EFRAG SECRETARIAT PAPER FOR PUBLIC MEETING

Measurement and the Conceptual Framework

Background

In its comment letter in response to the IASB Exposure Draft *Conceptual Framework for Financial Reporting*, EFRAG noted that the guidance provided on selecting measurement bases was insufficient.

In March 2016, the EFRAG Board considered and approved a paper on how the guidance could be expanded before the Conceptual Framework is finalised. That paper was presented at the April 2016 ASAF meeting. Based on the comments received at the April 2016 ASAF meeting, EFRAG TEG discussed a revised paper at its May 2016 and June 2016 meetings. The discussions resulted in this paper. It is the intention that this paper, when finalised, should be presented at the September 2016 ASAF meeting.

Introduction

1 The IASB Exposure Draft *Conceptual Framework for Financial Reporting* (‘the ED’) contains some discussion about the differences between historical cost and current value and the information conveyed by each measurement basis.

2 However, in EFRAG’s view, the ED does not provide a sufficient basis for the selection of a measurement basis. Further, the reporting of performance is inextricably linked with the measurement basis used, regardless of whether performance is seen from a narrow perspective (such as limited to profit or loss) or a wide perspective (profit or loss, comprehensive income, financial position and cash flows).

3 Principles for the selection of a measurement basis are needed to ensure consistent standard-setting and to avoid repeatedly rediscussing measurement issues when setting Standards.

4 This paper:

(a) summarises the relevant concerns raised by EFRAG in its comment letter on the ED;

(b) considers whether the principles included in the ED provide sufficient guidance for the selection of a measurement basis;

(c) proposes for inclusion in the Conceptual Framework a guide to the selection of a measurement basis when setting Standards; and

(d) applies that approach to an asset that is not specifically within the scope of an IFRS Standard.

5 The paper is limited to a discussion of assets. In a future paper, the proposals could be extended to consider liabilities, and the interaction between certain assets and certain liabilities.

Concerns raised by EFRAG in its comment letter on the ED

6 Although EFRAG broadly agreed with the IASB's preliminary views on measurement, the EFRAG comment letter also noted that:

(a) the business model should play an important role in selecting the appropriate measurement basis;

(b) limiting the number of measurement bases could conflict with the objectives of financial reporting; and

(c) the mere mention in the ED of factors to be taken into account when selecting a measurement basis without much additional sense of direction is insufficient. EFRAG considered that "the IASB could usefully build on the description of different measurement bases to determine the necessary guidance, distinguishing clearly between what is useful to the statement of financial position on the one hand and to the statement(s) of financial performance on the other. As a result, the Conceptual Framework should include guidance on:

(i) How to select measurement bases that are useful for reporting both the financial position and the performance of the entity;

(ii) When to select between market-consistent and entity-specific measurement bases; and

(iii) When customisation of measurement bases could be useful."

The principles included in the ED

7 The ED proposes that the qualitative characteristics of useful information and some other factors should be considered in selecting a measurement basis. Further, the ED states that initial measurement and subsequent measurement should be considered together.

8 The factors discussed in the ED are:

(a) Relevance: which includes consideration of how that asset or liability contributes to future cash flows, which will depend in part on the nature of the business activities conducted by the entity, the characteristics of the asset and the level of measurement uncertainty in estimates of the information provided by the measurement basis. (In EFRAG's view consideration should also be given to whether the resulting information is useful for decisions about stewardship.)

(b) Faithful representation: similar measurement bases should be used for related assets and liabilities.

(c) Enhancing characteristics – comparability, verifiability and understandability: use measurement bases that result in measures that can be independently corroborated and avoid a proliferation of different measurement bases and retain the same measurement basis over time.

(d) Factors specific to initial measurement: none of these are relevant to the case under consideration.

9 These criteria may, however, point in different directions and may thus not provide useful guidance for the selection of a measurement basis. The measurement bases and reasons why they might be selected are as follows:

(a) Historical cost: the purchase price provides information about the asset that has been acquired. Consideration would then need to be given to impairment and (possibly) amortisation/depreciation.

(b) Fair value: this shows how the market would value the asset and would be impacted by asset- and entity-specific factors such as the condition of the asset and external factors such as the overall economy and its impact on the way the asset is to be used.

(c) Value in use: this provides information about the entity's planned use of the asset in the short-, medium- and long-terms.

