithfully representing the value of assets and liabilities. According to the Paper, no other identified measurement base would be able to gather all these properties or to have an additional more relevant property. The ANC does not think that Current Market Value always embodies these seven properties (paragraph 1 of Annex 1). Moreover, the ANC is not convinced that these seven properties would always result in relevant information for financial reporting purposes. On the contrary, the ANC thinks that they may undermine the usefulness of this information and therefore other measurement bases having opposite properties may be more relevant, depending on circumstances (paragraph 2 of Annex 1).

More detailed comments on this issue are provided in Appendix 1 to this letter.

The Paper's proposal obscures the representation of business cycles' performance

The ANC considers that measurement methods that would best assess stewardship of the management and help predict future cash flows are those that would more precisely consider the effective out- and inflows of cash generated by an entitiy's activities. Representations based on hypothetical cash-flows, as proposed in the Paper, would lack the necessary qualities to achieve these objectives. The ANC thinks that the Paper should first have analysed how best to represent the performance of an entity by considering how the entity is effectively undertaking its business activities through effectively applied business models to a production cycle. The ANC notes that this evidence based analysis is lacking in the Paper, which remain highly theoritical

On the contrary, the Paper appears to consider that the ideal representation of an entity's performance consists in reflecting current market conditions applied to past transactions that contributed to the fulfilment of a production cycle with no consideration for the necessary succession of the various stages of the production over time. This results in an unrealistic representation of a production cycle's performance as if all the successive steps could be undertaken at the same time. The ANC thinks that the proposed approach obscures the representation of the production performance by mixing elements of performance belonging to different production cycles and brings confusion to the assessment of stewardship by mixing performances resulting from realised operations with predictions on the performance of future operations that remain hypothetical. The Paper claims that this would help to separate performance linked to purchasing efficiency versus production efficiency. However, in most cases, management has no choice but to buy inputs at a certain time at a certain price in order to launch the production process. Price changes on these inputs arising afterwards would be beyond its control and will. Therefore they generally do not represent a purchasing performance.

More detailed comments on this issue are provided in Appendix 1 to this letter.

The Paper's proposal does not address user's main needs

Finally, the proposal in the paper seems to aim at reflecting markets' forecasts of future margins at the closing date. The ANC thinks that these predetermined forecasts based on assumptions made by market participants who may have various objectives and valuation approaches is not what users of financial statements are asking for. Many users say that they prefer basic and factual information close to cash-flow movements that would help them establish their own forecasts using their own assumptions at the time they want. One fundamental question behind this issue is whether accountants should perform the work in lieu of analysts. The ANC believes this is not desirable and that it would not meet users' needs.

Moreover, the ANC thinks that one should not ask financial statements to deliver more information than they reasonably could do without entering into conflicting objectives. As noted in the paper, providing information that helps assessing the stewardship of the management is one of their primary goals. This would satisfy the first important need of users who are the more exposed to risks related to an entity, i.e. existing shareholders and creditors. Providing predictive information that would help investors – both current and potential ones - to make economic decisions is also an important need that should be fulfilled. However these two main objectives should be achieved in a way that would not impede the achievement of the other one. The kind of approach suggested by the ANC would help manage possible conflicting information needs and expectations, acknowledged in the IASB Conceptual Framework (par.OB 8), between those identified as the primary users of the financial information.

Our answers to the questions raised in the paper are included in Appendix 2.

Yours sincerely,

Jérôme HAAS

APPENDIX 1 : detailled comments on some issues

Comments on the properties of the Current Market Value

1. The ANC does not think that the Current Market Value of an asset or liability, as defined, always has the properties listed in paragraph 28 of the paper (see in question 1, appendix 2). In particular, the existence of properties listed under (a) to (d) depends on the public availability of information necessary to appropriately assess the related elements to be incorporated in Current Market Value, as it is explicitly noted in "property" (e), which is more of a constraint or a limitation than a property. The ANC does not think that this necessary information is always and completely available to the public. As a consequence, property (f) is not always verified. Moreover, it also depends on the capacity of market participants to appropriately translate in current market prices the effects of publicly available information in order to achieve these properties, a capacity which in itself can be questioned. Finally, providing financial information to the market through a Current Market Value mirroring market participants' expectations based on the information that is currently publicly available will not help to incorporate information they are missing.

