

Consultation on the definitions of assets and liabilities .

In the Exposure Draft *Conceptual Framework for Financial Reporting*, the IASB is proposing to change the current definitions of assets and liabilities.

In order to test whether the proposed new definitions, including accompanying guidance, will be interpreted similarly by different persons, EFRAG has developed this questionnaire.

The questionnaire presents nine arrangements and asks you to provide your assessment on whether different aspects of the proposed definitions of assets and liabilities are met. You are asked to provide your assessment solely based on the proposed definitions and the additional guidance included in the Exposure Draft. The proposed definitions and the additional guidance you should consider are included in the questionnaire.

In cases where you think further assumptions about the arrangements are necessary in order to answer the questions, please explain the assumptions on which your answers are based.

You can complete this questionnaire using Microsoft Word or by printing the questionnaire and completing it using a pen.

You can submit a completed questionnaire by email to: commentletters@efrag.org or by post to:

EFRAG
Square de Meeûs 35
B-1000 Brussels
Belgium

EFRAG will consider your answers even if you have only provided your assessment on some of the arrangements presented in the questionnaire.

The completed questionnaire should be received by EFRAG before **15 December 2015**.

This questionnaire only asks for your assessment of whether different aspects of the definitions of assets and liabilities proposed in the IASB Exposure Draft are met. If you have any views on whether the proposed definitions result in a useful outcome, or whether the proposed guidance is sufficient, you should provide such comments in response to EFRAG's public consultation on the IASB Exposure Draft.

Background information

Please provide the following information about your background:

What is your background?

- Financial statements preparer
- Financial statements user (please specify what type of user (sell side analyst, buy side analyst, bank, supplier, employee etc.):

- Auditor
- Academic
- Regulator
- Standard setter
- Other (please specify):

In what country/countries is your organisation or entity operating?

May we contact you if we have questions about your responses?

- No
- Yes, if so please provide your contact details:

Proposed definitions

An asset

- 1 It is proposed to define an asset as a present economic resource controlled by the entity as a result of past events.
- 2 An economic resource is a right that has the potential to produce economic benefits.
- 3 The proposal includes further guidance on:
 - (a) Rights (see paragraphs 4 - 9 below);
 - (b) Potential to produce economic benefits (see paragraphs 10 - 13 below);
 - (c) Control (see paragraphs 14 - 19 below).

Rights

- 4 Rights that constitute economic resources may take the following forms:
 - (a) Rights established by contract, legislation or similar means, such as:
 - (i) Rights arising from a financial instrument, for example, an investment in a debt instrument or in an equity instrument.
 - (ii) Rights over physical objects, such as property, plant and equipment or inventories. Such rights may include ownership of a physical object, the right to use a physical object or the right to the residual value of a leased object.
 - (iii) Rights to exchange economic resources with another party on favourable terms, for example, a forward contract to buy an economic resource or an option to buy an economic resource.
 - (iv) Rights to benefit from the obligations of another party to stand ready to transfer an economic resource if an uncertain future event occurs.
 - (v) Rights to receive goods or services.
 - (vi) Intellectual property rights, for example, registered patents.
 - (b) Rights arising from a constructive obligation of another party; and
 - (c) Other rights that give the entity the potential to receive future economic benefits that are not available to all other parties, for example, rights to the economic benefits that may be produced by items such as know-how not in the public domain or by customer or supplier relationships.
- 5 Goods or services (for example, employee services) that are received and immediately consumed are momentarily rights to obtain economic benefits until they are consumed.
- 6 If an entity has rights that are identical to those held by all other parties, those rights do not give the entity the potential to receive economic benefits beyond those available to all other parties. For example, rights of access to public goods, such as roads, or knowledge that is in the public domain are not economic resources for the entity if similar rights are available to all parties without significant cost.
- 7 An entity cannot have a right to receive economic benefits from itself, hence:
 - (a) Debt or equity instruments issued by the entity and repurchased and held by it (for example, treasury shares) are not economic resources of that entity; and

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- (b) In consolidated financial statements, debt or equity instruments issued by one member of the consolidated reporting entity and held by another member of that reporting entity are not economic resources of the reporting entity.
- 8 In principle, each of an entity's rights is a separate asset. However, for accounting purposes, related rights are often treated as a single asset, namely the unit of account. For example, the following rights may arise from legal ownership of a physical object:
- (a) The right to use the object;
 - (b) The right to sell the object;
 - (c) The right to pledge the object; and
 - (d) Other rights not mentioned separately in (a)–(c).
- 9 In many cases, the set of rights arising from legal ownership of a physical object is accounted for as a single item. Conceptually, the economic resource is the set of rights not the physical object. Nevertheless, describing the set of rights as the physical object will often provide the most concise, clear and understandable information.