10 Without contacting users and discovering what information they are requiring for their purposes (assuming that all users want the same information), the guidance above provides no obvious reason to prefer a particular measurement basis for a particular item. It is for this reason that EFRAG considers that the measurement guidance included in the ED is insufficient and does not meet the objective of the (revision of the) Conceptual Framework.

EFRAG's further suggestions to meet the concerns expressed in its comment letter

11 EFRAG proposes the following additions to the Conceptual Framework in order to address some of the concerns outlined in its comment letter on the ED:

(a) In relation to the discussion of relevance (see paragraph 8(a) above), when discussing the business activities conducted by an entity, it should be taken into account that similar assets can play different parts in the different entity's business activities with the consequent impact on cash flows and the reporting of performance. An entity's business activities relating to assets can include:

(i) trading activities on the same or a similar market, where the entity generates profit from speculating in price fluctuations;

(ii) trading activities, where the entity is buying in one market and selling in another market (including production) (e.g. most inventory), and the entity generates profit from the price differential between the markets;

(iii) investing in operating assets including property, plant and equipment and intangible assets used to support the entity's operations, where performance results from the use of the assets;

(iv) disposing of operating assets (e.g. disposals of property, plant and equipment), where the reporting of performance on disposal is secondary to the use of the assets for operations;

(v) holding an asset for its useful life, where cash flows are likely to be determinable and not affected by market movements;

(vi) holding an asset for periodic returns and capital gains, where separately recognising periodic returns and holding gains and losses may provide information about performance and the effect on financial position;

(vii) holding an asset because of regulatory requirements; and

(viii) holding an asset for risk management purposes, where the relation between the risk being managed and the basis for managing that risk provides relevant information.

(b) When considering what information would be most relevant for performance reporting purposes (see paragraph 8(a) above), consideration should be given to when changes in value should be reported. For example, short-term changes in value such as the changes in the value that arise because the entity is acquiring an asset in one market and selling it in another market would usually be included in the profit or loss on disposal. On the other hand, if the asset is bought and sold on the same or similar markets and the entity's objective is to generate returns through long-term changes in value, reporting value changes in each period may provide more relevant information than reporting the entire holding gain or loss only when the asset is derecognised.

(c) When assessing the most relevant information about how an asset contributes to future cash flows (see paragraph 8(a) above), the relationship between the contractual cash flows and the expected actual cash flows should be taken into account, if relevant. If an asset is a contract with specified contractual cash flows, and the entity expects to collect those cash flows (e.g. a fixed interest rate loan that the entity will hold to maturity), there may be limited benefit in measuring it at current value.

(d) When considering how relevant information from a stewardship perspective can be provided (see paragraph 8(a) above), it should be assessed whether management's performance is better reflected by reporting changes in value when realised (i.e. using historical cost) or during the holding period (i.e. using current value). An assessment should also be made as to whether management is accountable primarily for the amount invested (i.e cost) or for the value of assets under their stewardship (i.e. current value).

(e) In accordance with paragraph 8(b) above, consideration should be given as to whether either historical cost measurement or current value measurement are unlikely to be capable of providing a faithful representation. This would include assessing the extent of measurement uncertainty.

(f) The consideration of comparability (see paragraph 8(c)) would mean that a change in the measurement basis of a particular asset (or liability), or the selection of a measurement basis that is different from similar types of assets (or liability) (considering how the asset (or liability) is used by the entity) has to provide sufficiently improved information.

12 In some cases there may be a difference between the measurement basis that best reflects financial performance and the measurement basis that best reflects financial position. In those cases:

(a) If a compromise between the two can be found, that compromise should be selected; and

(b) If a compromise between the two cannot be found, financial performance and financial position should be measured on different bases with an adjustment in other comprehensive income or elsewhere.

13 In cases where historical cost is considered to provide the most useful information for reporting performance, it should also be assessed whether historical cost provides useful information for assessing future cash flows for the purpose of the statement of financial position. In many cases, there is some relationship between historical cost and current value. However, this is not always the case. For example, in the case of derivatives (if they were to be measured at historical cost in the statement of financial performance) or some property, plant and equipment such as land which has been held for a long time or reserves in the extractive industries, historical cost may not provide useful information about the cash flows arising from the economic benefits embodied in the asset.

14 If the above issues lead to a view that a current value measurement basis provides the most relevant information, it is then necessary to consider whether fair value (the market perspective) or value in use (the entity perspective reflecting the cash flows expected by the entity) provides more relevant information. Fair value is likely to provide more relevant information for assets that are to be traded, whereas value in use is likely to provide a better representation of expected future cash flows for assets that are to be used and liabilities that are expected to be fulfilled.