2. The ANC also notes that the paper fails to explain why the proposed properties would result in information that would be "ideal" for predicting future cash flows and assessing stewardship. The ANC does not think that these properties are always beneficial in this respect. For example:

- Properties (a) and (b) consist in incorporating "an" estimate of future economic benefits or sacrifices or "an" expectation of possible variations in their amount or timing, assuming that such properties would satisfy users' needs in terms of predictive value. However, users of financial statements generally do not ask for predetermined analysis, but expect financial statements to help them make their own forecasts and estimates. This is all the more the case that time horizons, key assumptions and calculation methods could vary to a very large extent between analysts or investors. Therefore, incorporating a predetermined estimate may not satisfy the needs of all users of financial statements and could even make it more difficult for them to make their own estimate.

- Moreover, the IASB's Conceptual Framework notes that information does not need to be a prediction or forecast to have predictive value. Information based on past achieved transactions providing inputs that are robust and certain, with no extrapolation on hypothetical future effects, may nevertheless be helpful for users to undertake their own predictive estimates.

- Both previous comments could be extended to properties (c) and (d).

- In addition, information reflecting expected value probabilities that take into account all perceived possible outcomes, as described in property (b) may not always appear as relevant in terms of predictive value compared to information based on the most probable outcome. This would especially be the case when the different possible outcomes significantly diverge from one another, resulting in the average calculated measurement corresponding with no probable scenario.

- It would be difficult to appropriately assess property (f) if investors' time horizons and the length of activity cycles are not taken into consideration, not to mention the possible lack of publicly available information. Relative economic efficiency and effectiveness of competing alternatives could vary depending on assessing them in the short or the long term and also depending at which point in time the comparison is made.

- Property (g) would not be desirable if an entity-specific value appears to be more relevant in reflecting the performance of an entity in generating cash-flows than a Current Market Value that would ignore these specificities. Many academic works highlight that entity-specific values are generally more relevant than general independent values and that choosing between them represents a trade-off between the potential subjectivity of the first and the lower relevance of the latter.

3. These comments highlight that it is questionable to designate one measurement basis as being the ideal one. The ANC therefore considers that a measurement framework should consider when different measurement bases, including the Current Market Value, would provide the most relevant measure that would appropriately reflect the performance of an entity's business. The ANC thinks that this implies taking into account how an entity is conducting its activities by applying one or several business models.

4. The ANC also notes that the Paper acknowledges that no market is perfectly efficient and that Current Market Value is not always available. The ANC thinks that Current Market Value is in fact available in rather rare cases, as conditions required for having an open, active and orderly market are much more the exception than the rule. It is troubling to have a measurement framework be based on exceptional situations, and it would make more common sense to start from the most common situations.

Comments on the recognition of revenues and added value from outputs

5. The ANC considers that recognition of revenue should be contingent to the transfer to the buyer of the significant risks and rewards and managerial involvement associated with ownership, the probability that the economic benefits associated with the transaction will flow to the entity and the reliability of the revenues' and related transaction costs' measurement, subject to continued performance, that arises as the entity fulfils a contract with a counterpart. There is no guarantee that these conditions would be always met when applying the proposed Principle 1. Therefore, the ANC disagrees with Principle 1.

