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The European Financial Reporting Advisory Group (EFRAG) and the Autorité des Normes Comptables (ANC) jointly publish on their websites for information purpose a Research Paper on the proposed new Definition of an Asset tentatively adopted by the IASB and FASB.

This Paper has been jointly drafted by the staff at EFRAG and the ANC. Its sets the results of their work in researching and analysing the proposed definition. They consider that the communication of this Paper to the IASB staff and its publication on their respective websites can serve as an useful input to the IASB's deliberations on this issue (which they understand forms part of the work-in-progress on the phase B of the Revision of the Conceptual Framework "Definition of Elements, Recognition and Derecognition"). It is important to highlight that the views in the paper are those of the staff and not those of either EFRAG or the ANC.

They have tested the proposed new definition of an asset against a series of 12 economic arrangements: six of these arrangements were previously tested (together with 18 others) by the IASB staff in its Agenda Paper produced for the October 2007 IASB Board meeting on an earlier version of the asset definition. Six other economic arrangements have been identified and included in the analysis they have undertaken. The purpose of their analysis was to test whether the proposed new definition of an asset as defined by the IASB/FASB staff team would work and result in an improvement over the existing IASB definition of an asset.

The main outcome of their work is that the proposed new definition removes problems related to the ambiguity of the notion of "control" included in the old one and to the identification of a "past event". It also explains to a greater extent what an economic resource is. However, it seems that the notion of "capable" that replaces the notion of "expected" may result in many items with low economic value meeting the definition of an asset. This may, therefore, fail the costs and benefits constraint in the Framework.

Other outcomes of the analysis are a need to clarify how one should understand and apply the terms "capable of producing cash inflows or reducing cash outflows", "right and other access that others do not have" and "equivalent means". It may also be useful to clarify the nature of an "economic resource", – is it the promise/right or the related property item, and to analyse if the notion of an "economic resource" is wide enough compared to the previously used notion of "economic benefit". Finally, the consequences of the removal of the "past event" notion on the assessment of the management stewardship and on the identification/separation of assets may merit further analysis.

EFRAG and the ANC hope this Paper would be useful for stimulating thoughts and research on accounting conceptual issues.

Pro-active Paper on the Definition of an Asset

*It may be needless to say that the definition of an asset is fundamental when preparing principles-based accounting standards based on an asset and liability approach. Not only does the definition affect what should be recognised as assets in the balance sheet, it als**o** influences what should be recognised as income and when to recognise expenses.*

As part of their current work on the conceptual framework (phase B) the IASB and FASB are addressing the definition of an asset. It is proposed that the current IASB definition:

"An asset is 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."

will be amended to:

"An asset of an entity is a present economic resource to which the entity has a right or other access that others do not have."

This paper is a European comment to that proposal.

Executive summary

E1. The IASB/FASB staff has been working on a revision, convergence and clarification of the asset definition for some time. As part of this work, the IASB staff has tested a proposed new definition of an asset against a series of economic arrangements.

E2. Due to the importance of the definition of an asset, the coordinators of the pro-active activities decided that the pro-active project should include the pro-active project group's own testing of the proposed new definition of an asset. More specifically, the purpose of this pro-active project is to: "test whether the proposed new definition of an asset as defined by the IASB/FASB staff team would work and result in an improvement over the existing IASB definitions of an asset."

E3. The current definition of an asset states that: "An asset is 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."

E4. In reaching the proposed new definition, the IASB staff has:

(a) Deleted "and from which future economic benefits are expected to flow to the entity". Instead the amplifying text specifies that a resource is something that is "capable of producing cash inflows or reducing cash outflows".

(b) Replaced the term 'control' with "to which the entity has either a right or other access that others do not have."

(c) Deleted the phrase "as a result of a past event".

(d) Added the word ‘economic’ before ‘resource’.

(e) Added the word ‘present’ before ‘economic resource’.

E5. Accordingly, the proposed new definition states that, “an asset of an entity is a present economic resource to which the entity has a right or other access that others do not have.”

E6. The amplifying text to the proposed new definition states that:

(a) “*present* means that on the date of the financial statements both the economic resource exists and the entity has the right or other access that others do not have;

(b) an *economic resource* is something that is scarce and capable of producing cash inflows or reducing cash outflows, directly or indirectly, alone or together with other economic resources. Economic resources that arise from contracts and other binding arrangements are unconditional promises and other abilities to require provisions of economic resources, including through risk protection;

(c) *a right or other access that others do not have* enables the entity to use the economic resource and its use by others can be precluded or limited. A right or other access that others do not have is enforceable by legal or equivalent means.”

E7. The arrangements tested by the pro-active project staff are: cash on hand, an account receivable, an assembled workforce, goodwill, a lottery ticket, an offer of future discounts to potential customers, know-how/knowledge acquired as a result of research expenditures, an improved position in the market/new customer relationship resulting from marketing efforts, contracts, a licence to operate in a restricted market, a deferred tax item for an unused tax loss and a planned transaction. While the first six arrangements were also tested by the IASB/FASB staff, the last six arrangements were solely chosen and analysed by the pro-active project staff.

E8. Based on the analysis, the following effects of the proposed new definition have been identified:

Advantages	Weaknesses	Effects that have not been subject to an evaluation
• Removes the problems related to the unclearness of the term ‘control’. • Removes the problems related to identifying ‘a past event’. • Explains to a greater extent than the current definition what an (economic) resource is.	• The notion “capable of producing cash inflows or reducing cash outflows” sets very low hurdles in relation to determining when something is an economic resource. It will result in many items (for example many internally generated intangible items) meeting the definition of an asset. Many items may thus have to be tested against any recognition criteria and/or being recognised at a low amount. This may not be cost/benefit effective. • The notion “Capable of producing	• A deferred tax item for an unused tax loss that could not be sold would meet the requirement of the proposed new definition that an entity should have ‘a right or other access that others do not have’ but perhaps not the corresponding requirement of ‘control’ in the current definition. • A deferred tax item for an unused tax loss that could not be sold would perhaps not meet the additional requirement of the proposed new definition that an economic resource should be

	cash inflows or reducing cash outflows" may be interpreted differently by different persons.	present.	
	• The terms 'right' and 'other access' are not clear. • It is not clear whether the promise/right or the related property item represents the economic resource. • The amplifying text explaining "a right or other access that others do not have" is unclear as the exact meaning of 'equivalent means' is not explained. • The focus on future cash flows in the amplifying text's specification of an 'economic resource' does not seem wide enough. Instead the current focus on 'economic benefits' should be maintained. • It does not include a reference to a past event which may move the focus away from stewardship, result in more items meeting the definition of an asset and make it more difficult to identify separate assets.		

E9. It should be noted that the pro-active project staff believes that the current asset definition's notion of 'control' in the context of an asset is unclear. The pro-active project staff believes that it would be beneficial if the IASB/FASB staff had considered clarifying the meaning of 'control' before deciding to replace the term.

E10. Based on the analyses, it cannot be concluded that the proposed new definition is better or worse than the current definition. This would depend on the specific situation. The analysis has, however, identified problems that should be addressed in developing a new definition.

Chapter 1 - Introduction

1. The IASB/FASB staff has for some time been working on phase B of the revision of the conceptual framework addressing the elements of the financial statements, recognition and de-recognition. An important part of the phase is to revise, clarify and converge the definitions of assets and liabilities.

2. The IASB/FASB staff has almost concluded its work. However, some Board members as well as some commentators have questioned part of the proposed new definition and have expressed the view that it is unclear which consequences the proposed new definition will have in practice, notably because, among other things, the IASB has not yet worked on issues such as recognition, and unit of account.

3. With these facts in mind, the IASB asked its staff to test a proposed definition against a series of arrangements. The results of this analysis were presented on the 16 October 2007 IASB meeting.

4. Because of the importance of the definition of an asset, the coordinators of the pro-active activities decided that the pro-active group should do its own testing of the proposed new definition of an asset. Although this testing will be done on a newer version of the definition of an asset than the one used for the IASB/FASB staff analyses, the study includes relevant references to the IASB/FASB staff´s work.

5. More specifically, the purpose of this pro-active project is to: “test whether the working definition of an asset as defined by the IASB/FASB staff team would work and result in an improvement over the existing IASB definitions of an asset.”

6. The approach of the project included the following steps:

   (a) reading and reflecting on materials available on the proposed new definition of an asset;

   (b) selecting a number of situations and applying the proposed new definition on them and making an evaluation of the outcome, using the current definition as reference material; and

   (c) discussing the observations made from working with the current as well as the proposed new definition and assessing the impact of the new definition.

7. This paper includes the outcome of the work performed. The work has been performed by a pro-active working group and the paper has been completed by pro-active project staff.

8. The pro-active project on the definition of an asset started in early 2007. The pro-active project staff used in its initial work the material then available, i.e. that joint staff´s material developed for the boards´ discussions. This was done with a view to understand how the proposed new definition of an asset was dealt with by the joint staff in its presentation of discussion material for the boards. Part of the result of the pro-active project staff´s efforts at that time has been kept in this paper.

9. There are areas where the pro-active project staff has found reasons to deviate from the tentative conclusions expressed by the IASB/FASB staff in its initial work. That is partly reflected in the comments provided in this paper. The pro-active project staff is, however, aware that views expressed by the IASB/FASB staff in an early phase of the project may not be of particular relevance for the analysis of the proposed new definition of an asset.

10. Accordingly, the draft comments on the joint staff´s analyses should only be seen as an effort to evaluate and understand the reasoning in the process of developing the proposed definition of an asset.

11. The paper is structured as follows: After this introductory chapter:

    (a) chapter two will list the current IASB definition of an asset and the perceived weaknesses as identified by the IASB/FASB staff of this current definition,

    (b) chapter three describes the proposed new definition,

    (c) chapter four provides the main observations on the proposed new definition by the pro-active project staff, and

    (d) chapter five contains concluding remarks.

    There are two appendices, which contain a more detailed analysis of the pro-active project staff's observations. Appendix 1 contains the detailed analysis of some arrangements that were also tested by the IASB/FASB staff. These arrangements are: cash on hand, an account receivable, an assembled workforce, goodwill, a lottery ticket and an offer of future discounts to potential customers. The tests performed by the IASB/FASB staff related to an earlier version of a proposed new definition (see appendix 1 paragraph 2), however, unless otherwise stated it is the view of the pro-active project staff that the conclusions reached by the IASB/FASB staff would apply equally to the proposed new definition. Appendix 2 contains the analyses of arrangements chosen solely by the pro-active project staff. These arrangements are: know-how/knowledge acquired as a result of research expenditures, an improved position in the market/new customer relationships resulting from marketing efforts, contracts, a license to operate in a restricted market, a deferred tax item for an unused tax loss and a planned transaction.

Chapter 2 - The existing IASB definition

12. In the current IASB Framework an asset is defined as follows:

    "An asset is 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."[1]

13. The IASB/FASB staff considers that changes to this definition are needed. According to the different IASB/FASB documents available, the main reasons are:

[1] IASB: Framework for the Preparation and Presentation of Financial Statements, paragraph 49.

(a) The definition is sometimes interpreted to make reference to likelihood by using the word 'expected'. According to the IASB/FASB staff the notion of ´expected´ has been misinterpreted as implying that there must be a high likelihood of future economic benefits for the definition of an asset to be met. Thus some think that when there is a low likelihood of future economic benefits, the asset definition is not met. According to the IASB/FASB staff, this is not the intent. The IASB/FASB staff thinks that the word 'expected' is included to clarify that it is not required that an item is certain in order to qualify as an asset.[2]

(b) The definition contains the word 'control'. According to the IASB/FASB staff, the notion of control of an asset could be confused with the notion used to determine what constitutes a group of entities (according to IAS 27). The IASB/FASB staff thinks that the use of 'control' could lead one to think that focus should be on the power to obtain benefits. However, the IASB/FASB staff thinks that it is sufficient that the entity can obtain cash inflows or reduce cash outflows from the item in question.[3]

(c) The definition requires that the item under consideration should be a result of past events. The IASB/FASB staff thinks that this reference was included to exclude future assets from meeting the definition. Although most of the time there will be a past transaction that will originate the asset, there are cases when past transactions do not lead to an asset and sometimes an asset may exist without a link with a clear past transaction. Therefore, the reference to past transactions may take focus away from the most essential – that is what exists on the reporting date.[4]

14. Due to these perceived shortcomings, the FASB and IASB think the following terms in the present definition should be replaced:

(a) The term 'expected' should be replaced to avoid the misinterpretation that an assessment of a degree of likelihood is a part in determining whether or not an item is an asset. Instead, the definition should explain that it is not required that an item is certain in order to qualify as an asset.[5]

(b) The word 'control' should be replaced with a term that better reflects that the focus should be on an entity´s ability to obtain cash inflows or reduced cash outflows, rather than the entity´s power to cause those cash flows.[6]

(c) The focus on 'past event' should be replaced with a focus on whether the economic resource exists at the balance sheet date.[7]

Chapter 3 - The proposed new definition described

[2] IASB: Agenda Paper 16C for the 16 October 2007 IASB meeting, paragraphs 26 – 28.
[3] IASB: Agenda Paper 16C for the 16 October 2007 IASB meeting, paragraphs 44 – 80.
[4] IASB: Agenda Paper 16C for the 16 October 2007 IASB meeting, paragraphs 36 – 40.
[5] IASB: Agenda Paper 16C for the 16 October 2007 IASB meeting, paragraph 28.
[6] IASB: Agenda Paper 16C for the 16 October 2007 IASB meeting, paragraph 46.
[7] IASB: Agenda Paper 16C for the 16 October 2007 IASB meeting, paragraph 38.

15. After considering different alternatives, the IASB and FASB have agreed on the following working definition of an asset (the proposed new definition):

"An asset of an entity is a present economic resource to which the entity has a right or other access that others do not have."[8]

16. Also, the boards have agreed on the following text that amplifies the proposed new definition of an asset[9]:

(d) *present* means that on the date of the financial statements both the economic resource exists and the entity has the right or other access that others do not have;

(e) an *economic resource* is something that is scarce and capable of producing cash inflows or reducing cash outflows, directly or indirectly, alone or together with other economic resources. Economic resources that arise from contracts and other binding arrangements are unconditional promises and other abilities to require provisions of economic resources, including through risk protection;

(f) *a right or other access that others do not have* enables the entity to use the economic resource and its use by others can be precluded or limited. A right or other access that others do not have is enforceable by legal or equivalent means.