15 When a current value measurement has been selected, it should also be assessed whether a single characteristic of the asset should dominate the measurement regardless of the purpose of holding the asset. For example, it should be considered

whether the measurement of biological assets should be solely driven by biological change.

Application of the proposed approach

16 As mentioned in paragraph 4, to assess whether the proposals are operational, they will be applied to an asset that is not specifically within the scope of an IFRS Standard. The following example will therefore be considered[1]:

An entity purchases a young, fully grown horse with the intention of training it for racing. If the horse is successful in major races, the entity plans to sell it to stud, potentially at a significant increase over the cost. In the more likely case that the horse is not successful in major races, it would not have a significant resale value and might be retained as a mascot or sold to a riding school.

17 This case leaves two questions to be resolved:

(a) How will the horse contribute to cash flows based on the entity's business activities? Most likely through prize money less the expenses related to training and maintenance and potentially through sale to stud; and

(b) How does this assist in selecting a measurement basis?

	Financial performance	**Financial position**
HISTORICAL COST		
Information produced	<u>Income:</u> prize money earned plus sales proceeds when realised. <u>Expense</u>: training costs etc., depreciation representing periodic consumption of economic benefits embodied in historical cost.	Purchase price, less depreciation and impairment (if applicable).
Relevance	Information provided would be relevant in assessing the entity's ability to select, train and place its racehorses.	Historical cost-based carrying value may be of limited relevance of itself in estimating future cash flows. However, this assessment should consider how users would actually seek to predict future cash flows given this type of business activity. Historical cost-based carrying value may be relevant for the assessment of **stewardship.**
Faithful representation	Depiction of entity's earned income and incurred expenses would be faithfully represented. The gains generated from the sale of the most successful	Historical cost-based carrying value would faithfully represent the purchase price less consumption (or diminution through impairment) of the benefits embodied in that

[1] The example is only included in this paper to assess whether the proposals are operational. It is not the intention that the example should be included in the Conceptual Framework.

	Financial performance	Financial position
	racehorses to stud would be reported only on sale. This could be viewed as faithful representation of the transaction in view of the high degree of uncertainty of that outcome.	amount.
Enhancing qualitative characteristics	Would information be: • Verifiable: yes • Comparable: yes (e.g. with other entities with similar business activities) • Understandable: yes.	Would information be: • Verifiable: yes • Comparable: maybe not, horses with similar carrying values may have very different levels of ability and value/potential • Understandable: yes.
CURRENT VALUE		
Information produced	Income: prize money earned plus/minus increases/decreases in current value. Expense: training costs etc.	Current value (most likely fair value measured at estimated sale price in principal or most advantageous market for the racehorse at the reporting date).
Relevance	Information provided would aim to report the entity's success in adding value to its racehorses. The relevance of this is limited as most horses are not sold in their current condition.	Ability to sell racehorse at an advantageous price depends on its future performance and current value may not be predictive of future cash flows. Current value may provide relevant information about the stewardship of management in the selection and management of the racehorse.
Faithful representation	Questionable: lack of active market for non-stud ready racehorses may give rise to estimation uncertainty of such significance that it calls into question the practical ability to faithfully represent current value.	Questionable: lack of active market for non-stud ready racehorses may give rise to estimation uncertainty of such significance that it calls into question the practical ability to faithfully represent current value.
Enhancing qualitative characteristics	Would information be • Verifiable: challenged by lack of active market for racehorses not saleable to stud • Comparable: yes, in principle • Understandable: may require detailed disclosures to explain basis of valuation.	Would information be • Verifiable: challenged by lack of active market for racehorses not saleable to stud • Comparable: yes, in principle • Understandable: may require detailed disclosures to explain basis of valuation.

18 Based on the above analysis, historical cost would be selected for both financial performance and financial position because of the limited relevance and questionable faithful representation provided by the use of a current value.

19 However, had the facts and circumstances been different, the proposals could result in another measurement basis being selected. For example;

(a) Had the entity bought a racehorse with the intention of gaining on short-term fluctuations in its price (basically trading activity on the same or a similar market) and had there been a liquid market for racehorses, no significant selling efforts and reliable market prices, the proposals could result in the racehorse being measured at a current value (and in this case likely fair value).