6. The ANC acknowledges that Principle 1 would result in recognising revenue if no inseparable sale or delivery cost or effort is still to provide, which means in practice that in most cases the realisation of a commitment with a counterpart will be a prerequisite to this recognition. Moreover, as noted in the cover letter, most transactions would be negotiated in split-up markets, include specific conditions or deal with not standardised goods or services. Therefore, most of the time, these transactions would not take place in informed, open, active and orderly markets that could provide a relevant reference for a current market value that is practicable of faithful representation. The relevant measurement attribute for these transactions would be available only when the transaction is achieved with a counterpart. As a result, conditions listed in Principle 1 to recognise revenue would generally be achieved only when a binding commitment with a counterpart exists. Therefore, the ANC considers that Principle 1 should address these most common situations first by including this requirement and determine if and in which limited circumstances an entity may depart from this condition.

7. Moreover, the ANC thinks that value creation should be recognised in line with the way the entity usually realises it through the use or sale of the output when applying its business model, which could be assessed through the existence of a historical pattern of application of the related business model. The measurement of the value creation should be closely linked to the effective generation of cash-flows resulting from the use or sale of the output, assuming that the degree of certainty of this value creation and related cash-flow generation is high, which in practice is generally achieved only when the transaction is realised. Reference to a market value would be relevant in this respect only in cases where it is consistent with the effective generation of cash-flows resulting from the business model applied and with a sufficient degree of certainty in the realisation of these cash-flows.

Comments on the measurement of inputs

8. The Paper proposes that the value of the output in process would be re-measured in proportion to changes in the Current Market Value of the input incorporated for its production. The ANC considers that this is not justified by any objective assigned to financial reporting.

The proposal is not relevant in terms of assessing the stewardship of the management.

9. In Appendix D of the Paper, paragraph D8 says that "the difference between an input asset's transaction price and its current price in the market in which it was acquired represents a saving or loss relative to the price that the entity would have to pay for it currently. This is generally described as an "opportunity cost or saving"". Apart from the limited cases when the management deliberately decides to buy inputs far in advance or in excess compared to the production needs, input assets which take part in the elaboration of an asset in process within the normal production process, could not be considered as subject to opportunity cost or saving. Production processes require management to ensure that inputs necessary for this process are available on time and therefore bought and delivered before they should be used in the process. Therefore, it is not meaningful to consider there would be an opportunity cost or saving by purchasing and delivering them at a later stage, as this would not represent an option the management could choose for evident practical reasons. Nor could the input be extracted back from the output in process in order to be sold and replaced by another input which would be chosen taking into account the new economic context. Management is first accountable for ensuring that the production process, as the main source of value creation, is working well. Should the input have been purchased later, the production process would have been stopped and the outputs would not have been produced on time, which could generate huge losses through the disruption of the production process and real opportunity losses in terms of missed sales.

10. In Appendix D of the Paper, paragraph D11 says that the "current market value of the inputs used up in achieving the revenues recognised in a reporting period measures the current economic sacrifice that has been made in achieving those revenues. This, it is reasoned, represents the most relevant record of the results of the operating activities of an entity that have taken place in a reporting period since inputs sacrificed at their current prices at the times they were sacrificed are matched against revenues recognised at their current prices at the times that they were recognised. In contrast, historical cost-based accounting matches the costs of inputs sacrificed at prices that were incurred at various times in the past, against revenues measured at current prices". The ANC strongly disagrees with this statement that ignores, as previously explained, that a production process generally requires a succession over time of various operations necessary for achieving a completed business cycle and would present things as if all these operations could be made at the same time. The ANC considers that the right way to match sacrificed inputs with related outputs is to take into account the conditions that prevailed at the time the inputs needed to be purchased in order to have the time to be incorporated in the process that finally result in the revenues of the outputs being recognised. Proceeding otherwise will match elements that do not belong to the same production cycle, resulting in a misrepresentation of the performance effectively achieved.

11. Appendix D of the Paper also says in paragraph D22 that the "principles proposed in this paper are based on a broader accountability objective. Under these principles, an entity's operating activities include exposure to input price risk whether or not it is actively managed." However, the ANC understand under the term "accountability" that management is accountable for input price risk it is able to manage. Management can manage this risk as long as it is not yet necessary to have the input available for incorporation in the process. During that period, management can decide to actively manage this risk through developing a hedging strategy. The consequences of the management's decision to hedge or not hedge input price risk would be reflected in the financial statements in relation to the inputs that will finally be purchased for the need of starting the production process in which these inputs will be used.