Potential to produce economic benefits

- 10 For the economic resource to have the potential to produce economic benefits, it need not be certain, or even probable, that the resource will produce economic benefits. It is only necessary that the economic resource already exists and that there is at least one circumstance in which it would produce economic benefits.
- 11 The economic benefits produced by an economic resource could include:
- (a) Receiving contractual cash flows;
 - (b) Receiving another economic resource or exchanging economic resources with another party on favourable terms;
 - (c) Using the economic resource to produce cash inflows (or save cash outflows), for example:
 - (i) Using the economic resource singly or in combination with other economic resources to produce goods or provide services;
 - (ii) Using the economic resource to enhance the value of other economic resources;
 - (iii) Pledging the economic resource to secure a loan;
 - (iv) Leasing the economic resource to another party; or
 - (v) Receiving services to which the economic resource gives rights.
 - (d) Selling the economic resource in exchange for cash or other economic resources, or transferring the economic resource to fulfil liabilities; or
 - (e) Satisfying equity claims, in whole or in part, by distributing the economic resource to holders of equity claims.
- 12 Although an economic resource derives its value from its existing potential to produce future economic benefits, the economic resource is the existing right, not the future economic benefits. For example, a purchased option derives its value from its existing potential to produce economic benefits if the option is exercised. However, the economic resource is the existing right to exercise the option, not the future economic benefits.

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- 13 There is a close association between incurring expenditure and acquiring assets, but the two do not necessarily coincide. Hence, when an entity incurs expenditure, this may provide evidence that future economic benefits have been sought, but is not conclusive proof that an asset has been obtained. Similarly, the absence of related expenditure does not preclude an item from meeting the definition of an asset. Assets can include, for example, rights that have been granted to the entity free of charge by a government or donated to the entity by another party.

Control

- 14 An entity controls an economic resource if it has the present ability to direct the use of the economic resource and obtain the economic benefits that flow from it.
- 15 An entity has the ability to direct the use of an economic resource if it has the right to deploy that economic resource in its activities, or to allow another party to deploy the economic resource in that other party's activities.
- 16 Although control of an economic resource usually arises from legal rights, it can also arise if an entity has the present ability to prevent all other parties from directing the use of it and obtaining the benefits from the economic resource. For example, an entity may control know-how obtained from a development activity by having the present ability to keep that know-how secret.
- 17 For an entity to control a resource, the economic benefits from the resource must flow to the entity (either directly or indirectly) instead of another party. This aspect of control does not imply that the entity can ensure that the resource will produce economic benefits in all circumstances. Instead, it means that if the resource produces economic benefits, the entity is the party that will receive them.
- 18 Having exposure to significant variations in the amount of the economic benefits produced by an economic resource may indicate that the entity controls the resource. However, it is only one factor to consider in the overall assessment of control.
- 19 An agent is a party that is primarily engaged to act on behalf of, and for the benefit of, another party (the principal). If an entity holds an economic resource as an agent, the economic benefits arising from the resource flow to the principal instead of the agent. Consequently, the entity does not control the economic resource and it does not have an asset, nor does it have a liability because it has no obligation to transfer any economic resource that it controls or will control.

Questions

Arrangement 1

- 20 An entity's taxable income is negative in 20X1. The entity will not receive any money from the tax authorities, but it can deduct the loss from any profit it may have within the following ten years when calculating the taxable income. The entity cannot transfer this possibility to another entity. The budgets of the entity reflect that the entity will have a positive taxable income in four years (and the years following).
- 21 Considering the guidance provided in paragraphs 1 - 19 of this consultation document (and nothing else) in relation to the proposed definition of an asset.

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Do you assess that as of 31 December 20X1:

(a) There is a right (see paragraphs 4 - 9)?

No

Yes

If so, why not?

If so, please shortly describe the right?

Please include your explanation/description in the box below

(b) The right (or in case you do not think there is a right: the negative taxable income that can be deducted future taxable profit) has the potential to produce economic benefits (see paragraphs 10 - 13)?

No

Yes

If so, why not?

If so, what are the economic benefits that it has the potential to produce?