Replacement of 'expected'

17. In accordance with paragraph 13(a) and 14(a) above, neither the proposed new definition nor the amplifying text contain the word 'expected'. In the amplifying text it is added that an economic resource is something "that is scarce and capable of producing cash inflows or reducing cash outflows". According to the IASB/FASB staff, the proposed new definition thereby clarifies that the existence of an asset does not depend on an assessment of a degree of likelihood[10]. It is sufficient that an economic resource is 'capable' of producing cash inflows or reducing cash outflows.

18. As it appears from the proposed new definition and the amplifying text, the IASB/FASB staff has chosen not to explain that an economic resource is something capable of producing cash inflows or reducing cash outflows in the definition of an asset, but in the amplifying definition of an economic resource. An alternative would have been just to replace "and from which future economic benefits are expected to flow" in the current definition of an asset with "that is capable of producing cash inflows or reducing cash outflows"[11]:

"An asset is 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~~ <u>that is capable of producing cash inflows or reducing cash outflows</u>."

19. However, the IASB/FASB staff thought that the phrase "that is capable of producing cash inflows or reducing cash outflows" on its own would be an incomplete description of what constitutes an economic resource. Also, the IASB/FASB staff did not think that

[8] IASB: Agenda Paper 2 for the 20 October 2008 IASB meeting, paragraph 8.
[9] IASB: Agenda Paper 2 for the 20 October 2008 IASB meeting, paragraph 8.
[10] IASB: Agenda Paper 2 for the 20 October 2008 IASB meeting, paragraph 28.
[11] IASB: Agenda Paper 2 for the 20 October 2008 IASB meeting, paragraph 30.

it would be clear whether the phrase would constitute further explanation of an economic resource, or would be considered to be a narrowing of that term to a particular type of economic resource. [12]

20. It should be noted that the IASB/FASB staff explains that, in assessing whether something is capable of producing cash inflows, it is necessary to take into account cash outflows that are necessary to produce the cash inflows. If something is capable of being used only in a manner that produces cash inflows while simultaneously requiring equal or greater cash outflows, it is not an economic resource and, therefore, it cannot be an asset[13]. A discussion about what cash flows to take into account is, however, related to a 'unit of account' issue and is not dealt with in this project.

21. It should also be noted that although neither the proposed new definition of an asset nor the amplifying text refers to 'likelihood', it may still be necessary to consider likelihood when assessing whether a particular asset qualifies for recognition or in determining its measurement. When to recognise and how to measure an asset are, however, outside the scope of this project.

Replacement of 'control'

22. In accordance with paragraph 13(b) and 14(b) above, the word 'control' has been replaced in the proposed new definition. IASB/FASB staff has considered many different alternatives for the word 'control'. One of the considered alternatives was to replace 'control' with the phrase "rights or other privileged access". IASB/FASB staff thought that this would reflect that focus should be on the entity's rights or other access to any cash inflows or reduction of cash outflows that the economic resource would be capable of producing, rather than on the entity's control or influence over whether cash inflows or reduction of cash outflows would occur. The intention was then to explain in the amplifying text that a right could be legally enforceable, but also enforceable by other equivalent means, such as those arising within a self-regulatory structure, for example a professional organisation. 'Other privileged access' should indicate that 'rights' include more than legal rights, but should at the same time exclude access that is generally available from the definition. The term should, for example, include economic barriers that could keep customers tied to an entity and significant barriers for competitors to market entry.

23. For different reasons – including the fact that 'privileged access' is an unfamiliar term that does not translate well into many languages other than English, the IASB/FASB did not choose to replace the word 'control' with this phrase. Instead it was decided to replace 'control' with "to which the entity has a right or other access that others do not have". The phrase "right or other access that others do not have" is further described in the amplifying text.

Removing focus on 'past event'

24. The proposed new definition of an asset does not include the reference to past events. The reference to the past has been deleted in order to focus on what is necessary for an asset to exist at present. This is in accordance with par. 13(c) and 14(c) above. By

[12] IASB: Agenda Paper 16C for the 16 October 2007 IASB meeting, paragraphs 32 -33.
[13] IASB: Agenda Paper 16C for the 16 October 2007 IASB meeting, paragraph 35.

focusing on a present economic resource the IASB/FASB staff thinks it becomes redundant to refer to the need for a past event. At the same time, the proposed new definition makes it clear that the economic resource and the link to the entity must exist on the date of the financial statements. That is, it cannot be an economic resource or a link that will not arise until the future or that existed in the past, but no longer exists on the date of the financial statements. Finally, replacing "past transaction or event" results in a shorter definition which historically the Boards have preferred.

Other changes

25. The IASB/FASB staff has also proposed some changes for reasons other than to correct the perceived weaknesses of the current definition.

Specifying that it is an economic resource

26. 'Resource' has been replaced by 'economic resource'. This change has been made because the IASB/FASB staff thinks that the words in the current definition "from which future expected economic benefits are expected to flow to the entity", qualify the word 'resource' so that it is an 'economic resource'.

Convergence with the FASB definition

27. As the project is a joint project between IASB and FASB, one of the first things the IASB/FASB staff did during the project, was to converge the two existing definitions of an asset in the IASB and FASB framework respectively. According to the current FASB definition, assets are not resources but probable future economic benefits. When developing the converged definition, 'future' in the current FASB definition was replaced by 'present' to indicate that the resource must presently exist. This was then incorporated into the proposed new definition. It was chosen to keep the IASB definition's focus on an asset as being an (economic) 'resource' rather than the FASB's focus on an asset as being 'economic benefits' to indicate that the focus is on a stock, rather than on a flow.

Parallel the definition of an asset and the definition of a liability and requiring the economic phenomena to be enforceable

28. It was mentioned in paragraph 18 – 19 that the amplifying text explaining an economic resource would state that an economic resource is something capable of producing cash inflow or reducing cash outflows. However, as it appears from paragraph 16, the amplifying text contains more than that. The sentence:"Economic resources that arise from contracts and other binding arrangements are unconditional promises and other abilities to require provisions of economic resources, including risk protection, that are enforceable by legal or equivalent means" is added to the definition of an economic resource as:

    (a) The proposed definition of a liability includes the term 'unconditional'. To introduce some kind of symmetry in the definitions the IASB/FASB staff therefore considered also to include the term 'unconditional' in the asset definition. The IASB/FASB staff thinks that being unconditional is an essential attribute of all liabilities. However, for physical assets, internally developed intangible assets, or other similar assets, conditionality does not apply. The aspect

is therefore only mentioned in relation to contracts and other binding arrangements[14].

(b) The IASB/FASB staff also thinks it should be required that the economic phenomena arising from contracts and other binding arrangements (i.e. unconditional promises and other abilities to require provisions of economic resources, including risk protection) and not only the link between the entity and the economic resource should be enforceable[15]. This requirement has therefore been included in the amplifying text related to an economic resource.

29. In summary, compared to the current definition of an asset:

(a) The phrase "from which future economic benefits are expected to flow to the entity" has been deleted. Instead an economic resource is explained as something that is capable of producing cash inflows or reducing cash outflows (see paragraphs 17 - 20 above).

"An asset is 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.~~"

"An economic resource is something that is scarce and capable of producing cash inflows or reducing cash outflows, directly or indirectly, alone or together with other economic resources."

(b) The word 'control' has been replaced by the term "to which the entity has either a right or other access that others do not have" (see paragraphs 22 – 23 above)

"An asset of an entity is a resource ~~controlled by the entity~~ as a result of past events to which the entity has either a right or other access that others do not have."

(c) The phrase "as a result of past events" has been deleted (see paragraph 24 above).

"An asset of an entity is a resource ~~as a result of past events~~ to which the entity has either a right or other access that others do not have."

(d) The word 'economic' has been added (see paragraph 26 above).

"An asset of an entity is an economic resource to which the entity has either a right or other access that others do not have."

(e) The word 'present' has been added (se paragraph 27 above).

"An asset of an entity is a~~n~~ present economic resource to which the entity has either a right or other access that others do not have."

30. Accordingly, the proposed new definition including the amplifying text has become:

[14] IASB: Agenda Paper 2 for the 20 October 2008 IASB meeting, paragraph 20.
[15] IASB: Agenda Paper 2 for the 20 October 2008 IASB meeting, paragraph 18.

"An asset of an entity is a present economic resource to which the entity has either a right or other access that others do not have."

and the amplifying text as stated in paragraph 16.

Chapter 4 - Observations on the proposed new definition

31. As a result of its assessment (see paragraph 5) of the proposed new definition of an asset, the pro-active project staff has made some observations. These observations seem to suggest that the following terms/criteria are essential when determining whether an item is an asset under the current as well as the proposed new definition of an asset:

Key terms/criteria under the current definition (marked in italics)	Key terms/criteria under the proposed new definition (marked in italics)
An asset is 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.	An asset of an entity is a *present economic resource* to which the entity has either a *right* or *other access* that others do not have. *present* means that on the date of the financial statements both the economic resource exists and the entity has the right or other access that others do not have; an *economic resource* is something that is *scarce* and *capable* of producing *cash* inflows or reducing *cash* outflows, directly or indirectly, alone or together with other economic resources. Economic resources that arise from contracts and other binding arrangements are unconditional promises and other abilities to require provisions of economic resources, including through risk protection; *a right or other access that others do not have* enables the entity to use the economic resource and its use by others can be precluded or limited. A right or other access that others do not have is *enforceable by legal* or *equivalent means*.

The terms/criteria are further discussed below.

Economic resource

32. As mentioned above, the proposed new definition does not include "from which future economic benefits are expected to flow to the entity". Instead an economic resource is

explained as something that is capable of producing cash inflows or reducing cash outflows.

33. The pro-active project staff has observed that the term ´economic resource´ as used in the proposed new definition as well as the amplifying text leads to uncertainties as to what is and what is not an asset.

No likelihood but capability

34. The current definition of an asset states that a resource is something from which future economic benefits are expected to flow to the entity.

35. According to the IASB/FASB staff, the term 'expected' does not indicate that the item in question needs to be certain to meet the definition[16] of an asset. The IASB/FASB staff argues that the current FASB definition is based on that understanding and the IASB/FASB staff thinks that similar reasons resulted in the inclusion of 'expected' in the IASB definition[17]. The IASB/FASB staff therefore concludes that there is no need for a high likelihood of future economic benefits for the definition to be met. This is contrary to how some have interpreted the term. According to the alternative interpretation, the term 'expected' implies a 'high probability' and the criterion therefore precludes many items from meeting the definition of an asset.

36. The amplifying text of the proposed new definition states that an economic resource is ´scarce´ and is ´capable of ´ producing cash inflows or reducing cash outflows, directly or indirectly, alone or with other economic resources. The word 'capable' does not seem to be a discriminating feature. It would probably be relatively easy to determine whether or not an item would meet this criterion, as many things can be said to be capable of producing cash flow, especially if assessed on a gross basis.

37. The pro-active project staff notes that this for example was the case when it assessed whether know-how meets the proposed new definition of an asset (see appendix 2 paragraphs 108 - 110). The pro-active project staff observed that most expenditure - or rather the things they lead to - are capable of producing cash inflows or reducing cash outflows.

38. The pro-active project staff is therefore concerned that the proposed new definition sets very low hurdles which would lead to many items meeting the definition of an asset. These assets would afterwards have to be tested against the recognition criteria and, if recognised, measured at a very low amount. The pro-active project staff is concerned that this process would (not always) pass a cost-benefit test.

39. Compared to the current definition, the pro-active project staff's analysis of selected arrangements (see appendix 1 and 2) showed that the proposed new definition would result in many more items meeting the definition of an asset than if the term 'expected' in the current definition is interpreted as a 'high likelihood'. For example, if know-how/knowledge acquired as a result of research expenditures meets the other criteria of the definition of an asset, it would be an asset under the proposed new definition of an asset, but in many cases not under the current definition if 'expected' is interpreted as a

[16] IASB: Agenda Paper 16C for the 16 October 2007 IASB meeting, paragraph 26.
[17] IASB: Agenda Paper 16C for the 16 October 2007 IASB meeting, paragraph 26.

'high likelihood' (see appendix 2 paragraph 117(a)). The same is the case for an assembled work force (appendix 1 paragraph 59(a)), a lottery ticket (appendix 1, paragraph 73(a)), an offer of future discounts to potential customers (appendix 1, paragraph 94(a)), and an unused tax loss (appendix 2, paragraph 168(a)). The change would also affect the number of contracts (appendix 2, paragraph 144(a)), licences to operate in a restricted market (appendix 2, paragraph 156(a)) and goodwill items (appendix 1, paragraph 84(a)) that meets the definition of an asset. However, if 'expected' is interpreted as a likelihood just greater than nil, the change would have no effect.

40. Also, the pro-active project staff is concerned about its observation that the notion 'capable' may be understood differently. Diverging views have been expressed within the pro-active project working group and differences have also been observed between the analysis carried out by the pro-active project staff and the IASB/FASB staff respectively. Examples of such diverging views were, among other things, onerous contracts (see paragraphs 136 - 141 of appendix 2) which some considered to be an asset in case it can be sold to a third party that can make them profitable, even though the chances are remote. Others found it an odd result when seen from the perspective of the reporting entity.

41. The IASB/FASB staff seems to admit part of the problem by stating that "capable of producing cash inflows or reducing cash outflows is an incomplete description of what constitutes an economic resource"[18].

Focus on future cash flows

42. According to the amplifying text, a present economic resource is something that is capable of producing cash inflows or reducing cash outflows, directly or indirectly, alone or together with other economic resources. This text seems to suggest that in order to meet the definition of an asset an item should be capable of contributing to cash flow effects in all circumstances. The pro-active project staff believes that something that would be able to contribute to future cash flows in a very indirect manner could also be an economic resource, and therefore doubts that the focus should be on the cash flows. In some instances – for example when assessing whether cash on hand would meet the proposed new definition of an asset (see appendix 1, paragraph 28(a)) - the pro-active project staff found that a term like ´economic benefits', used in the current definition of an asset would perhaps fit better. The notion of 'economic benefits' seems wide enough to incorporate cost avoidance, service potential and opportunity costs, which all seem to be relevant when describing an economic resource.

43. The pro-active project staff is, however, aware that the words 'directly or indirectly' in connection with the discussion of cash flows in the amplifying text may include service potential and opportunity costs. If this is the intention, a few additional words in the amplifying text could clarify the intention.

