14. Sitzung IFRS-FA am 08.03.2013
14_09k_IFRS-FA_Measurement

STAFF PAPER

18 February – 22 February 2013

REG IASB Meeting

Project	**Conceptual Framework**		
Paper topic	Draft discussion paper: Initial and subsequent measurement		

CONTACT(S)	Ron Lott	rwlott@fasb.org	1-203-956-5371
	Rachel Knubley	rknubley@iasb.org	0207 246 6904
	Peter Clark	pclark@iasb.org	0207 246 6451

This paper has been prepared by the staff of the IFRS Foundation for discussion at a public meeting of the IASB and does not represent the views of the IASB or any individual member of the IASB. Comments on the application of IFRSs do not purport to set out acceptable or unacceptable application of IFRSs. Technical decisions are made in public and reported in IASB *Update*.

This paper is a very early draft of part of the Conceptual Framework discussion paper. It has been prepared by the staff for discussion by the IASB. Issues discussed and conclusions reached will be subject to change.

Summary of this section

This section discusses:

Initial and subsequent measurement of assets and liabilities

How the relevant measurement method for a particular asset or liability depends on the way the value of the asset will be realized or the obligation that creates the liability will be fulfilled

Using the same method for initial and subsequent measurement.

Initial and subsequent measurement

1. This section discusses the initial and subsequent measurement of assets and liabilities.

2. This section also discusses initial measurement of equity instruments but not subsequent measurement because existing IFRSs do not require that equity instruments be remeasured. AP 3D *Draft discussion paper: Equity liability boundary* describes a possible approach to the distinction between liability and equity instruments that would require that some equity instruments be remeasured

The IASB is the independent standard-setting body of the IFRS Foundation, a not-for-profit corporation promoting the adoption of IFRSs. For more information visit www.ifrs.org

(without affecting comprehensive income). There is no apparent reason to believe that the considerations for measuring equity instruments would be different from measuring liabilities.

Subsequent measurement

3. Most contentious measurement issues tend to involve measurement of an item on dates after recognition (subsequent measurement). Therefore, if as discussed in paragraph 19 of AP 3F *Draft discussion paper: Measurement principles*, the measure at the date of recognition (initial measurement) and the subsequent measure of an item are consistent, the decision about an appropriate measurement normally would be based on subsequent measurement considerations.

4. In addition, most transactions that result in recognition of assets and liabilities involve unrelated parties that are not in financial distress or another form of duress. In such transactions the value of the consideration given is normally equal to the value of the consideration received, and that amount is presumed to be the fair value. Because in most cases, cost is the fair value of the consideration given or received, cost and fair value often are the same at the recognition date.[1] However, the two will begin to diverge immediately, which is why many of the most contentious measurement issues relate to subsequent measurement.

5. The principles discussed beginning in paragraph 6 of AP 3F *Draft discussion paper: Measurement principles* lead to considering how to provide relevant information about assets, liabilities, and past performance (the history of management's success in using the assets to generate profits). Relevant information is information that helps in an assessment of prospects for future net cash inflows, which leads to considering how particular assets and liabilities are likely to contribute to future cash flows.

[1] The two may differ if there are different units of account or different markets as discussed in paragraph 52.

Question 1
Does the IASB agree that the choice of subsequent measurement should drive the choice of initial measurement?

Realising an asset's value

6. Four general ways in which the value (capacity to contribute to future cash flows) of an asset can be realized are by:

   (a) Using it in one's own business operations to contribute directly or indirectly to generating revenues or income;

   (b) Selling it;

   (c) Holding it for collection according to terms;

   (d) Charging others for rights to use it.

   Each different way of realizing value has different implications for choosing an appropriate measurement.

7. The discussion of how value will be realised may give the impression that the method of realisation for each asset is known with certainty, but that will seldom be the case. A few assets may have only one possible method of realization, but for most the entity has choices, and those choices may change over the life of the asset. The IASB has to decide when considering asset measurements, how to deal with those uncertainties. In some cases, the IASB may conclude that more than one measure will be sufficiently relevant to users to justify the cost of providing those measures.

8. One possibility might be to base measurement requirements on the most profitable means of realising value. For example, if using an asset internally will contribute more to ultimate cash flows than selling it, the asset should be measured as if it were going to be used, regardless of whether it will be or not. That approach might provide a rough indication of management's decision to realize value in less than the optimum manner. However, it might lead users to expect a higher level of cash flows than will actually occur. It is not used in existing IFRSs.