If your answer to either Question (a) or to Question (b) above was 'No', please disregard Question (c), Question (d) and Question (e) below and continue with *Arrangement 2* (in paragraph 22 below).

If your answers to both Question (a) and Question (b) above were 'yes', you assess that there is a right that has the potential to produce economic benefits. Accordingly, the definition of an economic resources is met (see paragraph 2 above).

Do you assess that as of 31 December 20X1:

(c) This economic resource is present?

No

Yes

Why not?

Why?

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(d) This economic resource is controlled by the entity (see paragraphs 14 - 19)?

No

Yes

If so, why not?

If so, why do you assess that the entity controls it?

If your answer to Question (d) above was 'No', please disregard Question (e) below and continue with *Arrangement 2* (in paragraph 22 below).

If your answer to Question (d) above was 'Yes', you assess that there is an economic resource controlled by the entity.

Do you assess that:

(e) The control arose as a result of a past event?

No

Yes

If so, why not?

If so, what is the past event?

Arrangement 2

22 On 1 May 20X1 an entity purchases a lottery ticket. It is not allowed to resell the lottery ticket. The price of the lottery ticket was EUR 70. If the entity will win, it will receive EUR 500,000. Around 10,000 lottery tickets have been sold.

23 Considering the guidance provided in paragraphs 1 - 19 of this consultation document (and nothing else) in relation to the proposed definition of an asset.

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In relation to the lottery ticket, do you assess that:

(a) There is a right (see paragraphs 4 - 9)?

No

Yes

If so, why not?

If so, please shortly describe the right?

(b) The right (or in case you do not think there is a right: the lottery ticket) has the potential to produce economic benefits (see paragraphs 10 - 13)?

No

Yes

If so, why not?

If so, what are the economic benefits that it has the potential to produce?

If your answer to either Question (a) or to Question (b) above was 'No', please disregard Question (c), Question (d) and Question (e) below, and continue with *Arrangement 3* (in paragraph 24 below).

If your answers to both Question (a) and Question (b) above were 'yes', you assess that there is a right that has the potential to produce economic benefits. Accordingly, the definition of an economic resources is met (see paragraph 2 above).

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Do you assess that as of 1 May 20X1:

(c) This economic resource is present?

No

Yes

Why not?

Why?

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(d) This economic resource is controlled by the entity (see paragraphs 14 - 19)?

No

Yes

If so, why not?

If so, why do you assess that the entity controls it?

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If your answer to Question (d) above was 'No', please disregard Question (e) below and continue with *Arrangement 3* (in paragraph 24 below).

If your answer to Question (d) above was 'Yes', you assess that there is an economic resource controlled by the entity.

Do you assess that:

(e) The control arose as a result of a past event?

No

Yes

If so, why not?

If so, what is the past event?

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Arrangement 3

- 24 An entity has spent money on commercials (that have all been shown). As a result, its market share has increased from 17 percent (1 January 20X1) to 25 percent (31 December 20X1). The entity is running some supermarkets and does not have a customer register.

Considering the guidance provided in paragraphs 1 - 19 of this consultation document (and nothing else) in relation to the proposed definition of an asset.

In relation to the improved market position, do you assess that:

- (a) There is a right (see paragraphs 4 - 9)?

No

Yes

If so, why not?

If so, please shortly describe the right?

- (b) The right (or in case you do not think there is a right: the improved market position) has the potential to produce economic benefits (see paragraphs 10 - 13)?

No

Yes

If so, why not?

If so, what are the economic benefits that it has the potential to produce?

If your answer to either Question (a) or to Question (b) above was 'No', please disregard Question (c), Question (d) and Question (e) below, and continue with *Arrangement 4* (in paragraph 25 below).

If your answers to both Question (a) and Question (b) above were 'yes', you assess that there is a right that has the potential to produce economic benefits. Accordingly, the definition of an economic resources is met (see paragraph 2 above).

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Do you assess that as of 31 December 20X1:

(c) This economic resource is present?

No

Yes

Why not?

Why?

(d) This economic resource is controlled by the entity (see paragraphs 14 - 19)?

No

Yes

If so, why not?

If so, why do you assess that the entity controls it?

If your answer to Question (d) above was 'No', please disregard Question (e) below and continue with *Arrangement 4* (in paragraph 25 below).

If your answer to Question (d) above was 'Yes', you assess that there is an economic resource controlled by the entity.

Do you assess that:

(e) The control arose as a result of a past event?

No

Yes

If so, why not?

If so, what is the past event?