(b) There could also be cases where it could be most useful to measure a racehorse at a current value in the statement of financial position, but with the changes in the current value being reported in OCI (until the racehorse is sold). This could have been the case, for example, if the focus of the entity was not on developing a good racehorse but instead on selling the horse (at the right time) and the receiving the prizes the horse would collect (holding an asset for periodic returns and capital gains). In this case, the information about the current value in the statement of financial position could be relevant. However, depending on what 'profit or loss' is determined to represent, it might only be relevant to report income from prizes and from selling the racehorse in profit or loss.

Questions for EFRAG Board

20 Does the EFRAG Board agree that this paper should be presented at the September 2016 ASAF meeting?

Attachment
Extract from EFRAG Comment letter to the IASB on the ED

SECTION 6 MEASUREMENT Question 11

Measurement bases

Question 8 – Measurement bases

Has the IASB:

(a) correctly identified the measurement bases that should be described in the Conceptual Framework? If not, which measurement bases would you include and why?

(b) properly described the information provided by each of the measurement bases, and their advantages and disadvantages? If not, how would you describe the information provided by each measurement basis, and its advantages and disadvantages?

EFRAG's response

EFRAG broadly agrees with the categorisation proposed in the ED. EFRAG also broadly agrees with the ED's description of the information provided by each of the measurement bases. EFRAG welcomes the descriptions as their inclusion would improve the Conceptual Framework. However, the ED does not consider the possible use of market-consistent measurement bases other than fair value. Such measurement bases could be useful in circumstances where an entry market, and not an exit market, is relevant or when own credit risk changes are deemed irrelevant.

94 EFRAG welcomes the proposal in the ED to include a description in the Conceptual Framework of the information provided by each measurement basis. The guidance on measurement in the current Conceptual Framework is clearly insufficient.

Identification of measurement bases

95 The Discussion Paper *A Review of the Conceptual Framework for Financial Reporting* grouped measurements into three categories:

(a) Cost-based measurements;

(b) Current market prices including fair value; and

(c) Other cash-flow-based measurements.

96 EFRAG considered that cash-flow-based measurements could be used to estimate a current value or cost. EFRAG accordingly thought that it was unclear which measurement attribute cash-flow-based measurements were aiming to achieve.

97 EFRAG therefore agrees with the ED that cash-flow-based measurement techniques are normally used to implement a historical cost, a current value measurement basis or a partly updated measurement basis (a customised measurement basis). EFRAG accordingly agrees that cash-flow-based measurement techniques should not be considered as a separate measurement category.

98 EFRAG also agrees that, in principle, it makes sense to categorise measurement bases as either historical cost or current value. EFRAG acknowledges that the IASB may choose to customise measurement bases by updating only some of the factors that could be updated when measuring at fair value or value in use and fulfilment

value. EFRAG agrees with the ED, that when this is done, the IASB should explain the reasons for the customisation in the Basis for Conclusions accompanying the Standard. In addition, EFRAG considers that the IASB would need to determine whether the customised measurement basis should be considered as representing historical cost or current value in order to 'fit' with the categorisation suggested.

99 Sometimes it may be difficult to categorise a customised measurement basis as either 'historical cost' or 'current value', for example, when a measurement basis is partly updated as a result of applying hedge accounting. EFRAG could accordingly see the benefits of creating a third category of measurement bases for these partly updated measurements. A benefit of introducing a third category for partly updated measurements would be that the Conceptual Framework in that case would have to provide guidance on how to decide what part of a measurement basis should be updated, and when[2].

100 EFRAG also notes that after introducing the category of historical cost in paragraph 6.6 of the ED, its application is further (and differently) explained in paragraphs 6.7 and 6.9 of the ED to each of non-financial and financial assets and liabilities. Some elements of those applications involve what might be regarded as derived from current measures (such as updated cash flows). In addition, currency translation is not discussed at all and again presently both historical and current exchange rates are used for items which traditionally are regard as at 'historical cost'. EFRAG therefore believes it would be better if the conceptual basis for these various components was explicitly discussed and justified rather than being assumed as incorporated into the overall broad category of 'historical cost'.

101 EFRAG disagrees with the statement included in the ED that initially cost and fair value of a financial asset are the same if transaction costs are excluded from cost. EFRAG notes that that an entity, for various reasons, may want to sell or acquire an asset at a price that is different from fair value. Further, as noted below, fair value may be market-specific and the cost of an asset may not represent the fair value of that asset in the market in which it will be deployed. EFRAG also notes that cost and fair value may not be the same in non-exchange transactions, such as donations of goods.