12. However, as soon as the inputs have been purchased for incorporation in the production process, management cannot manage the input price risk any more for the production in process, only for input price risk that relates to inputs necessary for the next production cycle. Therefore, input price changes that occur between when inputs necessary for starting the production process have been purchased and the time the related output is sold (see ANC's answer to question 2) does not represent an opportunity cost or saving for which management is accountable. They could only be taken into account for the next production cycle not yet started and they will effectively be taken into account through the current accounting rules applying to purchase and hedge operations.

<u>The proposal of the paper is not relevant either for providing predictive information that would help investors to make economic decisions.</u>

13. Changes in the value of the output in process due to changes in market prices currently applied to inputs already incorporated in the process would obscure the representation of the performance of the production process, which is independent from these external changes that relate to inputs that would be used in the next production cycle. In extreme cases, the proposal of the paper could imply that a significant rise in input prices after they have been bought for production purposes would result in the entity recognising a huge gain due to its "purchasing efficiency" mechanically offset by a significant loss that would be attributed to the production process. Should users of the financial statements then conclude that the production process is particularly inefficient? And if in the subsequent period, the price of inputs falls after the entity bought them and has succeeded to make its customers accept to pay a higher price for the outputs on the basis of the previous rise in input prices, then the entity will recognise a huge "opportunity loss" reflecting that its "purchasing efficiency" has suddenly completely collapsed. Fortunately, this sudden collapse will be offset by a not less surprising dramatic improvement of the efficiency of the production process. What could users of financial statements conclude and understand from all these opposite movements? The ANC thinks that this example clearly indicates that the proposal of the paper will bring confusion in the information provided to users and would prevent them from understanding the real performance of the entity. Thus, it would not help them to make economic decisions.

14. The representation of the performance resulting from core and recurring activities undertaken by an entity is one of the main pieces of information that investors request in order to make economic decisions. The IASB Conceptual Framework notes that information does not need to be itself a prediction or a forecast to have high predictive value. This is the case for the representation of a production process performance, which could provide information to users on the efficiency of this process to create value by transforming inputs and related cash outflows consumed into outputs and related cash inflows generated. As this production process is recurrent, this kind of information will help users make some predictions on future performance. The ANC believes that financial statements would be most useful if the representation of this performance is based on real cash-flows consumed and generated through the business cycle instead of incorporating the impact of hypothetical transactions that are not realisable in practice, and are based on prices different from those on which real transactions have been agreed.

15. In Appendix D of the Paper, paragraph D14 says that there "is important information value in the separation of price change effects from the measure of current operating profit since each has potentially different implications for the future cash-generating ability of an entity. This information should improve rather than inhibit the ability of users to understand how an entity makes money (i.e. by enabling an understanding of the extent to which its reported profits are the result of possibly transitory input asset price changes versus the results of its cash-generating process for transforming the current cost of inputs into revenues". The ANC acknowledges that the information the paper proposes to introduce may represent useful elements for estimating cash in and outflows the business cycle and production processes would generate in the future. However, these are only estimates of the possible conditions in

which future transactions may be concluded. They reflect markets' forecast of future cash-flows at a point in time. They would correspond to real transactions only if these transactions are made at this particular point of time. The ANC is convinced that such information, which is different in nature from information reflecting the performance realised, should not be mixed with information representing what the entity has realised. Moreover, many users express the view that they would prefer to make their own forecasts when they need to make their decisions. Therefore, the ANC strongly disagrees with paragraph D18 in Appendix D of the Paper which claims that matching "current input costs sacrificed against current revenues seems likely to be a better starting point for estimating an entity's future sustainable earnings (an entity's future cash-generating ability) than historical cost-based accounting which matches costs incurred at various past prices against revenues measured at current prices". The ANC does not think that mixing information on realised performance with estimates of future performance will provide relevant and understandable information.