9. Another possibility is to base measurement requirements on the most probable cash flow outcome. The probabilities of each outcome could be indicated by the entity's current activities (for example its business model) or by management's plans, strategies, declaration of intentions, or past practices. Activities, intentions, and other similar circumstances have been important factors in measurement requirements in existing IFRSs. An advantage of measuring based on the most probable outcome is that is most likely to indicate the actual outcome for a particular asset. A disadvantage is that it allows for similar or identical assets to be measured differently.

10. Most of the following discussion refers mainly to fair value and cost-based measures. Those are not the only measures that are currently in use or that have been considered for use. A few other measures are mentioned in this discussion, but AP 3F *Draft discussion paper: Measurement principles* includes a more comprehensive discussion of other measures[2].

Using assets

11. Many assets are used in an entity's own business operations. They may be used in purchasing, production, marketing, delivery or any other activity related to the goods or services the entity sells. They may also be used in administration, treasury or any other function necessary to keep the entity in operation. All provide value to the entity by contributing to its ability to generate cash flows, some much more directly than others.

12. For the reasons discussed in paragraph 20, this discussion considers inventories to be a part of the group of assets used by the entity, even though inventory is to be sold not used.

13. Except for inventories as discussed above, assets used by the entity do not produce direct cash flows. Users have developed techniques to assess the cash flows indirectly generated by such assets primarily focusing on information from the statement of comprehensive income and the statement of cash flows. That

[2] This section of AP 3F will be discussed at the March 2013 meeting.

indicates that the measure of the assets is of secondary importance, and cost-based measures are normally used.

14. The costs of operating, maintaining, and repairing the assets also are reported as expenses. Cost-based measures of assets used by the entity generally result in charges to comprehensive income for depreciation expense and impairment losses.

15. There have been criticisms of the information provided on both the statement of financial position and statement of comprehensive income by measuring at cost with allowances for depreciation and impairment. Impairment losses are, at a minimum, a signal that an asset's capacity to generate cash flows has diminished, which is important information. However, depending on an asset's ability to contribute to cash flows, its capacity may have to decline a great deal before an impairment loss is recognised. In addition, allowances or impairment are not neutral. Assets are not increased in value for improvements in productive capacity, and that also is of interest to users.

16. At times, users have said that depreciation or amortization expense is not helpful and is ignored. Changes in future cash flows of the entity are not affected by depreciation in and of itself because it is a systematic allocation method. Depending on the method of depreciation used, depreciation expense may provide an indication of the decline in cash flow generating capacity, but there are counter-examples. For example, real estate may actually be appreciating as its carrying amount is reduced by depreciation. In addition, among the choices of depreciation methods available, some are likely to track declines in capacity to generate cash flows more closely than others.

17. A measure of assets in use by the entity that is based on their capacity to contribute indirectly to future cash flows (such as value in use, which is discussed in AP 3F *Draft discussion paper: Measurement principles*) could be used to confirm conclusions that users have reached using information in the statements of cash flows and comprehensive income. Such a measure could also indicate probable differences between future results and past trends.

18. However, the IASB has not been persuaded that the cost of using measures other than the traditional cost-based measures would be justified by the benefit. There

are several reasons. The information that might be conveyed by a potentially more relevant measure is secondary to information in the statements of comprehensive income and cash flows. A different measure would entail more cost, particularly if the measure were value in use. Finally, fair values of assets in use and to an even greater extent value-in-use measures are subjective and require many assumptions by a reporting entity.

Selling assets

19. Sale of an asset produces direct cash flows, which implies that a current measure of that type of asset is of primary interest. Past gains and losses indicate the entity's success in trading efforts (although market effects are difficult to separate from management effectiveness). The cost of a fair value measurement would probably be justified, and in many cases, that cost is not particularly high.

20. There are exceptions, however. The benefits of fair value measurement are less certain, and may not justify its costs, for most finished goods inventories, retail inventories, and other recurring parts of nonfinancial revenue-generating activities. Cash flows from using all assets employed in those activities come from sales of those inventories and the conventional way to analyze them is based on trends indicated by past sales, cost of sales, and other recurring components of comprehensive income. There are issues involving units of account issues, transaction costs, possibility of overstocks, and obligations for associated services that make fair value estimates more contentious and uncertain than for other types of assets.