Description of the information provided by each of the measurement bases

102 EFRAG broadly agrees with the description in the ED (paragraphs 6.4 – 6.47) of the information provided by each of the measurement bases: historical cost; fair value; value in use and fulfilment value. EFRAG, however, notes that 'current value' in the ED is only represented by exit-market-based measurements: fair value; value in use and fulfilment value. EFRAG thinks that the ED should also have described current input-market measures.

103 The Basis for Conclusions (paragraph BC6.18) notes that the IASB thinks that there is often little difference between entry and exit values in the same market, except for transaction costs.

104 While EFRAG perhaps could agree that there is often little difference between entry and exit values in the same market, EFRAG thinks that it is important to consider that the same market may not always be relevant from the perspective of an entity. A retailer will frequently buy its products in a wholesale market with professional participants and sell the products in a retail market on an 'item by item' basis with final consumers. If there were identical prices in these two markets, the retailer would not make any profit.

[2] Such an approach has been suggested by the Accounting Standards Board of Japan and described in the paper *Identification, Description and Classification of Measurement Bases* presented at the March 2015 meeting of the Accounting Standards Advisory Forum (ASAF).

105 For a particular asset, it could be argued that the most useful measurement would be one that reflects how much an entity should pay to acquire the asset at the balance sheet date as it was when it was originally acquired. This could provide information about the costs of replacing the asset. Although such a measure should be categorised as a current value, it does not seem possible to categorise it as either fair value or value in use according to the ED.

106 The ED describes fair value as the price that would be received to sell an asset in an orderly transaction between market participants at the measurement date. The fair value would in the case of a retailer depend on whether the retailer would sell the asset in the market it was bought or in the market where it is going to be sold. The selling price in the market in which it is sold would not reflect the price the entity would pay to acquire the asset. However, paragraph 6.26 of the ED states that fair value does not include transaction costs. The current value for the particular asset mentioned above would include transaction costs. In addition, if the entity has further developed the asset, the selling price of the asset would not reflect the current price of the asset in its original condition. Accordingly, even if the fair value in the input market (and not the exit market) was considered, 'fair value' could not capture the most useful measurement in the particular example. In addition, the ED describes that fair value reflects estimates of future cash flows (paragraph 6.23(a)) and has predictive value, because it reflects expectations about the amount, timing and uncertainty of the cash flows. The fair value (the selling price) of the particular asset in the input market would in the case of the retailer not be an estimate of future cash flows of the retailer, as the retailer would not sell the asset in the input market.

107 EFRAG would thus consider that the Conceptual Framework should include market-consistent measurement bases for the cases where an entry market would be relevant. Currently, the only market-consistent measurement basis that is described is fair value, which is based on an exit market.

108 EFRAG notes that current cost is very briefly presented in paragraph 6.18 under 'historical cost'. In EFRAG's view, 'current cost' does not meet the description of 'historical cost'.

109 In addition to providing guidance on the use of entry-market based measurements, EFRAG thinks that the Conceptual Framework should provide guidance on when own credit risk changes are relevant. This issue seems to be the subject of some debate.

Selection of a measurement basis

Question 9 – Factors to consider when selecting a measurement basis

Has the IASB correctly identified the factors to consider when selecting a measurement basis? If not, what factors would you consider and why?

EFRAG's response

> **In EFRAG's view the Conceptual Framework should include guidance on:**
>
> **(a) How to select measurement bases that are useful for reporting both the financial position and the performance of the entity;**
>
> **(b) When to select between market-consistent and entity-specific measurement bases; and**
>
> **(c) When customisation of measurement bases could be useful.**
>
> **In the view of EFRAG, the mere mention in the ED of factors to be taken into account when selecting a measurement basis without much other sense of direction is insufficient. However, the IASB could usefully build on the description of different measurement bases to determine the necessary guidance, distinguishing clearly between what is useful to the statement of financial position on the one hand and to the statement(s) of financial performance on the other.**

110 The ED seems to state that the factors to consider when determining a measurement basis are the qualitative characteristics of useful financial information. To the extent that EFRAG agrees with the qualitative characteristics of useful financial information, EFRAG does not disagree with such a statement. On the other hand, EFRAG does not think that such a statement is sufficient to ensure discipline and consistency in future standard-setting.