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Arrangement 4

- 25 In order to operate its business, an entity has a trained and assembled workforce.
- 26 Considering the guidance provided in paragraphs 1 - 19 of this consultation document (and nothing else) in relation to the proposed definition of an asset.

In relation to the trained and assembled workforce, do you assess that:

- (a) There is a right (see paragraphs 4 - 9)?

No

Yes

If so, why not?

If so, please shortly describe the right?

- (b) The right (or in case you do not think there is a right: the trained and assembled workforce) has the potential to produce economic benefits (see paragraphs 10 - 13)?

No

Yes

If so, why not?

If so, what are the economic benefits that it has the potential to produce?

If your answer to either Question (a) or to Question (b) above was 'No', please disregard Question (c), Question (d) and Question (e) below, and continue with *Arrangement 5* (in paragraph 27 below).

If your answers to both Question (a) and Question (b) above were 'yes', you assess that there is a right that has the potential to produce economic benefits. Accordingly, the definition of an economic resources is met (see paragraph 2 above).

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Do you assess that:

(c) This economic resource is present?

No

Yes

Why not?

Why?

(d) This economic resource is controlled by the entity (see paragraphs 14 - 19)?

No

Yes

If so, why not?

If so, why do you assess that the entity controls it?

If your answer to Question (d) above was 'No', please disregard Question (e) below and continue with *Arrangement 5* (in paragraph 27 below).

If your answer to Question (d) above was 'Yes', you assess that there is an economic resource controlled by the entity.

Do you assess that:

(e) The control arose as a result of a past event?

No

Yes

If so, why not?

If so, what is the past event?

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Arrangement 5

27 On 1 May 20X1 a lessor enters into a leasing agreement with a customer. The customer will lease a building of the lessor for 10 years. The lessor will earn a profit on this arrangement.

28 Considering the guidance provided in paragraphs 1 - 19 of this consultation document (and nothing else) in relation to the proposed definition of an asset.

From the perspective of the lessor, in relation to the agreement with the customer, do you assess that as of 1 May 20X1:

(a) There is a right (see paragraphs 4 - 9)?

No

Yes

If so, why not?

If so, please shortly describe the right?

(b) The right (or in case you do not think there is a right: the leasing agreement or the building) has the potential to produce economic benefits (see paragraphs 10 - 13)?

No

Yes

If so, why not?

If so, what are the economic benefits that it has the potential to produce?

If your answer to either Question (a) or to Question (b) above was 'No', please disregard Question (c), Question (d) and Question (e) below, and continue with *Arrangement 6* (in paragraph 29 below).

If your answers to both Question (a) and Question (b) above were 'yes', you assess that there is a right that has the potential to produce economic benefits. Accordingly, the definition of an economic resources is met (see paragraph 2 above).

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Do you assess that as of 1 May 20X1:

(c) This economic resource is present?

No

Yes

Why not?

Why?

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(d) This economic resource is controlled by the entity (see paragraphs 14 - 19)?

No

Yes

If so, why not?

If so, why do you assess that the entity controls it?

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If your answer to Question (d) above was 'No', please disregard Question (e) below and continue with *Arrangement 6* (in paragraph 29 below).

If your answer to Question (d) above was 'Yes', you assess that there is an economic resource controlled by the entity.

Do you assess that:

(e) The control arose as a result of a past event?

No

Yes

If so, why not?

If so, what is the past event?

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Arrangement 6

- 29 An entity operates in defined rate regulation. In other words, the entity delivers goods or services in a monopoly market that are considered essential by the customer. In defined rate regulation, the role of the rate regulator is to protect customers by ensuring the stability and quality of goods or services and at the same time ensuring that the entity is fairly remunerated for delivering those goods or services. The rate regulator establishes a payment mechanism reflected in the regulatory agreement through a revenue requirement which is translated into a tariff per unit that the entity is entitled to charge its customers.
- 30 The entity is entitled to earn an amount of revenue in 20X1 for goods or services it provides. In 20X1 the entity incurs an 'unexpected' repair cost that does not qualify for recognition as an asset under IFRS. Under the agreement with the rate regulator, the entity is obliged to undertake the repair. The entity is also entitled to increase the tariff per unit in 20X2 in order to 'recover' the 'unexpected' repair cost it incurred in 20X1.
- 31 Considering the guidance provided in paragraphs 1 - 19 of this consultation document (and nothing else) in relation to the proposed definition of an asset.