21. Arguments have also been made that the costs of using fair value as the measure of investment property that is being developed or is to be held for a long time do not justify the benefits. The costs may be high and the results can be subjective and imprecise. Fair values require significant estimation effort and inputs from transactions involving property that may not be closely comparable to the property in question. A cost-based measure would be less expensive, less volatile and less subjective.

22. Those arguments are from the point of view of a reporting entity. At least some users (and some preparers) may believe a fair value measure of these assets is sufficiently relevant to justify the costs and that imprecision is acceptable.

Holding assets for collection

23. Terms of financial instruments (except equity instruments that are not mandatorily redeemable or puttable) require the issuer to make payments or deliver other valuable financial instruments. Although many, if not most, financial instruments can be sold to generate cash immediately, an entity may choose to hold them and collect the contractual cash flows.

24. Many entities hold for collection loans, bonds and other receivables that have interest-like returns and have little variability in contractual cash flows. They are either fixed or slightly variable (due, for example, to changes in interest rate indexes). Some also hold instruments which have much more variability in cash flows and do not have interest-like returns (for example, derivative instruments and hybrid instruments).

25. When an entity holds for collection assets that have interest-like returns and little variability in cash flows, the economics of those assets are significantly influenced by two factors—the effective yield and the collectability.

26. Effective yield is relevant because users could be expected to want to assess future prospects for future yield by analyzing management's past success in originating or purchasing profitable loans or other receivables. Obviously, collectability (or lack thereof) is always relevant. Accrual based interest income along with bad debts expense based on losses as estimated by management has been the accepted effective way to communicate information about effective yield and collectability when an entity holds assets of this type for collection.

27. Management is in the best position and is most likely to have the best information for assessing collectability of loans. Observed market prices, if they are available, are based on consideration of trends and conditions in areas and an economy as a whole rather than on individual loans. Statistical techniques used by management can be similar in that regard and can also consider entity specific knowledge.

28. Some believe that a distinction can be drawn between purchased loans, bonds and receivables and originated loans and receivables. In particular, some believe that fair value should be used to measure purchased loans and receivables even when they are low variability instruments, held for collection, whose cash flows are solely principal and interest. Those who support this view argue that:

    (a) Financial institutions expect to realize a higher yield on loans they originate than on purchased loans. If this were not the case, there would be little or no justification for expending the effort necessary to originate the loan. Servicing of loans also could be considered a separate revenue generating activity; sellers of loans charge for servicing. Measuring originated loans at fair value could separate the lending activity from the servicing activity from the continuing investment in loans.

    (b) Because purchased loans, bonds or receivables are not the result of recurring underwriting activities of the entity, users might view them as investments and therefore be interested in their fair value.

29. However, measuring originated loans and receivables in a different way from purchased loans and receivables may reduce comparability, particularly if an entity holds both purchased and originated loans issued by the same entity and those loans are managed in the same way.

30. Accrual-based cost measurement is not generally considered a viable option for measurement of assets that are derivative instruments or hybrid instruments or do not have interest-like returns even if they are held for collection because:

    (a) the ultimate cash flows are not closely linked to the original cost; and

    (b) cost-based measurement techniques that simply allocate interest payments over the life of an instrument do not work.

    Consequently, fair value has been considered the most relevant measure for assets that are derivative instruments or hybrid instruments or do not have interest-like returns.

Charging for rights to use assets

31. An entity can generate cash flows from many different physical assets or intellectual property by charging others to use them. Some ways of generating such cash flows are leasing, renting, franchising, and charging entry fees, parking, landing or docking fees, tolls or royalties.

32. In some ways, assets that an entity charges others to use are similar to financial assets held for collection and assets used by the entity. However, they are not identical. The value of those assets cannot be realized simply by holding for collection (unless another entity has contracted for the right to use for the asset's entire life, and even in that case, the asset that is held for collection is a receivable). In some cases especially for entities that have relatively few valuable individual assets, this activity is not as predictable as recurring sales of goods and services. In addition, the revenues from these assets are more closely tied to the assets themselves than cash flows from assets used by the entity.

33. Some of the information needed to assess prospects for cash flows from these assets will come from the statements of comprehensive income and cash flows. The information is especially important for entities that have a lot of small individual charge-for-use assets.

