

From: Stephen A. Zeff
Subject: concepts statement

To my eyes, the concepts statement is a reactionary document. The argument seems to have been contrived to knock down remeasurement as viable option to initial measurement at every turn. It is hardly a balanced consideration of the subject.

The third paragraph on page 1 is intended to diminish the anxiety of the reader that the concepts statement will lead to any uncomfortable changes in GAAP. So the reader can proceed without feeling threatened by the contents.

The key paragraph is no. 18, under relevance, on page 4: "The cost of current-year services described in the objectives of financial reporting *traditionally* has been viewed as a historical cost-based notion. When assets are acquired that will serve many periods, the cost of providing services during those future periods as it relates to these assets is a function of the historical cost paid (or other initial value). Consequently, using initial amounts for assets that affect cost of services, such as capital assets and prepaid items, would be consistent with this objective of financial reporting." The core question here is whether the determination of the cost of services for a given year should be predicated on the initial cost or on a remeasured cost. The paragraph has already concluded the former - so what chance has the latter got in such an analysis? I cannot judge the assertion in the paragraph that "interperiod equity" is promoted by the use of initial costs.

Paragraph 18 begins by reciting traditional practice as if it were sound practice. The underlying question of what constitutes sound practice is not asked, but it is fundamental to the entire analysis here.

The fate of remeasurement is sealed in this paragraph. If it can't be viewed as relevant, what chance does it have with the other qualitative characteristics? After the statement ticks off the other qualitative characteristics in regard to initial and remeasured cost, in paragraph 36 it writes the epitaph for remeasurement: "Historical cost (proceeds) is an amount that is readily determinable with minimal cost and is considered to be understandable, reliable, and does not present issues with respect to timeliness of financial reporting." Initial cost wins on every point, but its outcome was foreordained in the section on relevance.

I don't recall if I sent you an early draft last August of the paper I delivered to a London conference in December, but I attach the near-final draft. It is to be published in *Accounting and Business Research* in July. It's probably much more than you want to know about conceptual frameworks.

Steve.