In relation to the entitlement to increase the tariff. Do you assess that as of 31 December 20X1:

- (a) There is a right (see paragraphs 4 - 9)?

No

Yes

If so, why not?

If so, please shortly describe the right?

- (b) The right (or in case you do not think there is a right: the entitlement to increase the tariff) has the potential to produce economic benefits (see paragraphs 10 - 13)?

No

Yes

If so, why not?

If so, what are the economic benefits that it has the potential to produce?

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If your answer to either Question (a) or to Question (b) above was 'No', please continue with the assessment of the definition of a liability (from paragraph 32 below).

If your answers to both Question (a) and Question (b) above were 'yes', you assess that there is a right that has the potential to produce economic benefits. Accordingly, the definition of an economic resources is met (see paragraph 2 above).

Do you assess that as of 31 December 20X1:

(c) This economic resource is present?

No Why not?

Yes Why?

(d) This economic resource is controlled by the entity (see paragraphs 14 - 19)?

No

Yes

If so, why not?

If so, why do you assess that the entity controls it?

If your answer to Question (d) above was 'No', please continue with the assessment of the definition of a liability (from paragraph 32 below).

If your answer to Question (d) above was 'Yes', you assess that there is an economic resource controlled by the entity.

Do you assess that:

(e) The control arose as a result of a past event?

No If so, why not?

Yes If so, what is the past event?

A liability

- 32 It is proposed to define a liability as a present obligation of the entity to transfer an economic resource as a result of past events.
- 33 It is proposed to explain that if one party has an obligation to transfer an economic resource (a liability), it follows that another party (or parties) has a right to receive that economic resource (an asset). The party (or parties) could be a specific person or entity, a group of people or entities, or society at large.
- 34 A requirement for one party to recognise a liability (or asset) and measure it at a specified amount does not imply that the other party must recognise the corresponding asset (or liability) or measure it at the same amount. Applying different recognition criteria or measurement requirements to the liability (or asset) of one party and the corresponding asset (or liability) of the other party may sometimes be an outcome of decisions intended to meet the objective of financial reporting.
- 35 Additional guidance is provided on:
- (a) Obligation to transfer an economic resource; and
 - (b) Present obligation.

Obligation to transfer an economic resource

- 36 An entity's obligation to transfer an economic resource must have the potential to require the entity to transfer an economic resource to another party. It need not be certain, or even probable, that the entity will be required to transfer an economic resource, but the obligation must already exist and there must be at least one circumstance in which it will require the entity to transfer an economic resource. One example of such an obligation is an obligation to stand ready to transfer an economic resource if an uncertain future event occurs.
- 37 Obligations to transfer an economic resource include, for example, obligations to:
- (a) Pay cash;
 - (b) Transfer other assets;
 - (c) Exchange economic resources with another party on unfavourable terms;
 - (d) Provide services; or
 - (e) Issue another obligation that will oblige the entity to transfer an economic resource.
- 38 Instead of fulfilling an obligation to transfer an economic resource, entities sometimes:
- (a) Settle the obligation by negotiating a release from the obligation;
 - (b) Transfer the obligation to a third party; or
 - (c) Replace the obligation with another obligation to transfer an economic resource.
- 39 An equity claim does not contain an obligation to transfer economic resources. Furthermore, an equity claim is not an economic resource for the issuer. It follows that an obligation of an entity to transfer its own equity claims to another party is not an obligation to transfer an economic resource.

Present obligation

- 40 An entity has a present obligation to transfer an economic resource if both:

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- (a) The entity has no practical ability to avoid the transfer; and
- (b) The obligation has arisen from past events; in other words, the entity has received the economic benefits, or conducted the activities, that establish the extent of its obligation.

No practical ability to avoid the transfer

- 41 An entity has no practical ability to avoid a transfer if, for example, the transfer is legally enforceable, or any action necessary to avoid the transfer would cause significant business disruption or would have economic consequences significantly more adverse than the transfer itself. It is not sufficient that the management of the entity intends to make the transfer or that the transfer is probable.
- 42 If an entity prepares financial statements on a going concern basis, the entity:
- (a) Has no practical ability to avoid a transfer that could be avoided only by liquidating the entity or ceasing trading; but
 - (b) Has the practical ability to avoid (and hence does not have a liability for) a transfer that would be required only on the liquidation of the entity or on the cessation of trading.
- 43 Many obligations are legally enforceable as a consequence of a contract, legislation or similar means. Obligations can also arise, however, from an entity's customary practices, published policies or specific statements that require the transfer of an economic resource. If the entity has no practical ability to act in a manner inconsistent with those practices, policies or statements, the entity has an obligation. The obligation that arises in such situations is often described as a constructive obligation.
- 44 In some situations, the requirement for an entity to transfer an economic resource may be expressed as being conditional on a particular future action by the entity, such as conducting particular activities or exercising particular options within a contract. The entity has an obligation if it has no practical ability to avoid that action.