Promise/right versus property item

44. During its assessment of whether or not an account receivable (appendix 1 paragraph 41) meet the proposed new definition of an asset, the pro-active project staff noted that

[18] IASB: Agenda Paper 16C for the 16 October 2007 IASB meeting, paragraph 32.

it was not clear from the analyses performed by the IASB/FASB staff whether the promise of future cash flows or the property item was the economic resource.

45. When assessing an account receivable (see appendix 1, paragraphs 35 - 38), the pro-active project staff noted that in the case of a property lease the IASB/FASB staff regarded the contractual promise inherent in the leasing contract rather than the leased item (the property item) as the economic resource. On the other hand, when assessing raw material inventory and proven oil reserves, the IASB/FASB staff regards the property item, and not the attached promises as the economic resources[19].

46. Thus, sometimes the promise of future cash flows is referred to as the economic resource. In other cases it is the property item. No justification seems to be provided by the IASB/FASB staff, which explains the rationale for the two different applications of the notion of economic resource. If the different application of the notion is intended, and deemed to be correct, the pro-active project staff thinks it is important that there is an underlying principle that explains what determines the switch from the promise to the property item when defining an economic resource and that this principle is clearly described.

47. The issue of distinguishing between a right and the property item was also raised, when assessing whether or not know-how would meet the proposed new definition of an asset (see appendix 2, paragraphs 112 - 114). The pro-active project staff concluded that perhaps it would be most logical to consider the contractual right as different parties could have different rights to the same property item. However, although the pro-active project staff did not find the amplifying text clear on this matter, it has the understanding that the IASB/FASB staff would consider the property item to be the asset.

48. In addition, in relation to the analysis of an offer of future discounts to potential customers (see appendix 1, paragraphs 91 - 92), the pro-active project staff notes that the IASB/FASB staff does not think that an economic resource exists before there is a contract, and an offer is not a contract. The pro-active project staff does not think that the requirement of a contract is evident from the proposed new definition.

Replacing 'control' with 'right or other access that others do not have'

Removing 'control'

49. As mentioned in paragraph 13(b) above, the IASB/FASB staff is of the opinion that the term 'control' in the context of an asset could be confusing. The pro-active project staff agrees that the lack of clarity is an issue that has caused problems in several areas of accounting, for example in IFRS 4 *Insurance Contracts* and IFRIC 12 *Service Concession Arrangements*.

50. Furthermore, the pro-active project staff's analysis of selected arrangements seems to confirm this problem. Firstly, it was unclear what constitutes control – is it for example the entity's right to the asset, the entity's ability to generate future economic benefits and/or the entity's ability to obtain future economic benefits that may flow from the asset. Secondly, the pro-active project staff did not find it clear whether or not a stolen

[19] IASB: Agenda Paper 16B for the 16 October 2007 IASB meeting, example 4 and 8.

item would be controlled (see appendix 1, paragraph 18). This lack of clarity became critical when the pro-active project staff assessed a lottery ticket (appendix 1, paragraph 73(b)), an assembled work force (appendix 1, paragraph 59(b)), and an improved market position (appendix 2, paragraph 128). In the improved market position example, the entity would not have the power to make sure that the improved position would result in increased cash flows. However, in some cases it would be able to and have the power to sell a new customer relationship or a position in the market and would also control the benefits resulting from the improved position.

51. The pro-active project staff therefore agrees that the term 'control' could cause confusion. However, the pro-active project staff does not agree on all the arguments used by the IASB/FASB staff in reaching this conclusion and the manner in which the IASB/FASB staff has dealt with the problem.

52. The IASB/FASB staff has pointed out that ´control´ is used in the existing IASB (and FASB) definition(s) of an asset as well as in all the definitions of assets the IASB/FASB staff has studied[20] and the IASB/FASB staff has noted that the term is not always interpreted consistently. In the view of the pro-active project staff, this has been claimed without mentioning which observations the IASB/FASB staff has made to justify this statement.

53. Also, the IASB/FASB staff has considered the current IASB definition of an asset, and noted that although the definition in paragraph 49 of the Framework focuses on ´a resource controlled by the entity´, paragraph 57 of the Framework discusses ´control of benefits´. The IASB/FASB staff therefore concludes that it is "not clear whether control applies to the resource, or to the ultimate benefits that the resource produces, or both".

54. In the opinion of the pro-active project staff, the argument for this conclusion is questionable. It is not clarified in the relevant agenda paper[21] of the IASB/FASB staff, that the discussion in paragraph 57 of the Framework deals with whether or not the right of ownership is essential. The paragraph is thus not explicitly dealing with what should be controlled. The paragraph seems to be dealing with a specific issue – a property held on a lease - and states that it is not the right of ownership that is the key feature, but the benefits which are expected to flow from the property that matter. On this basis it may therefore not be reasonable to conclude that there is a general lack of clarity on whether control applies to the resource or to the benefits that the resources produce. However, it could be argued that the paragraph demonstrates a lack of clarity in the current framework as to the meaning of control in the context of an asset and a need to eliminate that lack of clarity.

55. As a result of its observations, the IASB/FASB staff concludes that there are three things that could be controlled. The IASB/FASB staff illustrates this with a simple example of a fruit tree[22]. In this example there are three things that could be controlled:

    (a) the fruit tree,

    (b) the tree´s capability of bearing fruit and

[20] IASB: Agenda Paper 16C for the 16 October 2007 IASB meeting, paragraph 44.
[21] IASB: Agenda Paper 16C for the 16 October 2007 IASB meeting, paragraph 60.
[22] IASB: Agenda Paper 16C for the 16 October 2007 IASB meeting, paragraphs 62 – 67.

(c) any fruit that the tree bears that can be sold for cash.

The IASB/FASB staff´s analysis on the basis of these examples suggests that ´control´ might not be the best word to use to describe an entity´s link to resources, because "that seems to imply to some that the entity can control whether there will be any fruit"[23].

56. Instead, the IASB/FASB staff concludes initially that ´rights or other privileged access´ should replace ´control´ to "better reflect the manner in which an entity is associated with an economic resource than control"[24]. As it appears from paragraph 22 above, this proposal to describe the link to the entity was later amended to ´a right or other access that others do not have´.

57. One of the reasons for replacing ´control´ is the perception that "rights are the most common mechanism that society uses to distinguish who has access to specific resources (i.e. to distinguish who is linked to a resource)"[25]. However, it is not clear from the available documents on what basis this conclusion has been reached and why these notions are deemed to be more appropriate and understandable than the notion of ´control´. The pro-active project staff believes that the considerations of the definition of an asset would have benefited from a richer discussion on the pros and cons of the various notions, including ´control´, representing the entity´s linkage to an asset.

58. It is therefore the view of the pro-active project staff, that the IASB/FASB staff's conclusion may lack sufficient backing because no attempt seems to have been made in the IASB/FASB staff´s discussion to clarify what is meant by control in the context of an asset.

59. As noted in one of the IASB/FASB staff's agenda papers[26], the replacement of 'control' received the least support from those with whom the IASB/FASB staff consulted. Some of the respondents suggested that it might be better to explain how the term ´control´ should be used, rather than replace the term. Others struggled with the term´ rights or other privileged access´ (note that this was extracted from a previous version of the proposed new definition), and asked whether this is a clearer term than 'control' (this is assessed below).

60. The pro-active project staff agrees with those who have suggested that phase B of the Framework project would have been the right place to address the meaning of ´control` in the context of an asset. This would also have provided an opportunity to consider whether control of an asset should be used in more or less the same sense as the notion of control used for consolidation accounting purposes.

Including 'right or other access that others do not have'

61. The proposed new definition describes an economic resource as something to which the entity has either a right or other access that others do not have. The amplifying text states that "a right or other access that others do not have enables the entity to use the economic resource and its use by others can be precluded or limited. A right or other access that others do not have is enforceable by legal or equivalent means."

[23] IASB: Agenda Paper 16C for the 16 October 2007 IASB meeting, paragraph 66.
[24] IASB: Agenda Paper 16C for the 16 October 2007 IASB meeting, paragraph 46.
[25] IASB: Agenda Paper 16C for the 16 October 2007 IASB meeting, paragraph 47.
[26] IASB: Agenda Paper 16C for the 16 October 2007 IASB meeting, paragraph 49.

62. When assessing whether or not cash on hand meets an earlier proposed new definition of an asset, the IASB/FASB staff used physical possession as an indicator of an entity's access to the cash (see appendix 1, paragraph 24). The pro-active project staff does not think that physical possession would necessarily mean that an entity would have a 'right or other access that others do not have'. It seems, for example, very difficult to argue that the right or other access a thief has to stolen cash is enforceable by legal means. It seems that those from whom the cash has been stolen would have a stronger right to the cash than the thief. Therefore, physical possession can only be 'a right or other access that others do not have' if the right or other access is enforceable by 'equivalent means'. The question therefore arises what 'equivalent means' are. The pro-active project staff does not think this question has been answered so far in the documents published by the IASB/FASB staff.

63. It seems essential to clarify or replace the term 'equivalent means' as the interpretation of the term would often be the critical factor when determining whether or not an arrangement meets the definition of an asset. The analyses of selected arrangements carried out by the pro-active project staff, showed that it was a relevant issue when determining whether or not cash on hand (appendix 1, paragraph 28(b)) an assembled work force (see appendix 1, paragraph 59(b)) and an improved position in the market place/new customer relationships resulting from marketing efforts (see appendix 2, paragraph 126 were items to which "the entity has either a right or other access that others do not have".

64. Part of an assembled work force seems to be the organised and trained personnel. This part of the assembled workforce does not seem to be accessible through enforceable legal means as the personnel may be free to leave whenever they want. Therefore, an entity has only "a right or other access that others do not have" to this part of an assembled workforce if the right or other access is enforceable by 'equivalent means'. In the case of an improved position in the market place it seems clear that that the entity has access that others may not have. However, it also seems clear that this access in not enforceable by legal means. Again, the entity therefore only has "a right or other access that others do not have" if this right or access is enforceable by 'equivalent means', which is unclear.

65. When assessing whether or not an entity would have a right or other access that others do not have to know-how/knowledge acquired as a result of research expenditure, the pro-active project staff also found it difficult to see the difference between 'a right' and 'other access' (see appendix 2, paragraph 117(b)). As both 'a right' and 'other access' are included in the proposed new definition, there should be a significant difference between those notions. Otherwise, both notions should not be included. However, it is not clear which difference between the notions is intended to be conveyed, which may lead to interpretation problems.

<u>Other effects</u>

66. The analysis of selected arrangements showed that – depending on how control is interpreted - the proposed new definition could have an effect for a deferred tax item for an unused tax loss when losses carried forward cannot be sold (see appendix 2, paragraph 168(b)). The item seems to meet the proposed new definition as an entity would have "a right or other access that others do not have" but as the 'control' is subject to future developments, the entity may not control the item.

Past events

67. A noted above in paragraph 13(c) and 14(c), the IASB/FASB staff has chosen to replace the requirement of a past event in the current asset definition with a focus on what exists at the balance sheet date. The pro-active project staff may have some concerns about the removal of the past event requirement as:

    (a) It may result in preparers paying less attention to past events when considering an asset for recognition on the balance sheet. As a result, the emphasis and purpose of financial statements may move away from stewardship – which focuses on past transactions - towards the single purpose of predicting future cash flows. The PAAinE has previously expressed its views on this subject in a paper on ´Stewardship/Accountability as an objective of financial reporting´, June 2007.

    (b) It may result in more items meeting the definition of an asset perhaps without meeting the recognition criteria. This would increase the burden of financial statements preparers and auditors in relation to determining which assets to recognise. The pro-active project staff did not directly identify any cases where this was the case in its analysis of selected arrangements. However, when assessing an improved position in the market place/new customer relationships resulting from marketing efforts (see appendix 2, paragraph 128), it was assumed that the improved position was a result of the past marketing effort but it was also noted that it would normally be difficult to show such a relationship. Accordingly, it could be assumed that the difficulties of identifying the past event would lead to fewer items being identified as assets. On the other hand, the pro-active project staff could also be concerned if difficulties in identifying the past transaction would result in an item not meeting the definition, and the pro-active project staff acknowledges that the IASB/FASB staff notes that the identification of a past transaction may be distracting[27].

    (c) The identification of a past transaction could be helpful when identifying separate assets. During its assessment of an assembled workforce (see appendix 1, paragraphs 47 - 59) the pro-active project staff had some discussions about what should be included in the term 'an assembled workforce'. The pro-active project staff found it helpful to discuss what past transaction lead to the asset 'an assembled workforce' and what past transaction lead to other assets, for example, a good brand name. A good brand name could ease the recruitment of new staff members, but should not be identified as part of the 'assembled workforce' asset.

Present versus future items

68. The current definition in the FASB concept statement no. 6 focuses on probable future economic benefits. The amplifying text states "The kind of items that qualify as assets under the definition [...] are also commonly called economic resources [...]. The common characteristic possessed by all assets (economic resources) is service potential or future economic benefits, the scarce capacity to provide services or benefits to entities that use them". According to the IASB/FASB staff, these sentences seem to treat economic resources (present items) and economic benefits (future items)

[27] IASB: Agenda Paper 16C for the 16 October 2007 IASB meeting, paragraph 37.

interchangeably[28]. The IASB/FASB staff thinks that the focus should only be on things that exist (stocks/present items) rather than changes in those things (flows/future items). The references to flows should therefore be removed. The IASB/FASB staff thinks that the current IASB definition avoids this mix by focusing only on the 'resource' (a stock).

69. The pro-active project staff supports that the focus should be on what exists on the balance sheet date (the stock). Contrary to the FASB definition, the proposed new definition does so. However, when determining whether something is an 'economic resource' it is necessary to assess the capability of producing cash inflows or reducing cash outflows (see paragraph 16 (e)).

70. When assessing selected arrangements, the pro-active project staff found that the specification that the resource should be 'present' could have some implications. If a deferred tax item for an unused tax loss cannot be transferred, it was found that it is not clear whether or not this resource is present – and therefore it is unclear whether or not this item is an asset under the proposed new definition (see appendix 2, paragraph 168(c)).

71. Although the pro-active project staff agrees with the IASB/FASB staff that the focus should be on what exists on the balance sheet date, it does not agree with one of the arguments of the IASB/FASB staff for doing so. When assessing whether goodwill (see appendix 1, paragraph 74) meets the current as well as the proposed new definition of an asset, the IASB/FASB staff refers to "synergies observable from physical observation and financial position and ownership rights set out in the contract" to describe the linkage to the entity and the existence of a present economic resource[29]. The pro-active project staff believes that a statement that synergies could be observable from physical observation is a peculiar statement. It seems to be impossible to observe synergies that are expected to materialize. In the same analysis, the IASB/FASB staff also comments that it has found it "easier to focus on the synergies (an economic resource) than on probable future economic benefits". This comment is difficult to understand, as synergies seem to be nothing but an expectation of future economic benefits.