Other comments

16. The ANC is of the view that inputs should be measured in relation to their contribution in the performance realised through a completed business cycle. The measurement of these inputs would therefore provide most useful information if it contributes to appropriately represent cash-flows consumed and generated by an entity when applying its business model. Therefore, the ANC thinks that representing holding gains or losses through the continuous re-measurement of input assets at their current market price is relevant only when purchasing efficiency is key in the business model applied. This would be the case when the primary objective of a business is to take profit from short-term fluctuations of market prices by actively buying and selling assets without transforming them in a production process, assuming that in this case the assets can be sold on an informed, open, active and orderly market. It may also be the case if an entity decides to buy inputs necessary for a production process far in advance compared to their date of incorporation in the process or in proportions that exceed by far the quantity necessary for developing the production, other than for regulatory or legal obligations. However, these cases could be presumed as being rare, as most entities manage their inventories at the lowest level possible in order to save up their treasury. This means that in most cases, it would not be very useful to make a distinction between holding gains or losses and results of the production process.

17. The ANC notes that the proposal seems to focus on non-financial activities and thinks that these proposals would be difficult to apply to financial institutions such as banks or insurance companies. For example, it is quite impossible to classify banks' assets and liabilities into the operating, financing and investing categories. The ANC thinks that an approach based on the business models of the entities and their impact on the consumption and generation of cash-flows would be easier to apply to all kind of activities.

APPENDIX 2 : ANC answers to the questions on the basis of comments made in the cover letter and in Appendix 1

Question 1

The paper proposes that Current Market Value represents the ideal (most relevant) measurement basis for financial reporting by profit-oriented entities. It proposes the following definition of "Current Market Value":

> *The current market value of an asset or liability is its present exchange price determined, on the basis of publicly available information, by the competitive interaction of willing arm's-length buyers and sellers in an open, active and orderly market.*

The paper proposes the properties that are embodied within Current Market Value, as defined, that make it the ideal. [See paragraphs 25-31 of the paper and sections B, C, H and N of the Appendix to the paper.]

(a) Do you agree with this definition?

(b) Do you agree that Current Market Value, as defined, has the proposed properties?

(c) Do you agree that Current Market Value, as defined is the ideal (most relevant) measurement basis for financial reporting by profit-oriented entities?

If you disagree with one or more of these positions, please explain the reasons for your disagreement as clearly and completely as possible. If you agree, but believe that additional issues or evidence need to be addressed, or that the exposition could be improved, please set out and explain them.

Paragraph 28 of the Paper says:

"It is proposed that Current Market Value, as defined above, of an asset or liability embodies the following properties:

(a) An estimate of future economic benefits or sacrifices (ultimately cash flows) to result from events or circumstances that have taken place.

(b) An expectation of possible variations in the amounts and/or timing of future economic benefits or sacrifices (reflecting expected value probabilities that take into account all perceived possible outcomes).

(c) The time value of money, representing the "risk-free" rate of interest.

(d) A price for bearing the uncertainties of the economic benefits or sacrifices inherent in the asset or liability.

(e) The incorporation based on publicly available information, of conditions current at the time of measurement with respect to properties (a) – (d) above.

(f) A price that reflects the relative economic efficiency and effectiveness of competing alternatives to the asset or liability as a consequence of incorporating publicly available information.

(g) *A price that is independent of the private expectations and intentions of individual entities.*

ANC answers:

(a) **The ANC considers that the definition of Current Market Value is not an issue. The issue is to determine if and when it may be relevant to use this measurement attribute.**

(b) **The ANC disagrees that Current Market Value, as defined, has always the proposed properties.**

(c) **The ANC disagrees that Current Market Value is the ideal measurement basis for financial reporting by profit-oriented entities even when it is evident from observable prices in open, active and orderly markets.**

Question 2
Principle 1 proposes that:

Market value created by a cash-generating process (revenue) should be recognized when the process (1) has achieved an output that has a current market value that is practicable of faithful representation, and (2) has generated the good and/or service that is the source of that output market value. [See paragraphs 36-49 of the paper and section G of the Appendix.]