Past event

- 45 An entity has a present obligation as a result of a past event only if it has already received the economic benefits, or conducted the activities, that establish the extent of its obligation. The economic benefits received could include, for example, goods or services. The activities conducted could include, for example, operating in a particular market. If the economic benefits are received, or the activities are conducted, over time, a present obligation will accumulate over time (if, throughout that time, the entity has no practical ability to avoid the transfer).
- 46 An event establishes the extent of an obligation if it specifies either the amount of the future transfer or the basis for determining that amount. For example, an insurer may enter into a contract to provide insurance coverage in return for a single premium. When the insurer receives the premium, it has an obligation to provide insurance coverage because:
- (a) Although the amount of any future transfer still depends on whether an insured event occurs, the insurer has no practical ability to avoid transferring an economic resource if an insured event occurs; and
 - (b) The insurer has received the premium that establishes that it must provide coverage to the extent specified by the contract, and this provides the basis for determining the amount of any future transfer.

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- 47 A present obligation can exist at the end of the reporting period even if the transfer of economic resources cannot be enforced until some point in the future. For example, a financial liability may not require a payment to be made until a future date. The payment cannot be enforced until that future date, but the liability exists now. Similarly, a contractual obligation for the entity to perform work at a future date cannot be enforced by the counterparty until that future date, but the obligation arising from the contract exists now if the counterparty has already paid for the work.
- 48 An entity does not have a present obligation for the costs that will arise if it will receive benefits, or conduct activities, in the future (for example, the costs of future operations); the extent of the future transfer will not be determined by reference to benefits that the entity has received, or activities that it has conducted, in the past. If the entity has entered into a contract that is still executory, the entity may have a present right and obligation to exchange economic resources in the future.

Questions

Arrangement 7

- 49 A defined rate regulated entity (see paragraph 29 above) is entitled to earn an agreed amount of revenue in 20X1 for goods or services it provides. This amount includes a specific amount which the entity is entitled to receive in advance (a sort of pre-funding mechanism) in order to undertake a major repair in 20X2. The 'higher' revenue the entity is entitled to earn in 20X1 is limited to 20X1 (thereafter the entity will revert to the 'normal' agreed revenue.)
- 50 Please consider the definition and description of a liability in paragraphs 32 - 48 above.

In relation to the money received in 20X1 for the repair to be performed in 20X2, do you assess that as of 31 December 20X1:

- (a) There is an obligation of the entity to transfer an economic resource (see paragraphs 36 - 39)?

No

Yes

If so, why not?

If so, why?

If your answer to Question (a) above was 'No', please disregard Question (b) and Question (c) below and continue with *Arrangement 8* (in paragraph 51 below).

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If your answer to Question (a) above was 'Yes', do you assess that as of 31 December 20X1:

- (b) The obligation to transfer an economic resource is present (see paragraphs 40 - 48)?

No

Yes

If so, why not?

If so, why?

- (c) The obligation to transfer an economic resource is arising from past events?

No

Yes

If so, why not?

If so, what are these events?

Arrangement 8

51 In 20X1 an entity has announced, initiated and is committed to a restructuring as it cannot continue as a going concern without such a restructuring. Services from legal advisors are necessary in order to be able to carry out the restructuring. However, the entity has not yet determined what legal advisors to use.

52 Please consider the definition and description of a liability in paragraphs 32 - 48 above.

In relation to the restructuring, do you assess that as of 31 December 20X1:

- (a) There is an obligation of the entity to transfer an economic resource (see paragraphs 36 - 39)?

No

Yes

If so, why not?

If so, why?

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If your answer to Question (a) above was 'No', please disregard Question (b) and Question (c) below and continue with *Arrangement 9* (in paragraph 53 below).

If your answer to Question (a) above was 'Yes', do you assess that as of 31 December 20X1:

- (b) The obligation to transfer an economic resource is present (see paragraphs 40 - 48)?

No

Yes

If so, why not?

If so, why?

- (c) The obligation to transfer an economic resource is arising from past events?