Chapter 5 – Concluding remarks

72. This paper has presented the observations made by the pro-active project staff as a result of its efforts to make an assessment of the IASB's proposed new definition of an asset.

73. The pro-active project staff appreciates that the IASB/FASB staff has evaluated the extent to which the existing IASB definition could be converged as well as improved prior to proposing the new definition to the IASB and that it could be argued that the focus should be on convergence rather than on improvements.

74. Based on the above analysis, the pro-active project staff has identified the following benefits of the proposed new definition:

[28] IASB: Agenda Paper 16C for the 16 October 2007 IASB meeting, paragraphs 16 – 17.
[29] IASB: Agenda Paper 16B for the 16 October 2007 IASB meeting, example 16.

(a) It does not include the term ‘control’. The term ‘control’ in the context of an asset is unclear and has resulted in different interpretations of the current asset definition.

(b) It does not include the requirement of a past event. This will remove the problems related to identifying the past event.

(c) The proposed new definition – including the amplifying text - explains to a greater extent than the current definition what an (economic) resource is.

75. Also, the pro-active project staff supports the conclusion of the IASB/FASB staff that the financial statements should focus on things that exist (sometimes referred to as stocks) rather than changes in those things (sometimes referred to as flows) and its reflection in the proposed new definition that focuses on what exists on the date of the financial statements. However, it should be noted that when determining whether something is an ‘economic resource’ it is necessary to assess the capability of producing cash inflows or reducing cash outflows (see paragraph 69).

76. The pro-active project staff has also identified the following weaknesses of the proposed new definition:

(a) The focus on future cash flows in the amplifying text’s specification of an ‘economic resource’ does not seem wide enough to incorporate cost avoidance, service potential and opportunity costs. The pro-active project staff thinks this could be solved by focusing on ‘benefits’ as in the current definition, or to specify that the words ‘directly or indirectly’ in the amplifying text on the cash flows relating to an ‘economic resource’ would include things like cost avoidance, service potential and opportunity costs.

(b) Neither the proposed new definition nor the amplifying text satisfactorily address whether the promise of future cash flows rather than the property item itself - or both - represent the asset. It is therefore not clear what the subject of the analysis is, when there is one underlying resource, but more than one right.

(c) The amplifying text explains to a certain extent what is meant by “a right or other access that others do not have”. The text says that “a right or other access that others do not have is enforceable by legal or equivalent means”. The exact meaning of ‘equivalent means’ is, however, not explained and is thus unclear.

(d) It is not clear what ‘a right’ is and what is ‘other access that others do not have’, nor the difference between the two terms.

(e) There is no reference to a ‘past event’ which could move the emphasis and purpose or financial statements away from stewardship, result in more items meeting the definition of an asset and thereby increasing the burden for preparers in determining what assets to recognise and/or in measuring recognised assets. The removal of this reference could also make it more difficult to identify separate assets.

77. The pro-active project staff would also note that if ‘expected’ in the current definition is interpreted as a ‘high likelihood’ the new definition’s use of ‘capable’ would probably be easier to use, but would result in many more items meeting the definition of an asset.

These assets would afterwards have to be tested against any recognition criteria and, if recognised, measured at a very low amount. The pro-active project staff is of the view that this process of measuring would (not always) pass a cost-benefit test. On the other hand if 'expected' is interpreted the way the FASB/IASB has stated it should be interpreted, the effect would probably not be significant.

78. Another effect, but not necessarily a weakness, would be that some arrangements meeting the current definition of an asset would not meet the proposed new definition and vice versa.

79. Although the list above seems to indicate that there are more weaknesses than benefits associated with the proposed new definition, it may not be the same thing as saying that the current definition is better than the proposed new definition.

80. For example, the replacement of 'control' with "to which the entity has either a right or other access that others do not have" has removed the unclear term 'control'. However, the proposed new definition introduces 'equivalent means' in the amplifying text, which the analysis performed by the pro-active project staff has shown also to be an unclear term as long as no further explanation is provided. It could thus be argued that the IASB/FASB staff has just replaced one unclear term with another. Indeed, the pro-active project staff does not understand why the IASB/FASB staff has not tried to clarify the meaning of 'control' instead of or before replacing the term. Some efforts in this respect have already been done in relation to, for example, IFRIC 12 and IFRIC 18. If the 'control' term is replaced by another unclear term, further clarification work will have to be done. However, it seems worth noting that the interpretations of 'control' and 'other means' were not critical for the conclusion for arrangements analysed by the pro-active project staff (see appendix 1 and 2). The replacement of 'control' would therefore make it easier in some cases and more difficult in other cases to determine what an asset is. It is therefore difficult or even impossible to conclude whether the replacement made is an improvement or not.

81. Similarly, the pro-active project staff recognise that the deletion of 'as a result of a past event' would remove the problems related to identifying the past event, even though, on an overall basis, it thinks that the deletion is probably a failure as it may:

    (a) move the emphasis and purpose of financial statements away from stewardship,

    (b) result in more items meeting the definition of an asset and thereby increasing the burden for preparers and auditors to determine what assets to recognise,

    (c) make it more difficult to identify separate assets.

82. Based on the analysis above, it is thus impossible to say that the proposed new definition is better or worse than the current definition. In some situations, the proposed new definition seems better than the current definition. In other cases this is not the case. Although a clear conclusion cannot be stated, the analysis has, however, clearly identified at least some of the problems that should be addressed in preparing a new definition.

83. It is the hope of the pro-active project staff that IASB will take the observations and findings discussed in this paper and its appendices into account before completing a new definition of an asset.

APPENDIX 1

Comments on the IASB/FASB Analysis of a series of Economic Arrangements

Analysis method applied by the IASB/FASB staff and the pro-active project staff

1. In its Agenda Paper 16B produced for the October 2007 IASB Board meeting, the IASB/FASB staff tested 24 economic arrangements against a proposed working definition of an asset, and the current IASB definition. As previously noted, the test was not carried out on the currently proposed new definition, but on an earlier version.

2. According to the earlier proposed definition "an asset is a present economic resource to which the entity has a present right or other privileged access." According to the amplifying text of this earlier proposal:

   (a) "Present means that both the economic resource and the right or other privileged access to it exist on the date of the financial statements.

   (b) An economic resource is something that has positive economic value. It is scarce and capable of being used to carry out economic activities such as production and exchange. It can contribute to producing cash inflows or reducing cash outflows, directly or indirectly, alone or together with other economic resources. Economic resources include non-conditional contractual promises to pay cash, deliver goods, or render services. Rendering services includes standing ready to perform or refraining from engaging in activities that the entity could otherwise undertake.

   (c) A right or other privileged access enables the entity to use the present economic resource directly or indirectly and precludes or limits its use by others. Rights are legally enforceable or enforceable by equivalent means (such as by a professional association). Other privileged access is not enforceable, but is otherwise protected by secrecy or other barriers to access."

3. Although the tests performed by the IASB/FASB staff related to an earlier version of a proposed new definition it is the view of the pro-active project staff that the conclusions reached by the IASB/FASB staff would apply equally to the proposed new definition unless otherwise stated.

4. When considering whether or not an economic arrangement was an asset, the IASB/FASB staff asked:

   (a) is there an economic resource?

   (b) does it presently exist?

   (c) is there a link between the entity and the economic resources?

5. The test carried out by the IASB/FASB staff resulted in 20 of the economic arrangements being considered as assets and four of the arrangements being considered as not being assets.

6. The 20 economic arrangements considered to be assets according to the IASB/FASB staff analysis are:

   (a) Ex 1 Cash on hand

   (b) Ex 1.A Cash in bank and other deposits

   (c) Ex 2 Account receivable

   (d) Ex 2.A Portfolio of accounts receivable

   (e) Ex 3 Prepayment for goods and services

   (f) Ex 4 Raw material inventory, Plant and machinery, Freehold interest in land

   (g) Ex 5 Property lease

   (h) Ex 6 Warranty held on machinery

   (i) Ex 7 Drilling rights for oil

   (j) Ex 8 Proven oil reserves

   (k) Ex 9 Non patented invention

   (l) Ex 10 Loan guarantee held

   (m) Ex 11 Assembled workforce

   (n) Ex 12 Internally developed list of customers

   (o) Ex 13 Established customer relationships

   (p) Ex 14 Contractual right to future music revenue from existing recordings

   (q) Ex 14.A Contractual rights to future music revenues from future recordings

   (r) Ex 15 Non-compete agreement

   (s) Ex 16 Goodwill

   (t) Ex 17 Lottery ticket

   (u) Ex 18 Insurance coverage held

   (v) Ex 19 Insurance contract issued with renewal options

   (w) Ex 20 Lease contract with rent based only on future sales.

7. The four economic arrangement that were not considered to meet the proposed new definition of an asset in the IASB/FASB analysis were:

   (a) Ex 21 Air

(b) Ex 22 Cash held in trust

(c) Ex 23 Offer of future discounts to potential customers

(d) Ex 24 Future sales by an established business.

8. The pro-active project staff has selected arrangements from the above lists for an analysis. The selected arrangements range from simple to more complex. The selected arrangements are:

(a) cash on hand,

(b) account receivable,

(c) assembled workforce,

(d) goodwill,

(e) lottery ticket,

(f) offer of future discounts to potential customers.

9. When testing whether cash on hand meets the definition of an asset, the nature of the "link" between an entity and the economic resource is in focus.

10. When testing whether account receivables meet the definition of an asset, the item to be considered as an asset is in focus.

11. The tests of an assembled workforce, goodwill, lottery ticket and offer of future discounts to potential customers particular address the notion of an economic resource.

12. When testing the current definition of an asset, it has been considered whether:

(a) there is a resource;

(b) future economic benefits are expected to flow to the entity from that resource;

(c) the resource is controlled by the entity; and

(d) that control arise as a result of a past event or transaction.

13. When testing the proposed new definition of an asset, it has been considered whether:

(a) there is a present economic resource; and

(b) the entity has a right or other access that others do not have to that economic resource.

Cash on Hand

The IASB/FASB staff analysis

14. The IASB/FASB staff concludes that cash on hand meets the definition of an asset as it is an economic resource with a linkage to the entity established by physical possession. The economic resource and the right to it are deemed to exist on the balance sheet date, because they are observable.

Analysis of the current IASB definition performed as part of the pro-active project

Is there a resource?

15. The current framework does not clearly explain what is meant by a resource. As the pro-active project staff sees it, it has not been the intention of the IASB to introduce a new meaning of term 'resource' as part of the work related to the proposed new definition. The pro-active project staff has therefore assumed that the meaning of 'resource' in the current definition of an asset is similar to the meaning of an 'economic resource' in the proposed new definition. If so, cash on hand seems to be a resource, because it can result in future economic benefits, e.g. earn interest, and it is also considered to be scarce (that is not freely available), although this is not an explicit requirement that follows from the current definition.

Are future economic benefits expected to flow to the entity from that resource?

16. Future economic benefits would be expected to flow to the entity from cash on hand. Cash provides the entity with the ability to obtain other economic resources and could for example be used to earn interest.

Is the resource controlled by the entity?

17. The pro-active project staff does not think it is clear what is meant by ´control´ in the current definition of an asset. Control could for example relate to the asset, the asset's ability to generate future economic benefits or the future economic benefits that may flow from the asset. Provided that control of cash means that the entity can cause cash inflows to arise from the resource, the pro-active project staff is of the view that cash is controlled by the entity. The same would be the case if control relates to the entity's ability to obtain the future economic benefits that may flow from the asset.

18. To test whether this tentative conclusion is convincing and works in practice, the pro-active project staff has considered the case of stolen cash. Is stolen cash in the hands of an entity something that the entity controls? On the one hand, it could perhaps be argued that the entity would control the asset itself (by physical but probably not by legal means), could cause cash inflows to arise from the stolen cash, for example by using it together with (other) economic resources and would control the benefits that may arise. Furthermore in the case of fungible assets (and cash is a fungible asset), one could argue that the entity could get an identical amount of cash if the stolen cash was returned to where it was stolen from. On this basis stolen cash is deemed to be controlled by the entity. On the other hand, it may be difficult to accept a meaning of control that is based on a criminal act, not at least because the act of stealing seems to take away from the meaningfulness of the notion of ´an asset of the entity´.

Does that control arise because of a past event or transaction?

19. Based on the discussion in the foregoing paragraph, there seems to be some sort of control. There is also a past event through which the entity has acquired or received the cash on hand. Therefore, it is assessed that the control arises because of a past event or transaction.

Analysis of the proposed new definition performed as part of the pro-active project

Is there a present economic resource?

20. It follows from the discussion in paragraph 15 above that the pro-active project staff thinks that cash on hand is an economic resource.

21. According to the amplifying text, a present economic resource is something that is capable of producing cash inflows or reducing cash outflows, directly or indirectly, alone or together with other economic resources. This text seems to suggest that to meet the definition of an asset an item should be capable of contributing to cash flow effects in all circumstances. A term like ´economic benefits', used in the current definition of an asset would perhaps fit better, because this notion is wide enough to incorporate cost avoidance, service potential and opportunity costs, which all seem to be relevant when describing an economic resource.

22. However, cost avoidance etc. would reduce cash outflows at some point in the future, which may be understood as a direct - or indirect – relationship to an economic resource. More generally, if the words ´directly or indirectly´ in the amplifying text on the cash flows relating to an ´economic resource´ would include things like service potential and opportunity costs, this should be clarified in a few words.

23. An economic resource is present if on the date of the financial statements both the economic resource and the right or other access to it - that others do not have - exists. As stated below, the pro-active project staff has assessed that the right or other access – that others do not have – exists. Accordingly, an entity's cash on hand at the date of the financial statements is present.

Does the entity have a right or other access that others do not have?

