International Financial Reporting Standards

Review of the Conceptual Framework
Definitions of assets and liabilities, and recognition criteria

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The views expressed in this presentation are those of the presenter, not necessarily those of the IASB or IFRS Foundation.

Before we start...

- You can download the slides by clicking on the button below the slides window
- To ask a question, type into the designated text box on your screen and click submit
- A recording of the webcast will be available a few days after the presentation at [http://go.ifrs.org/Conceptual-Framework](http://go.ifrs.org/Conceptual-Framework)
- The views expressed are those of the presenters, not necessarily those of the IASB or IFRS Foundation
Project overview

Project objectives

• Not a fundamental re-think
• Focus on weaknesses that have given problems in practice
• Filling in gaps, and updating and improving existing guidance

Discussion Paper objectives

• Preliminary views
• Starting point for further discussion and consultation
• Seeking your views by 14 January 2014

Project consequences

• New Conceptual Framework will not override existing IFRSs
Agenda

- Existing definitions and recognition criteria
- Some problems
- IASB’s preliminary views to address those problems
- Additional guidance for definitions
### Existing definitions

<table>
<thead>
<tr>
<th>Asset [of an entity]</th>
<th>Liability [of an entity]</th>
</tr>
</thead>
<tbody>
<tr>
<td>• a resource controlled by the entity</td>
<td>• a present obligation of the entity</td>
</tr>
<tr>
<td>• as a result of past events</td>
<td>• arising from past events</td>
</tr>
<tr>
<td>• from which future economic benefits are expected to flow to the entity</td>
<td>• the settlement of which is expected to result in an outflow from the entity of resources embodying economic benefits</td>
</tr>
</tbody>
</table>

Proved useful tool for many years but for some problems
What is recognition?

Identify the assets, liabilities, income, expenses

Depiction in words and numbers

Existing criteria:
- Meets definitions
- Probable
- Measured reliably

Proved useful tool for many years but for some problems
Some problems with existing definitions and recognition criteria

Confusion on which is the asset or liability?
- The resource vs inflows of economic benefits that the resource may generate
- The obligation vs outflows of economic benefits that the obligation may generate

What is the role of uncertainty?
- Definitions: ‘Expected’
- Recognition criteria: ‘Probable’

- Same meaning?
- Minimum threshold?
- Expected: Statistical meaning (eg mean)?
- Will it occur vs whose inflow/outflow?
Which is the asset or liability?

The asset is the **resource**, not the ultimate future inflow.
The liability is the **obligation**, not the ultimate future outflow.

<table>
<thead>
<tr>
<th>Example</th>
<th>Resource</th>
<th>Ultimate future inflows</th>
</tr>
</thead>
<tbody>
<tr>
<td>Call option held on an underlying asset</td>
<td>Contractual right to buy the underlying asset</td>
<td>Underlying asset</td>
</tr>
<tr>
<td>Pharmaceutical research that is in progress</td>
<td>Know-how</td>
<td>Economic benefits that will arise if the research is successful</td>
</tr>
<tr>
<td>Lottery ticket</td>
<td>Right to participate in the lottery</td>
<td>Cash prize</td>
</tr>
</tbody>
</table>
Role of uncertainty

Probability vs Expected

Existence uncertainty
- Does the resource or obligation exist?
- Eg litigation

Outcome uncertainty
- How likely is it that the resource (or obligation) will produce inflows or outflows?
- Eg options
Suggested approach to uncertainty

Existence uncertainty
- In most cases, it is clear
- But when unclear, IASB will determine threshold in particular Standards

Outcome uncertainty
- Asset/liability exists, but outcome is uncertain
- No specific probability threshold
- Addressed by recognition criteria [see next slides]
### Suggested revised definitions

<table>
<thead>
<tr>
<th>Asset [of an entity]</th>
<th>Liability [of an entity]</th>
</tr>
</thead>
<tbody>
<tr>
<td>• A present <strong>economic resource</strong> controlled by the entity as a result of <strong>past events</strong></td>
<td>• a present <strong>obligation</strong> of the entity to transfer an <strong>economic resource</strong> as a result of <strong>past events</strong></td>
</tr>
<tr>
<td>• An economic resource = a right, or other source of value, that is <strong>capable</strong> of producing economic benefits</td>
<td></td>
</tr>
</tbody>
</table>

**Asset [of an entity]**

- A present economic resource controlled by the entity as a result of past events
- An economic resource = a right, or other source of value, that is capable of producing economic benefits
Suggested recognition criteria

Recognising items that meet definitions provides useful information

• But, there may be cases when an entity should not recognise some asset or liability:
  – If recognising would provide users with information that is not relevant, or not sufficiently relevant to justify the cost
  – If no measurement of the asset or liability would result in a faithful representation of the asset or liability, or of changes in the asset or liability.
Definitions: suggested further guidance

To support asset definition
- meaning of ‘economic resource’
- meaning of ‘controlled’

To support liability definition
- constructive obligations
- impact of future events

To support both definitions
- reporting substance of contractual rights and obligations
- executory contracts
Questions
More information

• Discussion Paper
  – Comments to be received by 14 January 2014

• Snapshot

• Existing Conceptual Framework

• Conceptual Framework website
  http://go.ifrs.org/Conceptual-Framework
Expressions of individual views by members of the IASB and its staff are encouraged.

The views expressed in this presentation are those of the presenter. Official positions of the IASB on accounting matters are determined only after extensive due process and deliberation.