No

Yes

If so, why not?

If so, what are these events?

Arrangement 9

53 A financial institution has to contribute to a deposit guarantee scheme ('the DGS'). The purpose of the scheme is to cover certain losses depositors would otherwise incur if the financial institution would not be able to repay the amounts. The DGS should over a period of ten years collect funds from the affiliated member institutions. The total of the accumulated funds collected should after ten years correspond to 0.08% of the deposits covered by the DGS that are held by these member institutions. The yearly contribution of a member institution depends on:

- (a) The annual contribution from all member institutions that is necessary for the DGS to reach its target level (for simplicity assume that in the first year, the DGS needs 10% of the 0.08% of the deposits covered; in the second year 20% and so on).
- (b) The share of the necessary annual contribution that is attributed to the individual member. This share is based on the covered deposits held by the member and an aggregated risk weight for the member (assigned by the DGS based on a prescribed method).

- (c) A minimum contribution determined by the jurisdiction.
- 54 The necessary annual contribution for the DGS (and hence the amount of covered deposits) is determined on a specific date each year. Assume that:
- (a) The financial institution is operating in a jurisdiction with only one deposit guarantee scheme. In order for the institution to operate it is therefore mandatory that it is member of the particular scheme.
 - (b) In order to operate it is also necessary for the financial institution to hold some deposits of the type covered by the guarantee scheme.
 - (c) The amounts paid to the DGS by an affiliated member institution are non-refundable. The institution will accordingly not have its contributions refunded if it leaves the DGS (even if it stops operating).
 - (d) In July 20X1 the government of the jurisdiction in which the financial institution is operating determines the yearly minimum contribution (see above) to be paid by the members of the DGS. The amount is determined by law and will accordingly only change as a result of amendments to the law (which is currently not foreseen).
 - (e) Entities that are holding deposits covered by the DGS as of 1 November in a given year will have to pay a contribution as of 31 December in the same year.
 - (f) Some of the deposits held by the financial institution that are covered by the DGS are related to fixed-term deposits. These fixed-term deposit agreements typically run from three to ten years.
- 55 In November 20X1 the DGS determines the contribution from the affiliated member institutions, which will have to be paid by 31 December 20X1. The amount to be paid by an affiliated member is calculated based on the covered deposits held by that member as of 1 September 20X1 and the aggregated risk weight for that member as of 1 September 20X1. It is the first year of the DGS. Accordingly, after receiving these contributions the DGS will hold around 10 percent of its target level.
- 56 Please consider the definition and description of a liability in paragraphs 32 - 48 above.

In relation to the contribution the financial institution will have to pay by 31 December 20X3, do you assess that as of 1 January 20X2:

- (a) There is an obligation of the entity to transfer an economic resource (see paragraphs 36 - 39)?

No

Yes

If so, why not?

If so, why?

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If your answer to Question (a) above was 'No', please disregard Question (b) and Question (c) below and continue with the additional question (in paragraph 57 below).

If your answer to Question (a) above was 'Yes', do you assess that as of 1 January 20X2:

(b) The obligation to transfer an economic resource is present (see paragraphs 40 - 48)?

No

Yes

If so, why not?

If so, why?

(c) The obligation to transfer an economic resource is arising from past events?

No

Yes

If so, why not?

If so, what are these events?

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Additional question

- 57 Appendix 1 includes that current definitions of an asset and of a liability. Do you assess that you might have reached another conclusion regarding whether one or more of the arrangements assessed above would meet the definition of an asset or a liability if you had used the current definitions instead of the proposed definitions?

No

Yes

If so, what arrangements would you assess differently and why?