24. The IASB/FASB staff has used physical possession as an indicator of an entity's access to cash on hand. The IASB/FASB staff has reached this conclusion by applying the then available proposed definition of an asset ("an asset is a present economic resource to which the entity has a present right or other privileged access") and the then available amplifying text on ´a right or other privileged access´ ("*rights* are legally enforceable or enforceable by equivalent means (such as by a professional association). Other privileged access is not enforceable, but is otherwise protected by secrecy or other barriers to access".) The IASB/FASB staff may have reached another conclusion if the currently proposed definition had been tested. On the other hand, the significant similarities between the two versions of the definition may lead to the conclusion that the IASB/FASB staff would have referred to physical possession to establish the linkage to the entity also under the proposed new definition of an asset. Physical possession does not seem to follow from the proposed new definition and it is not clear which relevance this criterion might have.

25. According to the amplifying text a right or other access that others do not have is enforceable by legal or equivalent means. It seems difficult to argue that the possession of or access to stolen cash is enforceable by legal means. Nor can it be argued that the use of the stolen cash can be precluded or limited; those from whom the cash is stolen seem to have a stronger right to the cash than the thief. It therefore seems as if an entity would not have a right or other access that others do not have to stolen cash. However, according to the amplifying text, the right or other access that others do not have could also be enforceable by "equivalent means". The intended meaning is unclear as the notion is not explained further. It is therefore difficult to conclude whether an entity has a right or other access that others do not have to stolen cash.

26. It is noted that the IASB/FASB staff has also used possession in other examples to show the linkage to the entity[30]. These examples are, however, not discussed in this appendix.

Conclusion

27. In conclusion, the above discussion shows that cash on hand generally meets the current and the proposed new definition of an asset although it is difficult to conclude how ´control´ and 'equivalent means' should be understood in this context.

28. In considering the proposed new definition the analysis suggests that:

    (a) The term 'economic resource' should be replaced by 'economic benefits' as the benefit notion seems better to incorporate cost avoidance, service potentials and opportunity costs, which all seem to be relevant for a description of an economic resource. Alternatively, it could be clarified in a few words, that the words ´directly or indirectly´ in the amplifying text on the cash flows relating to an ´economic resource´ would include things like these.

    (b) The replacement of 'control' by "to which the entity has either a right or other access that others do not have" would have some benefits. The meaning of control in the current definition is unclear. It is, for example, unclear whether or not a stolen item would be controlled by the thief. This would be the case if control would arise as a result of physical possession and perhaps also if it is the ability to generate future economic benefits or the economic benefits that may flow from the asset that should be controlled. According to the amplifying text to the proposed new definition, a right or other access that others do not have is enforceable by legal or equivalent means, which indicates that a stolen item is not an asset. However, as the term 'equivalent means' is unclear, the pro-active project staff is not fully convinced that physical possession could not be such another 'mean'. Indeed, physical possession was – although perhaps inappropriately – used by the IASB staff in its analysis to establish the linkage to the entity. On balance, the replacement of control therefore has removed some uncertainty but the introduction of 'equivalent means' has introduced new uncertainties and the term would therefore have to be explained further before the proposed new definition could be said to have significantly reduced any uncertainties related to the term of 'control'.

[30] IASB: Agenda Paper 16B for the 16 October 2007 IASB meeting, example 12 (internally developed list of customers) and example 13 (established customer relationships).

(c) The specification that the resource to be considered is an 'economic' resource did not have any effect on the analysis. This is not surprising as the analysis assumed that the meaning was unchanged. The meaning of a 'resource' has, however, become clearer in the proposed new definition.

Account receivable

The IASB/FASB staff´s analysis

29. The IASB/FASB staff concludes that an account receivable (that is collectible) meets the proposed new definition of an asset. There is an economic resource, the unconditional promise by another party to pay cash and the linkage is there, that is the contractual right identifying the entity as the beneficiary. Both the economic resource and the right - as set out in the underlying ´contract´ (written or oral) - exist on the balance sheet date.

Analysis performed as part of the pro-active project - the current definition

Is there a resource?

30. Assuming that a resource is something that can result in future economic benefits, an account receivable is a resource as it is a promise of future cash inflows.

Are future economic benefits expected to flow to the entity from that resource?

31. In the view of the pro-active project staff, future economic benefits seem to be expected to flow to the entity from the resource, no matter how ´expected´ is interpreted. An account receivable that is collectible will result in the collection of cash or in cash from sale of it.

Is the resource controlled by the entity?

32. Assuming that control by the entity means that the entity can cause cash inflows to arise from the account receivable, there is control, because the entity is party to the agreement underlying the account receivable and is identified as the beneficiary. Control also seems to exist in relation to the entity's ability to obtain future economic benefits that may flow from the asset.

Does that control arise because of a past event or transaction?

33. As mentioned above, it is the view of the pro-active project staff that the entity could be said to control the resource. Also, this control is a result of a past event - the (sales) transaction creating the account receivable.

Analysis performed as part of the pro-active project - the proposed new definition

Is there a present economic resource?

34. The IASB/FASB staff describes the economic resource as an unconditional promise by another party to pay cash. Thus the promise seems to be the economic resource. The

property item and the promise are viewed to be present based on what is set out in the underlying contract.

35. The pro-active project staff shares the view of the IASB/FASB staff that an account receivable is an economic resource, because it will result in collection of cash. Also, the pro-active project staff agrees that the economic resource is present as it is set out in a contract. However, the analysis of the IASB/FASB staff raises the question whether the promise or the property item is the economic resource.

36. Perhaps the case of account receivables does not illustrate the issue as clearly as, for example, in the case of a leased building. The building (the property item) may be identified as the resource giving rise to future cash inflows, but the definition of the economic resource might alternatively identify the promise/right inherent in the leasing contract as the economic resource. In fact, it is concluded that the "unconditional promise from another party to allow use of the property for a specific future period" is the economic resource in an IASB/FASB staff analysis of a property lease[31]. Thus the promise inherent in the leasing contract rather than the building (the property item) is identified as the economic resource.

37. However, it seems as if this interpretation is not applied consistently by the IASB/FASB staff, as the economic resource sometimes seems to be the property item. This is the case for raw material inventory[32] and proven oil reserves[33]. In these examples the property items, and not the attached promises, are identified as the economic resources by the IASB/FASB staff.

38. Thus, sometimes the promise is referred to as the economic resource and in other cases reference is made to the property item. No justification seems to be provided by the IASB/FASB staff, which explains the rationale for the two different applications of the notion of economic resource. If the different applications of the notion are correct, the pro-active project staff thinks it is important that there is an underlying principle that explains what determines that the promise rather than the property item is the economic resource and that this principle is clearly described.

Does the entity have a right or other access that others do not have?

39. When the IASB/FASB staff did their analysis, it did not explicitly consider whether an entity would have a right or other access that others do not have in relation to an account receivable. However, the pro-active project staff thinks that an entity has access to the account receivable because of the contractual right that identifies the entity as the beneficiary and that there is access through an enforceable right in line with the proposed new definition ("a right or other access that others do not have").

Conclusion

40. As it appears from the analysis above, the pro-active project staff is of the opinion that an account receivable meets the definition of an asset under the current and the proposed new definition of an asset.

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[31] IASB: Agenda Paper 16B for the 16 October 2007 IASB meeting example 5.
[32] IASB: Agenda Paper 16B for the 16 October 2007 IASB meeting example 4.
[33] IASB: Agenda Paper 16B for the 16 October 2007 IASB meeting example 8.

41. In considering the proposed new definition, the analysis showed that it is neither clear from the analysis of the IASB/FASB staff nor from the proposed new definition and the amplifying text whether the promise or the property item is the economic resource that should be considered. If the focus should be different from case to case, which may seem to be suggested by the analysis carried out by the IASB/FASB staff, any underlying principle for the treatment should be explained.

Assembled work force

The IASB/FASB staff´s analysis

42. In their analysis of an assembled workforce the IASB/FASB staff describes the economic resource component of an assembled work force as: "Organised and trained personnel (including, for example, established policies and procedures, and a human resources expertise to hire and maintain the workforce) which enables work to be performed in an efficient manner to produce goods for sale or provide services, or which may be sold in combination with other assets, each of which can result in future cash inflows in addition to the cash inflows that could be obtained from the individual assets". The IASB/FASB staff also states that the term does not include the skills of the employees.

43. It is noted that in IFRS 3.B37, an assembled work force is described as: "an existing collection of employees that permits the acquirer to continue to operate an acquired business from the acquisition date".

44. Although the text in IFRS 3 refers to an acquisition, it explains an assembled work force in the same manner as in the IASB/FASB staff´s description: it is about a collection of employees, which enables work to be performed. However, the IASB/FASB staff´s description is richer as it incorporates policies and procedures and a human resources expertise to hire and maintain the workforce.

45. The ability of an entity to attract, hire and keep skilled employees may result from other factors than the efficiency of the human resource expertise. Those other factors include the reputation of the entity or its brand(s). When this is the case, it could be considered whether the related benefits are part of the assembled work force or the brand. However, in this analysis it is assumed to be a part of the brand.

46. The IASB/FASB staff concludes that an assembled work force meets the definition of an asset under the proposed new definition of an asset. The IASB/FASB staff concludes that it is an economic resource for the reasons provided in paragraph 42 above. There is a linkage to the entity, because the entity has access to the package represented by the assembled work force and because it is not presently accessible by other parties. Both the economic resource and the right to it presently exist, because - according to the IASB/FASB staff - the entity´s access to the organised and trained personnel are observable.

Analysis performed as part of the pro-active project - the current IASB definition

Is there a resource?

47. An assembled work force which enables work to be performed and which could be sold in combination with other assets is something that can result in cash inflows. It therefore seems to be an economic resource. An additional way of thinking about whether an assembled workforce is an economic resource is to consider the following: if an entity does not have an assembled work force it has to incur the costs of assembling one. It takes time and effort to put a workforce together, therefore an entity is better off having an assembled work force than not having it. An assembled work force may be seen as the thing which keeps the ´show running´ and enables work to be performed.

48. For these reasons an assembled work force seems to be a resource in the opinion of the pro-active project staff.

Are future economic benefits expected to flow to the entity from that resource?

49. Some believe that ´expected´ in the current definition of an asset implies that there must be a high likelihood of future economic benefits for this definition of an asset to be met. However, as stated above, the IASB/FASB staff has noted that the meaning of ´expected´ has been misinterpreted. They have pointed out that ´expected´ means that the probability of positive cash flows is greater than zero, nothing else in terms of likelihood. Based on this interpretation of ´expected´, future economic benefits are expected to flow to the entity as a result of an assembled work force, because it could produce cash inflows. However, if 'expected' is interpreted as a high likelihood, this part of the definition may not always be met.

Is the resource controlled by the entity?

50. It is arguably the entity that has the power to cause the cash inflow to arise from the assembled work force. Also the entity has the ability to obtain the benefits that may flow from the assembled work force.

51. An issue to consider is what is being controlled by an entity in connection with an assembled work force. The IASB/FASB staff notes in its analysis that the entity controls the organised and trained personnel, not the skills of the employees or the cash flows that might arise from the skills. The IASB/FASB staff does not, however, explain its understanding of what is meant by control in this context. For example, does control still exist if some of the employees could leave the entity?

52. In the view of the pro-active project staff, the existence of control could be challenged if some of the employees leave the entity. However, arguably the critical issue seems to be that the work force still exists under the control of the entity, irrespective of staff turnover. Policies and procedures remain and the human resources to hire and maintain may not be affected. It therefore seems as if the assembled work force is controlled by the entity.

Does that control arise because of a past event or transaction?

53. The setting up of the assembled work force and the creation of the policies and procedures to be applied represents a past event or a series of past events from which control arises. It is therefore the view of the pro-active project staff, that the control arises as a result of a past event or transaction.

Analysis performed as part of the pro-active project - the proposed new definition

54. In the view of the pro-active project staff, much of the discussion in paragraph (47) above applies as to the assessment of whether there is an economic resource. The conclusion in paragraph 47 is that the assembled work force is a resource - or with the language of the proposed new definition: an economic resource.

55. It may be argued that an assembled work force of a wrong size – where some employees will have to be laid off – is not an economic resource because it will contribute negatively to the cash inflows of an entity. It could be said that the size of the work force is not a part of what the term 'assembled work force' encompasses, however, the issue reflects that it may be necessary to determine what cash flows to consider, when determining whether or not an item is an economic resource under the proposed new definition as well as the current definition. In extreme situations, where it is not possible to lay off employees and the excess employees would not be able to do anything profitable, it could be argued that the assembled work force would not be capable of generating net cash inflows. The work force would, on the other hand, still be able to generate gross cash inflows. As mentioned earlier, the discussion about what cash flows to consider is a unit-of-account issue which is not dealt with in this paper.

Does the entity have a right or other access that others do not have?

56. The IASB/FASB staff concludes that there is linkage to the entity established by the entity´s access to the package.

57. The pro-active project staff is not sure about the precise meaning of ´the package´ referred to. Part of the package seems to be the organised and trained personnel and this part of the package is not accessible through an enforceable right in all circumstances; the personnel may be free to leave whenever they want. Access may be there through ´other means´ but it is not explained what the exact meaning of this notion is. Other parts of the package, e.g. policies and procedures and the human resource expertise to hire and maintain will generally remain. As far as these parts are concerned, there is access by the entity and an ability to limit other´s access to it. As long as there is access to the economic resource, the ability to produce cash inflows, the requirement referring to the linkage to the entity seems to be fulfilled. It is therefore tentatively concluded that an entity has access to an assembled work force.

Conclusion

58. An assembled work force would in most cases meet the current as well as the proposed new definition of an asset. In some cases, depending on what cash flows are to be considered, an assembled work force of a wrong size could be a liability. However, that would be the case under both definitions.

59. In considering the proposed new definition the analysis showed that:

    (a) The replacement of "from which future economic benefits are expected to flow to the entity" with an inclusion in the amplifying text that an economic resource is something that is producing cash inflows or reducing cash outflows, did not seem to affect the result of the analysis of an assembled workforce when 'expected' in the current definition is assumed to mean a likelihood just above zero. However, if 'expected' in the current definition is interpreted as a 'high likelihood' the proposed new definition would result in more assembled work forces meeting the definition of an asset as 'capable' only suggests a likelihood greater than zero. In assessing whether or not an item meets the definition of an asset, it is most likely easier to determine if something is 'capable' rather than having a 'high likelihood' of producing future cash flows. On the other hand, it will also result in more assets having to be assessed against any recognition criteria – and if recognised perhaps measured at a low amount. This is a task that could be costly without any corresponding benefits.

    (b) The replacement of 'control' by "to which the entity has either a right or other access that others do not have" had similar implications as those discussed in paragraph 28(b).