(a) Do you agree with this proposed principle? If you do not agree, please explain as clearly and fully as possible (i) in what respects you disagree and why, and (ii) what alternative you recommend and why that alternative is superior to proposed Principle 1.

(b) Do you agree with the paper's proposed concepts of "practicability" and "faithful representation"? (Note that the proposed concept of "faithful representation" differs from its definition in the joint IASB and FASB Conceptual Framework [see paragraphs 39-42 and 133-138 of the paper and section A of the Appendix]). If you disagree, please explain the basis for your disagreement and the alternative you recommend.

ANC answers:

(a) The ANC disagrees with Principle 1 as it is based on conditions which rather represent exceptional cases than usual ones. The ANC considers that a Principle should address the most common situations first. Moreover, the ANC thinks that value creation should be measured in relation to the business model applied by the entity. Therefore, a market price should not be used as a measurement reference if it does not appropriately represent the way the value creation is realised.

(b) The ANC agrees with the proposed concept of 'practicability" and "faithful representation', especially when emphasizing the key importance of the relevance criterion in assessing the faithfulness of the representation. However, as explained in answer to question 1, the ANC disagrees with the idea that Current Market Value is a relevant measurement attribute in most cases and that "faithful representation" as described in the IASB Conceptual Framework would represent a robust fundamental characteristic for accounting standards

Question 3

Principle 2 proposes that:

Assets that are inputs to cash-generating processes should be measured at current prices in the markets in which the inputs would be acquired by the entity or, when such prices are not practicable of faithful representation, on the basis of the most relevant substitute that is practicable of faithful representation. Changes in current market values or in substitute measurement bases that reflect current input values would be reported immediately in the statement of income.

- *(a) Do you agree that input assets should be measured at input prices? If not, why not? [See paragraph 52 2) of the paper.]*
- *(b) Do you agree with continuously re-measuring input assets at their current values in input markets with gains and losses in income, when such values are practicable of faithful representation? [See paragraphs 52 4) and 84-92 of the paper and sections D and I of the Appendix.] If you do not agree with the relevance of remeasurement as proposed by Principle 2, please explain as clearly and fully as possible why you disagree, and what alternative you believe would be more relevant, and why. It would be most helpful if your arguments could take into account the analysis set out in section D to the Appendix.*
- *(c) Do you agree that, when current market prices for inputs are not practicable of faithful representation, one should look to the most relevant substitute that is practicable of faithful representation? If not, why not?*
- *(d) Do you agree with the analysis of the comparative relevance of other measurement bases relative to Current Market Value? [See paragraphs 62-83 of the paper, and sections J, K and M of the Appendix.] If you do not agree, please explain why. In particular, do you believe that one or more of these bases have properties not recognized in the paper and Appendix that give it (them) greater relevance than Current Market Value? If so, please explain these properties and, if possible, provide supporting references to theoretical or empirical evidence supporting your position.*

ANC answers:

(α) The ANC agrees that inputs should be measured at input prices at inception.

(β) The ANC disagrees that inputs should be re-measured at their current market prices, except for inputs involved in trading activities.

(χ) As the ANC does not consider that Current Market Value is the ideal measurement attribute, it does not consider that other measurement attributes are substitutes to current market prices. The ANC considers that in most cases the actual transaction price is the best measurement attribute for inputs.

(δ) As explained in the answer to question 1, the ANC disagrees with the analysis of the comparative relevance of other measurement bases compared to Current Market Value

Question 4
Principle 3 proposes that:

Except as provided in Principle 4, business operating liabilities should be measured at current prices in the markets in which the liabilities were issued or incurred or, when such prices are not practicable of faithful representation, on the basis of the most relevant substitute that is practicable of faithful representation. Changes in current market values or in substitute measurements that reflect current values would be immediately reported in the statement of income. [See paragraphs 93-100 of the paper, and section F of the Appendix.]