111 EFRAG acknowledges that the ED does more than just stating that the qualitative characteristics of useful financial information should be considered when determining a measurement basis. The ED includes a discussion of factors that can affect the various qualitative characteristics. However, the ED is deficient in the following ways:

(a) The ED does not describe how different measurement bases are linked with the factors to be considered when deciding on a measurement basis.

(b) The ED states that when selecting a measurement basis, it is important to consider what information that measurement basis will provide in both the statement of financial position and the statement(s) of financial performance. EFRAG agrees with this, but it notes that the ED does not further describe what information meets the qualitative characteristics from the perspectives of the statement of financial position and the statement(s) financial performance. In the view of EFRAG, the discussion in the ED seems to be focused on how to meet the qualitative characteristics for the statement of financial position, as the references in the ED are to assets and liabilities rather than to income and expenses. EFRAG disagrees with this primary focus. EFRAG further notes that:

(i) The ED proposes that circumstances in which different measurement bases for the measurement in the financial position and in the statement(s) of financial performance would be rare (paragraph 6.75); and

(ii) The Basis for Conclusions notes that the statement of profit or loss should be as inclusive as possible (paragraph BC7.42).

When the statement of profit or loss should be as inclusive as possible, assets and liabilities cannot be measured at a current value without including the changes in the current value in profit or loss. Statement (ii) thus reinforces what is said in (i) that different measurement bases for the measurement in the financial position and in the statement(s) of financial performance would be rare. Given the lack of sufficient guidance on what performance is and/or what profit or loss represents, EFRAG considers such a statement to be premature.

EFRAG could envisage that there could be situations where the most useful information about an entity's financial position would be provided by measuring assets and liabilities at a current value in the statement of financial position, but where the presentation of the performance of the entity would be most useful if changes in the current value were reflected in OCI.

(c) The factors the ED considers may point in different directions. The ED states that the relative importance of each of the factors will depend upon facts and circumstances. However, the ED does not provide any guidance on what circumstances would mean that one factor is more important than another factor – for example, when an entity-specific or a market-based measurement would be more useful or when the focus should be on how an asset or a liability contributes to future cash flows or the characteristics of the asset or the liability. There is also no guidance on how to customise measurement bases. It follows that the discussion in the ED does not seem to guide the selection of a measurement basis other than in specific situations.

(d) EFRAG disagrees with the guidance on internally constructed assets. EFRAG disagrees with the statement in paragraph 6.73 of the ED that the information provided could be useful for assessing the cost-effectiveness of the construction, as EFRAG does not believe it is relevant to suggest that an entity earns money from 'transacting' with itself. In addition, EFRAG agrees that for unique or custom-made assets it could be difficult to find a fair value, the risk of income recognised not being faithfully represented would therefore exist in such circumstances.

112 EFRAG assesses that the issues mentioned above in (a) – (c) could be dealt with by:

(e) Distinguishing between the statement of financial position and the statement of profit or loss;

(f) Incorporating some of the guidance included in the description of measurement bases into the guidance on factors to consider when selecting a measurement basis; and

(g) Including some directions in the guidance, as is done for specific cases in paragraphs 6.64 - 6.71 of the ED.

Multiple measurement bases

Question 10 – More than one relevant measurement basis
Do you agree with the approach discussed in paragraphs 6.74–6.77 and BC6.68? Why or why not?

EFRAG's response

EFRAG considers it premature to consider the use of different measurement bases as an exception.

113 EFRAG agrees that in some cases the relevance of the information provided in the statement of financial position and the statement of profit or loss is enhanced by using different measurement bases for the statement of financial position and the statement of profit or loss. That is, EFRAG considers that there may be cases where it would be useful to analyse income and expenses arising from a chosen

measurement basis into their component parts in profit or loss and OCI. EFRAG also agrees with paragraph 6.76 of the ED that the cases where it would enhance relevance would depend on the business model of the entity. However, EFRAG considers that the statements in the ED should be supplemented by guidance on when it would be relevant to separate income and expenses between profit or loss and OCI. EFRAG thinks this would depend on the objective of the statement of profit or loss. As explained above, EFRAG does not think this objective has been sufficiently developed in the ED. Until this has been done, EFRAG thinks it is premature to state that the use of different measurement bases in the statement of profit or loss and the statement of financial position should be an exception.

114 EFRAG further observes that the choice of measurement bases is not only relevant from the perspective of the statement of financial position and the statement of profit or loss. It could also be relevant in some circumstances to provide information using a second measurement basis in the notes to the financial statements.