Lottery ticket

The IASB/FASB´s analysis

60. The IASB/FASB staff concludes that a lottery ticket meets the definition of an asset under the earlier proposed new definition of an asset. The IASB/FASB staff says that the economic resource is the unconditional promise of participation in the draw (with the possibility of winning the cash prize if the ticket is the winning ticket). Although the IASB/FASB staff considers that people thinking a lottery ticket is a right to future prizes from the winning lottery ticket rather than a promise from the lottery to allow the ticket-holder to participate in the drawing are focusing on the wrong economic resource (see paragraph 70 below), this may thus not appear clearly from their analysis.

61. The IASB/FASB staff further states that the promise is capable of generating cash from winning the prize or could be sold to others. There is a linkage to the holder of the ticket, because the holder has a right to participate in the draw. Both the economic resource and the right to it are observable (the ticket establishes the contract).

Analysis performed as part of the pro-active project - the current IASB definition

Is there a resource?

62. In the view of the pro-active project staff, a lottery ticket represents a resource as it can result in future economic benefits.

Are future economic benefits expected to flow to the entity from that resource?

63. Whether or not future economic benefits are expected to flow to the entity depends on what is regarded to be the asset in the case of a lottery ticket. Is it a right to a future

prize from winning the lottery or is it a promise from the lottery to allow the ticket-holder to participate in the drawing?

64. If it is seen as a right to a future prize from winning the lottery, future economic benefits are only expected to flow to the entity if 'expected' is not interpreted as meaning a high probability of positive cash flows (but just a probability greater than zero) (see paragraph 49 in this appendix). On the other hand, if it is a promise to participate in the drawing, future economic benefits can result no matter how 'expected' is interpreted.

Is the resource controlled by the entity?

65. As noted above it is not so clear what is the resource and what is meant by control of an economic resource (and an asset). In the discussion of other examples in this paper, it has been argued that if the entity can cause cash flows to arise, there is some sort of measure of control. Other aspects that have been considered are if the entity can obtain the future economic benefits that may flow from the asset. An entity cannot cause cash flows from a lottery ticket to arise if it is not allowed to sell the lottery ticket (which is the case in some jurisdictions). Therefore, if the control of future cash flows would be the basis for the existence of control in this case, there is no control, because the entity cannot control whether the ticket would be the prize winner and could therefore not control the associated cash flows. However, the entity controls the use of the ticket and can participate in the drawing and claim the prize (an ability to obtain the benefits) if the ticket is drawn. Therefore, there is some kind of control.

Does that control arise because of a past event or transaction?

66. To the extent that there is control, it is the pro-active project staff's view that this has arisen from a past event – the purchase or receipt of the lottery ticket.

Analysis performed as part of the pro-active project - the proposed new definition

Is there a present economic resource?

67. The pro-active project staff agrees with the IASB/FASB staff that there is an economic resource, a capability of generating cash flows from winning the prize or by selling the ticket to others (if that is permitted). Also, the economic resource is present which is demonstrated by the observable ticket. That said, the pro-active project staff has some comments to the analysis performed by the IASB/FASB staff.

68. During its deliberations of the proposed new definition of an asset, the IASB/FASB staff discussed the alternative to focus on an entity´s present right rather than on a present economic resource. A potential alternative definition of an asset was presented[34], which would close the debate about whether the asset is the right or the economic resource, "since both a right and an economic resource are necessary".

[34] IASB: Agenda Paper 16C for the 16 October 2007 IASB meeting, paragraphs 83 - 84.

69. It was further pointed out[35] that all of the definitions used by selected national standard setters, except for the UK, focus on the asset as being the economic resource or economic benefits, rather than on the linkage of the entity to that resource[36].

70. The IASB/FASB staff thinks that focusing on the rights or other access, like in the UK definition of an asset, would not be right. It illustrates this by referring to the lottery ticket[37]. It argues that some think of a lottery ticket as not being an asset, because they think of the right to the future prize from winning the lottery ticket, rather than "the right to the present promise from the lottery to allow the ticket-holder to participate in the drawing." The IASB/FASB staff concludes that people focusing on the right to the probable future prize are focusing on the wrong economic resource. The IASB/FASB staff does not, however, provide any clarifying arguments supporting this position.

Does the entity have a right or other access that others do not have?

71. In the view of the pro-active project staff, the entity has access to the lottery ticket that others do not have, provided that the access to it is enforceable by legal other equivalent means.

Conclusion

72. The pro-active project staff is of the opinion that a lottery ticket and the promise it represents seems to meet the definition of an asset under both the proposed new definition and the current definition.

73. In considering the proposed new definition, the analysis showed that:

    (a) If a lottery-ticket is regarded as a right to a future prize from winning the lottery, replacement of "from which future economic benefits are expected to flow to the entity" with an inclusion in the amplifying text that an economic resource is something that is capable of producing cash inflows or reducing cash outflows, could have a big effect if 'expected' in the current definition is interpreted as a 'high likelihood'. See paragraph 59(a) for a discussion on this issue.

    (b) Replacement of 'control' by "to which the entity has either a right or other access that others do not have" would remove some uncertainties related to the term 'control'. The analysis showed that it was very important what should be considered to be controlled. In case it is the future cash flows that should be controlled, a lottery ticket would not be controlled if it could not be sold to someone else. On the other hand the ticket itself and the benefits flowing from it could be controlled. The proposed new definition seemed to be surrounded by less uncertainty in this example. The entity seems to have a right or other access that others do not have.

Goodwill

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[35] IASB: Agenda Paper 16C for the 16 October 2007 IASB meeting, paragraph 85.

[36] The UK definition of an asset reads as follows: "Assets are rights or other access to future economic benefits controlled by an entity as a result of past transactions or events".

[37] IASB: Agenda Paper 16C for the 16 October 2007 IASB meeting, paragraph 86.

The IASB/FASB staff´s analysis

74. The IASB/FASB staff concludes that goodwill meets the definition of an asset under the earlier proposed new definition of an asset. Goodwill is regarded by the IASB/FASB staff to be an economic resource because of the synergies that result from having an assembled and operating business. In combination with other resources it can contribute to the production and sale of goods or provide services and as a result produce cash inflows. Also, it can generate cash inflows if it is sold in combination with other assets. The IASB/FASB staff concludes that the linkage to the entity is established by ownership rights to the business, and the synergies are observable from physical observation. Therefore, the economic resource and the right to it presently exist.

Analysis performed as part of the pro-active project - the current IASB definition

Is there a resource?

75. The pro-active project staff views goodwill as a resource because it can result in future economic benefits. The capability of goodwill, which is a residual, to result in future economic benefits on its own, is not easily determined. However, in combination with other resources goodwill can produce cash flows, either through use by the entity or through a sales transaction.

Are future economic benefits expected to flow to the entity from that resource?

76. If ´expected´ means a probability of cash flows that is greater than zero, future economic benefits could be expected to flow from the resource, as there is an expectation of future economic benefits related to goodwill. If 'expected' means a high likelihood, goodwill would not always meet this criterion.

Is the resource controlled by the entity?

77. It is not so easy to establish what is meant by control of goodwill. It can be argued that the entity cannot control goodwill, i.e. the synergies themselves, because the synergies could be affected by external parties or events outside the control of the entity. However, the synergies are linked to a business operating as a going concern. Some of the components of those synergies seem to be governed by the entity, e.g. the organisation of the operations and the policies and procedures that keep the business going. Also, the entity would be able to obtain the benefits that may flow from the goodwill. Therefore, there seems to be some kind of control by the entity.

Does that control arise because of a past event or transaction?

78. There is a past transaction, the transaction through which goodwill arose or the series of events that contributed to internally created goodwill. If there is control – and that is an issue considered in the foregoing paragraph- that control did arise because of the past transactions and events.

Analysis performed as part of the pro-active project - the proposed new definition

Is there a present economic resource?

79. In the view of the pro-active project staff, goodwill is an economic resource, because it is capable of producing cash inflows.

80. The IASB/FASB staff concludes that the economic resource and the right to it are present as the synergies are "observable from physical observation and financial position and ownership rights set out in the contract"[38]. It is not clear why reference is made to physical observation, because it is not explained how the synergies inherent in goodwill and expected to materialise can be observed.

81. The IASB/FASB staff comments that they find it easier to focus "on the synergies (an economic resource) than on probable future economic benefits"[39]. The pro-active project staff thinks that this comment is difficult to understand as synergies seem to be nothing but an expectation of future economic benefits.

Does the entity have a right or other access that others do not have?

82. The entity seems to have a right or other access to goodwill that others do not have because of the purchase transaction made that gave rise to the goodwill and the right to it.

Conclusion

83. In the view of the pro-active project staff, goodwill seems to meet the proposed new definition of an asset. It is probably also the case under the current definition; although it is not clear to what extent an entity can control goodwill, described as synergies.

84. In considering the proposed new definition the analysis showed that:

(a) Replacement of "from which future economic benefits are expected to flow to the entity" had the same effects as those discussed in paragraph 59(a).

(b) Replacement of 'control' by "to which the entity has either a right or other access that others do not have" would remove some uncertainties related to the term 'control'.

Offer of future discounts to potential customers

The IASB/FASB staff´s analysis

85. The IASB/FASB staff concludes that an offer of future discounts to potential customers is not an asset (of the offeror), because there is no linkage to the entity and no economic resource - as mailing coupons or posting advertisements does not create a relationship – although it might help to reinforce an existing relationship[40]. In the view of the IASB/FASB staff an offer alone does not constitute a contract. It is not a firm offer but a business opportunity. Nothing exists presently in terms of an economic resource.

[38] IASB: Agenda Paper 16B for the 16 October 2007 IASB meeting, example 16.
[39] IASB: Agenda Paper 16B for the 16 October 2007 IASB meeting, example 16.
[40] IASB: Agenda Paper 16B for the 16 October 2007 IASB meeting, example 23.

Analysis performed as part of the pro-active project - the current IASB definition

Is there a resource?

86. For something to be a resource, it should be able to result in future economic benefits. An offer seems to be able to lead to further sales, although at reduced prices, and to future economic benefits. It has been noted in the discussion that the current framework does not clearly explain what is intended to be meant by a resource. Nevertheless, as the capability of something to result in future economic benefits could lead to qualify it as a resource, the things an offer of future discounts to potential customers could lead to (for example, a customer relationship or something similar with the capability of creating future cash flows) could be considered as a resource. On the other hand, the offer itself does not seem to be a resource, as it is not the offer in itself that may lead to future economic benefits.

Are future economic benefits expected to flow to the entity from that resource?

87. If ´expected´ is not interpreted as meaning a high probability of positive cash flows (but just a probability greater than zero), an offer as discussed above is expected to result in economic benefits flowing to the entity. If 'expected' is interpreted as a high likelihood, it could mean that only very few offers of future discount to potential customers would meet this criterion.

Is the resource controlled by the entity?

88. In the view of the pro-active project staff, there is some kind of control as the entity would be able to obtain the benefits flowing from the offer. However, the entity can only affect the amount of future cash inflows to some extent, by deciding the discount offered. this kind of control would not necessarily be regarded as 'control' in relation to the definition.

Does that control arise because of a past event or transaction?

89. The offer seems to be a past event. Therefore, to the extent that there is control, it has arisen due to a past event.

Analysis performed as part of the pro-active project - the proposed new definition

Is there a present economic resource?

90. According to the proposed new definition of an asset, an economic resource is capable of producing cash inflows or reducing cash outflows. The outcome of an offer of future discounts to potential customers – that is, the things that it could lead to - seems to be capable of creating cash inflows. The offer itself does not because no customer relationship is created by the offer. Rather, an existing relationship might be reinforced. The IASB/FASB staff seems to pay considerable attention to the degree of customer familiarity created. If a high degree of familiarity is created to be used to sell additional goods or services, then there is a customer relationship and thus an economic resource and vice versa. This may be a way of showing under which conditions there is an economic resource.

91. In its analysis, the IASB/FASB staff also refers to a requirement of a contract, reasoning as follows: unless there is a firm offer, there is no contract and if there is no contract there is no economic resource.

92. Although the IASB/FASB staff´s discussion may be credited for its structural logic, it is noted that requirements like a firm offer and a contract are not necessarily required according to the description of an economic resource in the proposed new definition of an asset.

Does the entity have a right or other access that others do not have?

93. Assuming that there is an economic resource, the entity does not seem to have a right or other access that others do not have, because the right or access to the outcome of an offer of future discounts to potential customers does not seem to qualify in that context.

Conclusion

94. An offer of future discounts to potential customers does not seem to meet the current and the proposed new definition of an asset as there is no (economic) resource. However, had there been an economic resource, this could perhaps be said to be controlled under the current definition, but would not meet the proposed new definition's requirement of a right or other access relating to the outcome of the offer that others do not have.

95. In considering the proposed new definition the analysis showed that:

(a) Replacement of "from which future economic benefits are expected to flow to the entity" had the same effects as those discussed in paragraph 59(a).

(b) Replacement of 'control' by "to which the entity has either a right or other access that others do not have" could have an impact, as it could result in an offer of future discounts to potential customers. According to the pro-active project staff it could be argued to be controlled by the entity under the current definition of an asset, but will not meet the requirement of the proposed new definition.

APPENDIX 2

Pro-active project staff analyses of additional situations

96. This appendix presents the comments of the pro-active project staff resulting from tests of the proposed new definition of an asset carried out in addition to those performed by the IASB/FASB staff (Appendix 1).

97. The testing is carried out by applying the current definition and the proposed new definition of an asset to various situations and identifying issues arising from the application of those definitions.

98. When testing the current definition of an asset, it has been considered whether:

    (e) there is a resource;

    (f) future economic benefits are expected to flow to the entity from that resource;

    (g) the resource is controlled by the entity; and

    (h) that control arises as a result of a past event or transaction.

99. When testing the proposed new definition of an asset, it has been considered whether:

    (c) there is a present economic resource; and

    (d) the entity has a right or other access that others do not have to that economic resource.

Selected situations and underlying criteria for selection

100. For the additional testing, the pro-active project staff has selected situations which were intended to capture the key aspects of the proposed new definition of an asset and the amplifying text. The following groups of situations were selected:

    Group 1. This group includes situations associated with the outcome of research and marketing expenditure. These situations mainly identify issues relating to the proposed new definition's use of the terms 'economic resource', 'right' and 'other access'.

    Group 2. This group includes contractual arrangements, more specifically a contract and a license to operate in a restricted market. Key aspects like 'right' and 'other access' are dealt with in the analyses of these situations.