34. However, a measure that reflects the cash flow generating capacity of a charge-for-use asset could be very useful. The importance of that information is likely to increase as each individual asset owned by the entity becomes more significant to the whole entity (for example, land, buildings, parks, ships, airplanes and similar high value items). There are accepted techniques in many markets for appraisals of land, buildings and other high value property for borrowing and insurance purposes. Those measures are not necessarily fair value, but they could provide input to fair value or other current value computations or, with appropriate explanations, might be used as measures without adjustment. Changes in those measures can provide valuable information in addition to the information provided by past cash flows and accrual based revenues and expenses.

35. In summary, the most relevant measure that justifies its cost for charge-for-use assets is likely to vary depending on specific nature of the asset.

Question 2
Does the IASB agree with the discussion of ways that values of assets can be realised and the discussion of the implications for measurement?

Fulfilling the obligation in a liability

36. This discussion of fulfilling the obligations in liabilities is similar to the discussion of realising the value of an asset. There are at least three ways in which an entity can satisfy the obligation inherent in a liability as follows:

    (a) Settling it according to its terms;

    (b) Performing services, or hiring others to perform services, to satisfy a claim with no stated amount;

    (c) Settling a claim that has no stated or determinable amount by negotiation or in litigation;

    (d) Transferring the obligation to another party and being released by the creditor or other claimant.

37. It may be possible to fulfil the obligation in some liabilities in more than one way, but in general, there is less flexibility in satisfying liabilities than there is in realising the values of assets.

Settling a liability according to terms

38. Probably most liabilities have contractual terms and almost all of those are settled according to their terms. Few liabilities can readily be transferred to other entities in a ready market. Transfer normally requires negotiation with the counterparty, and that is not a market transaction. In most such cases, the creditor has a superior bargaining position. That may indicate the need for a measure that is not affected by changes in market prices of credit (credit spreads) and possibly other market factors. An accrual-based measure has traditionally been considered appropriate for many contractual liabilities, except for some financial instruments.

39. Derivative instruments and hybrid instruments have contractual terms, but the cash flows are highly variable and not closely linked to the original transaction

price, which may be zero. Therefore, like derivatives that are assets, derivatives that are liabilities should be measured at fair value or another measure that varies according to the cash flows required by the contract. Such a measure is a much better indicator of ultimate cash flows.

Performing services or paying others to perform services

40. Some liabilities arise from obligations for services (performance obligations), and the terms of the obligation involve a stated outcome instead of a stated amount. Sometimes those obligations arise from a contract with a customer. As noted in paragraph 38, an accruals-based measure has often been considered appropriate for most such obligations. However, other such obligations are either imposed by statute or judicial or regulatory action and the entity receives no payment for them. An example is an obligation to remedy environmental damage or otherwise to restore or upgrade a site to a specified condition. The lack of proceeds distinguishes them from contracts that impose performance obligations for which the obliged party is paid.

41. Because they do not arise from a transaction, they are stated in terms of an outcome instead of a monetary amount, and there is no related market, the only realistic option for measurement is to use a computation involving an estimate of the cash flows necessary to perform or hire the services. Such cash flow computations are discounted unless they are very short term or there is some other compelling reason. The issues that always arise when considering measures based on estimates of uncertain cash flows involve how to estimate the amount and timing of cash flows and how to determine the discount rate.

42. The cash flow estimate and the discount rate are not independent of each another. Uncertainties about the amount of cash flows to be received could be dealt with by adjusting the cash flow estimates to a certainty equivalent (the amount of cash that the entity or perhaps market participants would consider to be economically equivalent to the cash flows under consideration.) Alternatively, those uncertainties could be dealt with by increasing the discount rate to reflect an appropriate level of risk. In concept, the two should achieve the same result.

43. Other questions are which uncertainties should be given effect in the computation, whether they should be updated for market changes or other changes in circumstances, and whose perspective the estimates should reflect. Should the discount rate include the profit margin that a third party would charge to provide the necessary services and should it be updated if the estimated margin changes? Should the discount rate include the reporting entity's own credit risk and if so, should it be updated as the credit risk or the market credit spread changes? Should the estimates of amounts and timing of cash flows be from the entity's perspective or from a market participant's perspective (which may not be determinable except based on the entity's own estimates)?

44. In the past, those questions have been answered differently in different circumstances and by different standard setters. To some degree, the answers may always be situation specific based on the availability of information and the cost of obtaining it.