Appendix 1

Current definitions

An asset

- 1 The current Conceptual Framework defines an asset as a resource controlled by the entity as a result of past events and from which future economic benefits are expected to flow to the entity.
- 2 The current Conceptual Framework explains that the future economic benefit embodied in an asset is the potential to contribute, directly or indirectly, to the flow of cash and cash equivalents to the entity. The potential may be a productive one that is part of the operating activities of the entity. It may also take the form of convertibility into cash or cash equivalents or a capability to reduce cash outflows, such as when an alternative manufacturing process lowers the costs of production.
- 3 An entity usually employs its assets to produce goods or services capable of satisfying the wants or needs of customers; because these goods or services can satisfy these wants or needs, customers are prepared to pay for them and hence contribute to the cash flow of the entity. Cash itself renders a service to the entity because of its command over other resources.
- 4 The future economic benefits embodied in an asset may flow to the entity in a number of ways. For example, an asset may be:
 - (a) Used singly or in combination with other assets in the production of goods or services to be sold by the entity;
 - (b) Exchanged for other assets;
 - (c) Used to settle a liability; or
 - (d) Distributed to the owners of the entity.
- 5 Many assets, for example, property, plant and equipment, have a physical form. However, physical form is not essential to the existence of an asset; hence patents and copyrights, for example, are assets if future economic benefits are expected to flow from them to the entity and if they are controlled by the entity.
- 6 Many assets, for example, receivables and property, are associated with legal rights, including the right of ownership. In determining the existence of an asset, the right of ownership is not essential; thus, for example, property held on a lease is an asset if the entity controls the benefits which are expected to flow from the property. Although the capacity of an entity to control benefits is usually the result of legal rights, an item may nonetheless satisfy the definition of an asset even when there is no legal control. For example, know-how obtained from a development activity may meet the definition of an asset when, by keeping that know-how secret, an entity controls the benefits that are expected to flow from it.
- 7 The assets of an entity result from past transactions or other past events. Entities normally obtain assets by purchasing or producing them, but other transactions or events may generate assets; examples include property received by an entity from government as part of a programme to encourage economic growth in an area and the discovery of mineral deposits. Transactions or events expected to occur in the future do not in themselves give rise to assets; hence, for example, an intention to purchase inventory does not, of itself, meet the definition of an asset.
- 8 There is a close association between incurring expenditure and generating assets but the two do not necessarily coincide. Hence, when an entity incurs expenditure, this may provide evidence that future economic benefits were sought but is not

conclusive proof that an item satisfying the definition of an asset has been obtained. Similarly the absence of a related expenditure does not preclude an item from satisfying the definition of an asset and thus becoming a candidate for recognition in the balance sheet; for example, items that have been donated to the entity may satisfy the definition of an asset.

A liability

- 9 The current Conceptual Framework defines a liability as a present obligation of the entity arising from past events, the settlement of which is expected to result in an outflow from the entity of resources embodying economic benefits.
- 10 The current Conceptual Framework explains that an essential characteristic of a liability is that the entity has a present obligation. An obligation is a duty or responsibility to act or perform in a certain way. Obligations may be legally enforceable as a consequence of a binding contract or statutory requirement. This is normally the case, for example, with amounts payable for goods and services received. Obligations also arise, however, from normal business practice, custom and a desire to maintain good business relations or act in an equitable manner. If, for example, an entity decides as a matter of policy to rectify faults in its products even when these become apparent after the warranty period has expired, the amounts that are expected to be expended in respect of goods already sold are liabilities.
- 11 A distinction needs to be drawn between a present obligation and a future commitment. A decision by the management of an entity to acquire assets in the future does not, of itself, give rise to a present obligation. An obligation normally arises only when the asset is delivered or the entity enters into an irrevocable agreement to acquire the asset. In the latter case, the irrevocable nature of the agreement means that the economic consequences of failing to honour the obligation, for example, because of the existence of a substantial penalty, leave the entity with little, if any, discretion to avoid the outflow of resources to another party.
- 12 The settlement of a present obligation usually involves the entity giving up resources embodying economic benefits in order to satisfy the claim of the other party. Settlement of a present obligation may occur in a number of ways, for example, by:
 - (a) Payment of cash;
 - (b) Transfer of other assets;
 - (c) Provision of services;
 - (d) Replacement of that obligation with another obligation; or
 - (e) Conversion of the obligation to equity.An obligation may also be extinguished by other means, such as a creditor waiving or forfeiting its rights.
- 13 Liabilities result from past transactions or other past events. Thus, for example, the acquisition of goods and the use of services give rise to trade payables (unless paid for in advance or on delivery) and the receipt of a bank loan results in an obligation to repay the loan. An entity may also recognise future rebates based on annual purchases by customers as liabilities; in this case, the sale of the goods in the past is the transaction that gives rise to the liability.
- 14 Some liabilities can be measured only by using a substantial degree of estimation. Some entities describe these liabilities as provisions. In some countries, such provisions are not regarded as liabilities because the concept of a liability is defined narrowly so as to include only amounts that can be established without the need to

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make estimates. The definition of a liability follows a broader approach. Thus, when a provision involves a present obligation and satisfies the rest of the definition, it is a liability even if the amount has to be estimated. Examples include provisions for payments to be made under existing warranties and provisions to cover pension obligations.