    Group 3. This group includes a deferred tax item and a planned transaction. Situations in this group were intended to identify issues relating to the proposed new definition´s focus on what exists on the balance sheet date.

Group 1 – Outcome of research and marketing expenditure

Know-how/ knowledge acquired as a result of research expenditure

101. *The pro-active project staff has analysed whether know-how/knowledge acquired as a result of research expenditure (henceforth referred to as ´know-how´) is an asset under the current as well as the proposed new definition of an asset.*

The current definition

Is there a resource?

102. The current definition of an asset states that an asset is a resource. As noted, there is no reason to assume that it has been the IASB's intention to introduce a new meaning of the term 'resource'. The pro-active project staff has therefore assumed that the meaning of 'resource' in the current definition of an asset is similar to the meaning of an 'economic resource' in the proposed new definition (see also appendix 1 paragraph 15). pro-active project staff's assessment is that knowhow is something "capable of producing cash inflows or reducing cash outflows, directly or indirectly, alone or together with other economic resources (see paragraph 109 below). On this basis know-how is a resource.

Are future economic benefits expected to flow to the entity from that resource?

103. According to the current framework, "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"[41].

104. Whether know-how meets the criterion that future economic benefits are expected to flow to the entity from it depends on how 'expected' is interpreted. If it is interpreted as a high likelihood of future economic benefits, know-how may not be an economic resource if it is not highly probable that future economic benefits will flow from it. If it is interpreted as a low probability (a probability greater than zero, see the discussion in chapter 3 paragraphs 17 - 21), know-how would meet the criterion, as the know-how acquired as a result of research expenditure generally makes the entity able to produce cash inflows or reduce cash outflows. This is because the entity is generally better off having developed the know-how as compared to not having done it.

105. The know-how can result in increased cash flow if, for example, it results in the development and sale of new products. Know-how could also result in reduced cash outflows when, for example, its existence results in an entity's decision not to carry out further research activities because previous research has shown that this would not be successful. On occasion, a research idea and/or the research design is poor and the research does not produce valuable know-how for the entity. Therefore, it could be argued that in these cases no economic resource is derived from the research activity

[41] IASB: Framework for the Preparation and Presentation of Financial Statements paragraph 53.

performed. On the other hand, a failed piece of research could be an economic resource, because it could mean that an entity knows what research to avoid carrying out in the future; that information could be sold to others, thereby producing cash inflows.

Is the resource controlled by the entity?

106. Know-how in the hands of the entity can generally be used as the entity pleases and can cause cash inflows to arise from the resource and the entity can enjoy its benefits. Also, the entity can obtain the benefits flowing from it. It is therefore concluded that the know-how is controlled by the entity.

Does that control arise because of a past event or transaction?

107. As mentioned above, the pro-active project staff thinks that control exists. Also, the pro-active project staff thinks that the control has arisen as a result of a past event, i.e. the research that has been carried out.

The proposed new definition

Is there a present economic resource?

108. As it appeared from the discussion above related to the current definition of an asset, it was assessed that know-how is an economic resource. However, whether future economic benefits were expected to flow to the entity from that resource was dependent upon how 'expected' is interpreted. As mentioned in chapter 3, the proposed new definition does not include the criterion that future economic benefits should be expected to flow to the entity from the resource. Instead the amplifying text states that an economic resource is something that is capable of producing cash inflows or reducing cash outflows, directly or indirectly, alone or together with other economic resources.

109. In the view of the pro-active project staff, any know-how resulting from research efforts could be said to be capable of doing that; the know-how is capable of enabling the carrying out of economic activities that would produce cash inflows, whether or not the activities will be carried out. The use of the ´capable of´ notion could therefore widen the proposed new definition of an economic resource to include more ´things´ than the current definition, at least if ´expected´ in the current definition means a high likelihood of future economic benefits.

110. Therefore, the proposed new definition seems to set very low hurdles in relation to what could be recognised as assets. In absence of knowledge of the recognition criteria, if any, to be applied, this could lead to assets being recognised even when having a very low likelihood of producing cash inflows. Anything capable of producing cash inflows might be considered for inclusion in the balance sheet. If only the measurement – and not the recognition criteria – will take the low likelihood into consideration, the pro-active project staff would be concerned that the process of measuring would not pass a

cost-benefit test. The process of measuring every activity capable of producing cash inflows – even though the cash flows are quite unlikely – may be very costly.

111. The proposed new definition requires that the economic resource should be present. The pro-active project staff has assessed that this is the case, as the economic resource exists on the date of the financial statements as well as the entity's right or other access that others do not have (see paragraph 115 below).

112. It was stated above that know-how is an ´economic resource´. However, it could be argued that it is the right to the know-how - and not the know-how itself - that is the economic resource. A call option on the result of a research project, i.e. a right, highlights a different problem with the proposed new definition. The right seems to be the thing that makes it possible for the entity to access the project. This is what puts the entity in a position to producing cash inflows. Therefore it seems logical to conclude that the right, rather than the underlying research project, creating the know–how should be deemed the economic resource.

113. An additional aspect of this problem is that different parties could have different rights to an underlying project. If the right is the economic resource, as indicated in the preceding paragraph, there is a possibility that there would be more than one economic resource relating to a project. For example, if two parties have agreed to carry out joint research, each party may have a right to use the resulting know-how. Each set of rights represents something capable of producing cash inflows, i.e. each party seems to have a right to a ´portion´ of the know-how. By contrast, if the project as a whole is deemed to be the economic resource, only one party seems to have access to it.

114. It is the pro-active project staff's understanding that the IASB/FASB staff concludes that the property item represents the asset under the proposed new definition. However, since different parties may have different rights to the same economic resource, we believe that there is a question to be answered: why is not the right rather than the property item representing the economic resource? The working definition or the amplifying text does not address this issue satisfactorily.

<u>Does the entity have a right or other access that others do not have?</u>

115. As mentioned in chapter 3, ´a right or other access that others do not have´ is the term proposed to be used instead of the current definition's term: ´control´. The amplifying text to the proposed new definition says that ´a right or other access that others do not have´ is "enforceable by legal or equivalent means" and "its use by others can be precluded or limited". That seems to fit the case of know-how. Nobody but the entity has access to it and nobody but the entity could use the know-how that has been created and is retained by the entity, and nobody but the entity could sell it. As both a ´right´ and ´other access ´are included in the proposed new definition, one might think that there is a significant difference between these two notions. Otherwise both notions should not be there. The amplifying text makes it clear that they are both "enforceable by legal or equivalent means". However, it is not clear which difference between the notions is intended to be conveyed, which could lead to interpretation problems. In a previous version of the proposed new definition of an asset the amplifying text elaborated on the notion of enforceable right, but did not mention the additional term ´other means´. The notion of other means seemed to be a softer notion than an enforceable right, giving the impression that access could be achieved by any means.

That has obviously been changed in the new version of the proposed new definition. As a result, the proposed new definition may have become tighter than the previous version of it.

Conclusion

116. In conclusion, the above analysis demonstrates that know-how, i.e. the things research efforts could lead to, or the right to the know-how, may meet the existing definition of an asset as well as the proposed new definition. Whether or not it meets the current definition depends on how this definition is interpreted.

117. In considering the proposed new definition the analysis showed that:

    (a) Replacement of "from which future economic benefits are expected to flow to the entity" has the same effects as those discussed in paragraph 59(a).

    (b) It is not clear what are the differences between 'right' and 'other access that others do not have' in the proposed new definition. Nor is it clear what 'equivalent means' in the amplifying text are.

    (c) Neither the current nor the proposed new definition or the amplifying text satisfactorily address whether the right or the property item is the economic resource that should be considered.

Improved position in the market place/new customer relationships resulting from marketing efforts

118. The pro-active project staff has analysed whether the things that marketing efforts could lead to, i.e. an improved position in the market place / a new customer relationship (below ´an improved position´) is an asset under the current as well as the proposed new definition of an asset.

The current definition

Is there a resource?

119. The pro-active project staff is of the opinion that an 'improved position' seem to be a resource because the things that it could lead to would be capable of producing cash inflows, directly or indirectly, alone or together with other economic resources.

Are future economic benefits expected to flow to the entity from that resource?

120. Provided that ´expected´ should be not be interpreted as meaning a high probability of positive cash flows (but just a probability greater than zero), it is expected that economic benefits will flow to the entity from the 'improved position', because there is some likelihood that there will be an inflow of future cash flows as a result of the improved position.

121. If ‘expected’ should be interpreted as implying a high likelihood, some – or perhaps all - results of the marketing efforts would probably not meet the criterion.

Is the resource controlled by the entity?

122. The entity may not generally cause cash inflows to arise as a result of an ‘improved position’ because it may be difficult to establish the link between this item and the cash flows that arise. Therefore, if control implies an ability to generate future economic benefits from the item, the ‘improved position’ may or may not be an asset. However, the ‘improved position’ could sometimes be an asset, as an entity would probably be able to-and could have the power to-sell a new customer relationship and a position in the market place (without selling a brand name or the similar). Therefore, an entity would be able to obtain benefits/cash flows that would arise from the ‘improved position’.

123. Accordingly, the pro-active project staff has concluded that an ‘improved position’ might be controlled by the entity.

Does the control arise because of a past event or transaction?

124. In practice it could be difficult to show that an ’improved position’ is due to a specific marketing effort. However, when a marketing effort results in an ‘improved position’, the control arises because of the past event.

The proposed new definition

Is there a present economic resource?

125. As mentioned above, the pro-active project staff thinks the things that marketing efforts could lead to would be capable of producing cash inflows and therefore be an economic resource. Also, the economic resource is present as the ‘improved position’ would exist at the balance sheet date.

Does the entity have a right or other access that others do not have?

126. The entity arguably has access to the ‘improved position’ that others may not have, because it is the marketing efforts by the entity that has created the ‘improved position’ and this link to the economic resource creates some sort of access. However, according to the amplifying text a right as well as other access that others do not have “is enforceable by legal or equivalent means”. It does not seem clear what that means in this context. An entity can hardly claim that there is a legally enforceable right because of the ‘improved position’. An ‘improved position’ for one entity could also, and as a result of the entity´s efforts, be an ‘improved position’ for others. Furthermore, it is unclear whether there is ‘other access’ by any legal or equivalent means; both the meaning of other access and equivalent means seem to need further explanations to be fully understood when applied in this context.

Conclusion

127. An improved situation in the market place due to marketing effort seems to meet the definition of an asset under the current as well as the proposed new definition.

128. In considering the proposed new definition, the analysis showed that it is important how 'control' is interpreted (see paragraphs 122 - 123). Also, it showed that if it has not been assumed that the improved position was a result of the marketing efforts, it could be difficult to show a relationship between the improved position and a past event. Accordingly, the removal of this reference in the proposed new definition could have an impact.

Group 2 – Contractual arrangements

Contracts

129. A contract is defined in IAS 32, paragraph 13, as "an agreement between two or more parties that has clear economic consequences that the parties have little, if any, discretion to avoid, usually because the agreement is enforceable by law. Contracts may take a variety of forms and need not be in writing." In the IASB discussion paper, "Preliminary Views on Revenue Recognition in Contracts with Customer", a contract is defined as "an agreement between two or more parties that creates enforceable obligations".

130. The pro-active project staff has analysed whether a contract is an asset under the current as well as the proposed new definition of an asset. As part of the analysis, the pro-active project staff has chosen to analyse some specific issues in relation to special types of contracts (onerous contracts and unperformed contracts) in order to test the proposed new definition.

The current definition

Is there a resource?

131. Based on the understanding that a resource in the current definition of an asset is something that is scarce and can result in future economic benefits, the pro-active project staff has assessed that a contract is a resource. A contract can cause cash inflows to arise, or reduce cash outflows, directly or indirectly, alone or together with other economic resources.

Are future economic benefits expected to flow to the entity from that resource?

132. If ´expected´ is not interpreted as meaning a high probability of positive cash flows (but just a probability greater than zero), future economic benefits are expected to flow to the entity from a contract, because a contract could result in future economic benefits, although the likelihood may be low. If 'expected' is interpreted as meaning a high likelihood, some contracts would not meet the criterion.

Is the resource controlled by the entity?

133. An entity that is party to a contract as defined above can cause cash inflows to arise by fulfilling the provisions of the contract that rest with the entity. It is also able to obtain

the benefits flowing from the contract. It is therefore the opinion of the pro-active project staff that a contract is controlled by the entity.

Does the control arise because of a past event or transaction?

134. As stated above, it is assessed that a contract is controlled by an entity if the entity is a party of the contract. Furthermore, it is assessed that this control is based on the past event that arose when the parties involved agreed on the contract.

The proposed new definition

Is there a present economic resource?

135. It is the opinion of the pro-active project staff that a non-onerous contract, in most cases, is capable of producing cash inflows or reducing cash outflows. A contract can produce cash inflows in different ways, including through its sale. Therefore, it seems to be an economic resource. It does not matter whether a contract is unperformed (an executory contract) or partly performed; it can be sold anyway and produce cash inflows for the entity. However, if a non-onerous contract that cannot be sold and is unperformed or equally, partially performed by both parties, the contract is not capable of producing (net) cash inflows.

136. In the case of an onerous and transferable contract, it could be argued that a contract that is onerous for one entity may not necessarily be onerous for another entity. Therefore, one entity would perhaps be able to sell a contract that is onerous for the entity, but not onerous for another entity and therefore the latter entity may be willing to pay to take on the contract. In this case even a contract that is most likely to be onerous would be capable of producing cash inflows.

137. When an onerous contract could not be transferred for a positive amount, it could be argued that this is not an economic resource, because the unavoidable costs of meeting the obligations under the contract exceed the benefits to be received from it. However, although this is true on a net basis (the costs exceed the benefits), even onerous contracts produce cash inflows (gross cash inflows may be there, although the associated costs turn the contract into a net cash outflow contract).

138. A question is whether a contract constitutes a single asset or should be defined on a gross basis, i.e. as an asset (reflecting the performance to be received) and a liability (the obligation to pay). As noted above in chapter 3, paragraph 20, the IASB/FASB staff states that, in assessing whether something is capable of producing cash inflows, it is necessary to take into the account cash outflows necessary to produce the cash inflows. If something is capable of being used only in a manner that produces cash inflows while simultaneously requiring equal or greater cash outflows, it is not an economic resource and, therefore, it cannot be an asset on a net cash flow basis. This could suggest that an onerous, non-transferable contract is not an asset. However, suppose that an entity has entered into a contract to buy something. After performance by the counterparty – for example delivery of the item under the contract – the entity holds an economic resource, which should be recognised as an asset provided the asset definition and any existing recognition criteria are met. The entity also has an obligation to pay for it (or experience a reduction in cash). Arguably, the resulting asset and liability under the contract, if any,

are defined as separate elements (gross) and there seems to be no conceptual reason to account for them on a different basis.