Settlement of a claim by negotiation or litigation

45. Some claims for damages or similar matters ultimately may be settled in litigation or by negotiation with the claimant. Like the claims for services discussed in paragraphs 40-44, there is no option other than a cash flow computation, and the same issues arise. The difference here is that the estimates of amount, timing, and uncertainties of cash flows may be extremely difficult because there may not be even a stated outcome. Like the obligation for services, the appropriateness of different measurement methods may be situation specific.

Transferring a liability

46. Very few liabilities can be transferred to a third party without negotiating for the consent of the creditor. The most relevant measure of a liability that *would* be settled that way would be fair value because that is an estimate of the cash that will be paid to induce another party to assume the liability.

Question 3
Does the IASB agree with the discussion of ways that obligations inherent in liabilities can be fulfilled and the discussion of the implications for measurement?

Issues unique to initial measurement

47. The following discussion identifies three possible bases for initial measurement of assets and liabilities:

    (a) Cost (subject to a recoverability or adequacy test);

    (b) Fair value;

    (c) Other bases that will be used for subsequent measurement.

    Cost and fair value will be discussed first.

48. Assets, liabilities, or equity instruments may be recognized as a result of exchanges, other transactions, and other events. In most cases, the consideration given and received is equal. An asset is exchanged for cash or a promise to pay cash; services are exchanged for cash or a promise to pay cash; a liability or equity instrument is issued in exchange for cash or other assets. If those transactions are negotiated by unrelated parties and neither is in financial distress or otherwise under duress, the consideration given and received normally can be considered to be of equal value.

49. In those cases, the initial measure of an asset or liability could be described as cost or as fair value because the two are the same, and the appropriate way to label it would be to match the subsequent measure. If the subsequent measure will be fair value, describing the initial measure as cost could be confusing, and the reverse also could be true.

50. However, the cost of an asset or liability determined according to the fair value of the consideration given differs from its fair value at the recognition date in the following circumstances:

    (a) situations identified by paragraph B4 of IFRS 13:

        (i) if the unit of account for the transaction and for determining fair value differ (for example, a group of assets is acquired

for a price different from the sum of the prices of the individual assets);

(ii) if the transaction takes place in a market other than the principal or most advantageous market.

(b) if an IFRS requires that cost include amounts not included in fair value or exclude amounts included in fair value for example:

(i) cost may include transaction costs, which fair value does not;

(ii) the cost of an internally constructed asset is unlikely to equal the amount for which the asset could be sold in an orderly transaction at the measurement date for many reasons.

51. The second part of the cost definition in paragraph 29 of agenda paper 3F (the amount attributed to that asset when initially recognised in accordance with the specific requirements of other IFRSs) applies in the following cases:

(a) no consideration is given or the fair value of the consideration given differs from the fair value of the asset acquired or liability incurred;

(b) an entity issues its own financial instruments (liability or equity) to acquire an asset that will not be subsequently measured at fair value;

(c) an entity allocates the fair value of the consideration given in a business combination or other transaction to the assets acquired and liabilities assumed;

(d) an asset from a category that requires other than cost-based measurement is transferred to a category that requires cost as initial measurement, for example:

(i) a financial asset is reclassified upon a change in business model under IFRS 9 *Financial Instruments*;

(ii) agricultural produce is harvested (prior to harvest, IAS 41 *Biological Assets* requires measurement at fair value less costs to sell, and at harvest, that basis is deemed to be cost under IAS 2, *Inventories*).

(e) determining cost is unduly onerous or impracticable, for example, in some situations when IFRS 1 *First-time adoption of International Financial Reporting Standards* permits an entity to use another amount as deemed cost;

(f) hedge accounting for an asset is discontinued after it has been adjusted for changes in value due to the hedged risk.

The amount used as cost in those cases is referred to as 'deemed cost' in this paper.

Transactions or events other than exchanges

52. Assets, liabilities, or equity instruments may be recognized for reasons other than an exchange of consideration of equal value in the following situations:

(a) consideration is received or given for no consideration (such as an unconditional gift or grant);

(b) an asset, liability or equity instrument arises from an event other than a transaction (for example, a lawsuit or completion of an internally constructed asset).

53. If an entity acquires an asset, incurs a liability, or issues an equity instrument for no consideration, the item could be measured at zero, which is indistinguishable from non-recognition. (IAS 20 *Accounting for Government grants and disclosure of government assistance* permits that in some cases.) However, measurement at zero withholds relevant information from users. Consequently, the only viable approach seems to be to measure the item at the same measure that will be used for subsequent measurement or use fair value as deemed cost if the subsequent measure is based on cost.