Principle 4 proposes that:

Business operating liabilities should be measured at current prices in the markets in which they could be settled prior to maturity when such prices are lower than would be determined under Principle 3, if these prices could be achieved without additional cost to the entity (other than transaction costs) and are practicable of faithful representation.

ANC answer:

As the ANC does not consider that Current Market Value is the ideal measurement attribute, it disagrees with the proposal that business operating liabilities would be continuously re-measured at their current market value. The ANC is of the view that these liabilities should be measured using the measurement attribute which is the most appropriate to represent the effects on their amounts and timing of cash flows of the business model applied by the entity. Moreover, the ANC disagrees with the idea that states that property (b) of the Current Market Value that would reflect "*An expectation of possible variations in the amounts and/or timing of future economic benefits or sacrifices (reflecting expected value probabilities that take into account all perceived possible outcomes*" would be an ideal measurement approach.

Question 5
Principle 5 proposes that:

Investing and financing assets and liabilities should be measured at current prices in the markets in which they were acquired, issued or incurred or, when such prices are not practicable of faithful representation, on the basis of the most relevant substitute that is practicable of faithful representation. Changes in current market values, or in substitute measurements that reflect current values, should be immediately reported in the statement of income. [See paragraphs 107-113 of the paper, and sections E and M of the Appendix.]

Do you agree with this proposed principle? If not, please explain why not by taking into account the analysis at sections E and M of the Appendix.

ANC answer:

As the ANC does not consider that Current Market Value is the ideal measurement attribute, it disagrees with the proposal that investing and financing assets and liabilities would be continuously re-measured at their current market value. The ANC is of the view that these assets and liabilities should be measured using the measurement attribute which is the most appropriate to represent the effects on their amounts and timing of cash flows of the business model applied by the entity. The ANC also considers that recognising value changes in relation to own credit risk would not provide relevant information in most circumstances.

Question 6

The paper addresses the measurement of impairment at the level of individual input assets and at the level of a cash-generating unit. Principle 6 proposes that impairment be recognized at the cash-generating unit of account level as follows:

The sum of the carrying amounts of business operating assets less liabilities comprising a cash-generating unit should not exceed the current market value of that cash-generating unit or, if that market value is not practicable of faithful representation, of a current value substitute that is practicable of faithful representation. [See paragraphs 114-124 of the paper.]

(a) Do you agree with the paper's analysis of impairment at the level of individual input assets? If not, why not?

(b) Do you agree with proposed Principle 6? If not, why not?

ANC answers:

(a) As the ANC does not consider that Current Market Value is the ideal measurement attribute, it does not base its reasoning on current market prices and their substitutes. The ANC thinks that impairment of individual assets should be based on the measurement attribute which is the most appropriate to represent the effects on their amounts and timing of cash flows of the business model applied by the entity. Impairment should be recognised if the recoverable amount of the asset, determined on the basis of this measurement attribute, is lower than the carrying amount.

(b) For the same reasons, the ANC considers that the impairment test at the level of a cash-generating unit should also be made using the measurement attribute which is the most appropriate to represent the effects on their amounts and timing of cash flows of the business model applied by the entity.

Question 7
Do you agree with the supporting disclosures discussion? [See paragraph 125 of the paper.] If not, please explain why not and the disclosures you would propose and the bases for them.

ANC answer:

As the ANC does not consider that Current Market Value is the ideal measurement attribute, it would not formulate the same comments on disclosure.

Question 8
The paper proposes that the Current Market Value measurement ideal as applied by the proposed principles embodies a relevant financial capital maintenance concept. [See paragraphs 126-129 of the paper, and section L of the Appendix.]

Do you agree that there is a valid and relevant concept of capital maintenance underlying the proposed principles along the lines of that proposed? If not, please explain your position, and how important this issue is in your opinion.

ANC answer:

As the ANC does not consider that Current Market Value is the ideal measurement attribute, it does not consider that it would embody a relevant financial capital maintenance concept.