139. In the case of an unperformed contract, there is still something to be received, which seems to be an economic resource, and there is still an obligation to pay. However, the entity does not necessarily have an economic resource as described in the contract. For example, the entity´s counterparty could say that it no longer wishes to proceed. In that case, the entity may be able to recover damages for any losses, but may not be able to insist on delivery of the item under the contract. Nor is the entity obliged to pay for the item under the contract (there are other possible outcomes of the example, but they generally seem to result in the conclusion that the economic resource under an unperformed contract could be different from the economic resource under a performed contract).

140. It could therefore be asked whether the fact that a contract is unperformed should affect the assessment on whether or not an economic resource exists. It could be argued that this is a unit of account issue and that the contract should be seen as a single unit of account. The current IASB Framework is, however, silent on the unit of account issue. So far it may not be not possible to have a well-founded view on the subject. The question arises whether the unit of account issue should be dealt with before the asset definition or if it is preferable to have the asset definition in place before the unit of account issue is discussed. In the view of the pro-active project staff, the definition should come first as this is the logical starting point in a discussion of elements of financial statements. Then a decision is taken on how things that are defined as assets and liabilities should be reflected in financial statements (that is gross or net). However, as the focus of this paper is on the definition of an element of financial statements, there seems to be no reason to allow unit of account considerations to affect a discussion on the definition of the components of a contract.

141. The conclusion of the discussion in the foregoing paragraphs is that most contracts are economic resources under the proposed new definition. However, it may be difficult to determine whether, for example, some onerous contracts would meet the definition.

Does the entity have a right or other access that others do not have?

142. A contract as defined is something a reporting entity has access to in its capacity as the party making the underlying agreement. An entity generally has a right to it, because a contract is usually enforceable by legal means. If this is not the case, an entity may have other access by legal or equivalent means. However, as previously noted, it is not clear what ´other access´ and ´equivalent means´ mean.

Conclusion

143. In most cases a contract seems to meet the definition of an asset under the current as well as the proposed new definition of an asset. In the case of an executory contract, a partially performed or onerous contract this may, however, not be the case on a net cash flow basis.

144. In considering the proposed new definition the analysis showed that:

(a) Replacement of "from which future economic benefits are expected to flow to the entity" had the same effects as those discussed in appendix 1 paragraph 59(a).

(b) The meaning of 'other access' and 'equivalent means' is not clear (see also appendix 1 paragraph 28(b)).

(c) Whether or not some contracts are economic resources would depend on the chosen unit of account. It was, however, concluded that unit of account considerations should be discussed after the definition issue and that unit of account issues are not a subject of this paper.

A licence to operate in a restricted market

145. A licence to operate gives the entity a right to doing business, e.g. as an operator in the telecom business. Such licence could, however, include restrictions for the entity, preventing it from operating freely in the markets, thus making it a licence for a restricted market.

146. The pro-active project staff has analysed whether such a licence to operate in a restricted market is an asset under the current as well as under the proposed new definition of an asset.

The current definition

Is there a resource?

147. It is the opinion of the pro-active project staff that a licence to operate is a resource, as it provides the holder with an opportunity to operate, which can result in future economic benefits. The fact that the licence applies to a restricted market does not seem to alter this conclusion. Also, in a restricted market, the licence can result in future economic benefits.

Are future economic benefits expected to flow to the entity from that resource?

148. Future economic benefits would be expected to flow to an entity from a licence to a restricted market if ´expected ´is not interpreted as meaning a high probability of positive cash flows (but a probability greater than zero). The licence provides an entity with an opportunity to generate cash inflows – even if it is unlikely that the entity will receive any. If 'expected' is interpreted as meaning a higher likelihood, not all licences to operate in a restricted market will result in expected cash flows

Is the resource controlled by the entity?

149. An entity that is a party to a licence agreement as defined above can cause cash inflows to arise by fulfilling the provisions of the agreement that rest with the entity. The entity would also be able to obtain the benefits that would flow from it. It is therefore the conclusion of the pro-active project staff that a licence to operate in a restricted market is controlled by the entity.

Does the control arise because of a past event or transaction?

150. As stated above, it is assessed that a licence to operate on a restricted market is controlled by an entity if the entity is the holder of the licence. This control is based on the past event that arose when the entity received the licence.

The proposed new definition

Is there a present economic resource?

151. It is the view of the pro-active project staff that a licence to operate in a restricted market is capable of producing cash inflows. This could be done by operating the licence or by selling it. According to the amplifying text to the proposed definition, an economic resource is also something that is scarce, that is not freely available. The fact that other entities may also get a licence does not make it freely available, because licences are usually provided to a limited number of entities only. It is therefore an economic resource under the proposed new definition of an asset.

152. As the resource exists on the date of the financial statements, the entity holding the right has that right on that date (see paragraph 153 below), it is also a present economic resource.

Does the entity have a right or other access that others do not have?

153. The licence gives an entity a right to operate in the restricted market, which enables the entity to use the economic resource. This seems to qualify the licence as a component of an asset. However, arguably this right is not a right that others do not have as required by the proposed new definition), because there may be other entities that also have licences to operate in the restricted market.

154. Although the entity does not have an exclusive right to the restricted market, it has something (the licence) that may keep customers tied to the entity and/or keep competitors away, even though the entity has no enforceable right. There may be a cost for customers to switch to a competitor´s services or other barriers making a change difficult. In this way a right exists that others do not have. The amplifying text says that a right or access that others do not have is enforceable by legal or equivalent means. Normally, the holder of a licence is protected by legal means. If not, the enforceability depends on ‘equivalent means’. It has been noted above that, in the view of the pro-active project staff, the meaning of ´equivalent means´ is not clear. As a consequence it is not easy to determine whether or not the licence always represents something that others do not have.

Conclusion

155. In the view of the pro-active project staff a licence to operate in a restricted market generally meets the definition of an asset under the current as well as the proposed new definition of an asset. However, there might be circumstances under which it is difficult

to determine, in the case of a licence to operate in a restricted market, whether the use of others can be precluded or limited.

156. In considering the proposed new definition the analysis showed that:

(a) Replacement of "from which future economic benefits are expected to flow to the entity" had the same effects as those discussed in appendix 1, paragraph 59(a).

(b) It is unclear whether a cost for customers to switch to a competitor's services or other barriers making a change difficult could be considered to be 'a right that others do not have'. Also, the term 'equivalent means' is unclear (see also paragraph 28(b)).

Group 3 – Deferred tax items for unused tax losses and planned transactions

A deferred tax item for an unused tax loss

157. Many entities are in a situation where future taxable profits will be available against which an unused tax loss can be utilised. The pro-active project staff has analysed whether such an unused tax loss is an item that meets the definition of an asset under the current as well as the proposed new definition of an asset.

The current definition

Is there a resource?

158. A deferred tax item for an unused tax loss against which future tax profits will be available for use seems to be a resource, because it can result in future economic benefits (i.e. reduced tax payments in the future or a transfer to another entity against a consideration).

Are future economic benefits expected to flow to the entity from that resource?

159. Provided that ´expected´ is understood as not meaning a high probability of positive cash flows (but a just a probability greater than zero), future economic benefits will be expected to flow to the entity. The reason is that there is a chance of any future taxable profits against which the tax losses can be utilised. If 'expected' is interpreted as meaning a high likelihood, only unused tax losses that most likely can be utilised meet this criterion.

Is the resource controlled by the entity?

160. It is concluded above that the deferred tax item for the unused tax loss is a resource of the entity. In cases where the deferred tax item cannot be sold, it is controlled by the entity in the sense that the entity can cause reduced cash outflows to arise by using the unused tax losses against any tax profits arising in the future. However, the entity cannot demonstrate that future taxable profits will arise. This is a matter of judgement before the point in time at which the taxable profits are available. Thus the resource is controlled to some extent by the entity, but that is a form of control, which is subject to

future developments. Therefore control of such taxable profits, irrespective of the meaning attached to this notion, may not apply. However, to the extent that losses carried forward could be sold, which is the case in many tax regimes, there is control by the entity of the resource, because it demonstrates that the entity can use the item to get cash flows to arise.

Does the control arise because of a past event or transaction?

161. As discussed above, it may be questionable whether or not the unused tax loss and the possibility to use it against future taxable profits is controlled by the entity. However, to the extent there is control, the control is the result of a past event, i.e. the event creating the tax loss.

The proposed new definition

Is there a present economic resource?

162. While a tax loss may not result in cash inflows, a tax loss item would often be capable of reducing cash outflows. The tax loss item could be utilised in different ways. An entity could use it against future taxable profits or could transfer it to another entity for consideration. Under many tax regimes, losses carried forward are transferable and there is a market (and a market price) for them.

163. The proposed new definition requires that an economic resource should be present and the amplifying text clarifies that this means that the economic resource should exist on the date of the financial statements. It is the view of the pro-active project staff that this seems to be the case for the unused tax loss item, if the item could be transferred (sold) to another entity.

164. If the item is not transferable, an economic resource may not be present. It could be said that what is present, that is, exists on the balance sheet date, is an item which is subject to an assessment of an uncertain future development - the availability of sufficient future taxable profits. Following this line of thought, it might be argued that there is no present resource at the balance sheet date, but only accumulated losses. Those losses cannot produce cash flows. The losses can only reduce future cash outflows if there are future taxable profits against which the losses can be utilised. Alternatively, it could be argued that the proposed new definition and the amplifying text defines an economic resource as something that is *capable* of being used and can contribute to producing cash inflows or reducing cash outflows. The definition does not include any requirement on the likelihood of the occurrence of the future cash inflows or reduced cash outflows. The future profits against which the unused tax losses can be utilised may be extremely uncertain, given the historic developments leading up to the accumulated losses. Nevertheless they *can* and are therefore *capable of* contributing to a reduction of cash outflows and this capability is present.

165. Accordingly, it seems to the pro-active project staff that there is an economic resource. However, if the unused tax loss item cannot be transferred, it is not clear whether or not this resource is present.

Does the entity have a right or other access that others do not have?

166. According to the amplifying text of the proposed definition of an asset: “a right or other access that others do not have enables the entity to use the economic resource and its use by others can be precluded or limited”. Furthermore the amplifying text states that “a right or other access is enforceable by legal or equivalent means”. These characteristics seem to fit as far as a tax loss item is concerned: only the entity has access to the tax loss and the use of it - either by using it against its own future taxable profits or by selling the right to use it - and the right is protected by legal means, i.e. applicable tax laws.

Conclusion

167. An unused tax loss item generally seems to be an asset under the proposed new definition of an asset. It is, however, difficult to determine how the requirement that an economic resource should be present is satisfied unless the item can be sold. An unused tax loss may also be an asset under the current definition, although it is not clear whether the item is controlled by the entity or not. The entity will receive any benefits from the item, but may not be able to control whether or not these benefits will arise unless they arise as a result of a transfer against a consideration.

168. In considering the proposed new definition the analysis showed that:

    (a) Replacement of “from which future economic benefits are expected to flow to the entity” had the same effects as those discussed in appendix 1, paragraph 59(a).

    (b) Replacement of ‘control’ by “to which the entity has either a right or other access that others do not have” could – depending on how control is interpreted - have an effect when losses carried forward could not be sold. This is because the control is subject to future developments. On the other hand, an entity would in all cases have “a right or other access that others do not have” to the item.

    (c) Inclusion of the specification that a resource should be ‘present’ could have an effect as the requirement seems to preclude an unused tax loss from being recognised as an asset if the item is not transferable.

A planned transaction, e.g. a planned launch of a profitable product

169. The pro-active project staff has assessed whether a planned transaction, that is a transaction that has not yet taken place, such as a launch of a product, meets the definition of an asset under the current as well as the proposed new definition of an asset.

The current definition

Is there a resource?

170. In the view of the pro-active project staff, the purpose of a planned transaction is often that it should result in future cash inflows. It is therefore assessed that it is a resource.

Are future economic benefits expected to flow to the entity from that resource?

171. Provided that ´expected ´ is not understood as meaning a high probability of positive cash flows (but just a probability greater than zero), it is concluded that future economic benefits are expected to flow to the entity as a result of a planned transaction. The reason is that it would be expected that an entity will plan a future transaction because the entity expects that it will result in future positive cash flows. In contrast, if 'expected' is interpreted as meaning a high likelihood of occurrence, not all planned transactions would meet this criterion.

Is the resource controlled by the entity?

172. An entity considering a planned transaction can cause cash inflows to arise by fulfilling the planned transaction. In that sense, the entity can be deemed to control the resource, 'the planned transaction'. However, the control, thus identified, refers to things that take place in the future, and a future event is not controlled by the entity. Accordingly, it is the opinion of the pro-active project staff that the resource is not controlled by the entity.

Does the control arise because of a past event or transaction?

173. As a result of the observation in the foregoing paragraph, there is no reason to consider whether or not any control arises because of a past event or transaction. However, generally any control related to a planned transaction will arise in the future when the planned transaction takes place.

The proposed new definition

Is there a present economic resource

174. It is the view of the pro-active project staff that a planned transaction is capable of producing cash inflows. This could be done in different ways, either by fulfilling the transaction or by transferring the right to perform the planned transaction to another entity. It does not matter whether the planned transaction takes place; as long as the planned transaction can be sold to somebody else, it is capable of producing cash inflows to the entity. In that sense it is a present economic resource. However, if it is not the case, there is no present economic resource.

Does the entity have a right or other access that others do not have?

175. The amplifying text makes it clear that a right or other access that others do not have enables the entity to use the economic resource and that its use by others can be precluded or limited. Arguably other entities than the reporting entity could fulfil a planned transaction, such as a launch of a product. On this basis it has been assessed by the pro-active project staff that the entity does not have a right or other access that others do not have.

Conclusion

176. A planned transaction does not seem to meet the definition of an asset under the current or the proposed new definition because there is no control as required in the current definition of an asset and in many cases there is no economic resource as required by the proposed new definition, nor is there any right or other access.

177. In considering the proposed new definition, the analysis showed that Replacement of "from which future economic benefits are expected to flow to the entity" had the same effects as those discussed in appendix 1, paragraph 59(a).