54. That same approach would apply if an entity acquires an asset, incurs a liability, or issues an equity instrument as a result of an event other than a transaction (for example, a provision for a claim arising from a lawsuit).

55. Paragraph 18(a) of AP 3F *Draft discussion paper: Measurement principles* implies that if an entity constructs an asset, the entity should measure the asset on the same basis as will be used for subsequent measurement. In other words:

(a) At cost if the subsequent measure of the asset will be based on cost. In this case, fair value should not be used as deemed cost (If the completed asset were measured initially at cost, the entity would recognise a gain when it completes the asset, and that gain would, in effect, reverse subsequently as the entity depreciates the asset).

(b) At fair value if the subsequent measure of the asset will be fair value.

(c) If the asset will be measured subsequently on a basis that is not fair value and is not based on cost, on that basis.

56. The opposing view would be that a completed asset is different from an asset under construction. Measuring the asset on its completion date at the price for which it could have been acquired (or sold) would provide information about the efficiency with which the asset was constructed. However, determining that price may not be easy for unique or other custom-made assets.

Exchanges of items with different values

57. Occasionally, two items of different value are exchanged, presumably because the transaction price is affected by other relationships between the parties or by financial distress or other duress of one of the parties[3].

58. In a strict sense, the 'cost' of the asset acquired or the proceeds from the liability incurred could be considered equal to the consideration given or received. However, there are problems with that approach. It could result in failure to recognize a realised economic gain or loss or an unstated aspect of the transaction (for an example, an obligation to provide services, a capital contribution or distribution, or a payment for past services).

59. If an asset were initially measured at more than its recoverable amount, an allowance for an asset impairment would be recognised at the next measurement date. Similarly, if a liability were measured at less than the amount that the creditor would demand to settle it, a loss would be recognised. That could make it appear that the loss occurred after the transaction instead of as a part of the transaction, which could affect a user's analysis.

[3] IFRS 13, paragraph B4

60. Two other ways have been identified to initially measure assets acquired in unequal exchanges:

    (a) Measure the asset acquired or liability incurred at fair value, and recognise the difference as follows:

        (i) if the transaction is with equity investors (and possibly affiliates), recognise a contribution from or distribution to equity investors;

        (ii) if unstated aspects of the transaction can be identified, account for them;

        (iii) in other case recognise a gain or loss on the transaction.

    (b) If the consideration given or received is an entity's own equity instrument, measure that equity instrument at the fair value of the asset received or given or the fair value of the liability extinguished or incurred.

61. The approach in paragraph 60(a)(i) seems to reflect what actually occurred in the transaction. It is reasonable to assume that a transaction with an equity investor (or with an affiliate, which is part of the same controlled group) involves contributions or distributions of equity.

62. The approach in paragraph 60 (a)(ii) is reasonable if unstated aspects can be identified. That identification (or verification there are no other aspects) may cause problems.

63. The approach in paragraph 60(a)(iii) is counter to the traditional notion that there should be no 'Day 1' gains or losses on acquired assets or incurred liabilities. Exchanges that involve unequal consideration are not common, and apparent gains or losses are suspect. However, they can occur if one party is under duress and is desperate to transact. If that happens, a real gain or loss has been realised on the transaction and reporting it seems to make sense.

64. The approach in paragraph 60(b) in effect puts the gain or loss in equity, which is consistent with the longstanding notion that an entity cannot experience gains or losses on its own equity instruments.

Question 4
Does the IASB agree with the discussion of issues inherent in initial measurement?

Measurement on derecognition

65. On disposal of an asset, the difference between the previous carrying amount of the asset and the initial measure of the consideration received will determine whether a gain or loss arises at that time. On transfer of a liability, the difference between the initial measure of the liability and the previous carrying amount of the consideration paid will determine whether a gain or loss arises then.

66. The most significant issues related to disposal or transfer involve (a) whether the asset have really been disposed of or (b) liabilities really have been transferred and (c) the initial measurement of the new assets received or new liabilities incurred in the transaction. AP 3E *Draft discussion paper: Recognition and derecognition* discusses issues (a) and (b), and this paper discusses initial measurement in paragraphs 47-64.