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**International  
Accounting Standards  
Board**

*This document is provided as a convenience to observers at IASB meetings, to assist them in following the Board's discussion. It does not represent an official position of the IASB. Board positions are set out in Standards.*

*These notes are based on the staff papers prepared for the IASB. Paragraph numbers correspond to paragraph numbers used in the IASB papers. However, because these notes are less detailed, some paragraph numbers are not used.*

## **INFORMATION FOR OBSERVERS**

**IASB Meeting: 23 February 2006, London (Agenda Paper 9)**

**IASB/FASB Meeting: 1 March 2006, Norwalk (Memorandum 21)**

**Project: Conceptual Framework**

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### **Elements 3: Asset Definition II**

#### **Introduction**

1. This paper continues discussion of the elements phase of the joint IASB/FASB conceptual framework project. It continues to develop the definition of an asset.
2. In December 2005, the Boards considered similarities and differences between the definitions that are presently contained in the IASB *Framework for the Preparation and Presentation of Financial Statements* (IASB Framework) and FASB Concepts Statement No. 6, *Elements of Financial Statements*, (CON 6) as well as differing aspects of definitions of an asset in the conceptual frameworks of other standard setters. The Boards also considered whether the definition of an asset for financial reporting purposes should differ from the general usage of the term and whether a distinction should be made between assets that are recognized and assets that are not recognized. Finally, the Boards considered

the essential characteristics of an asset and a proposed working definition. A summary of tentative conclusions reached by the Boards in December is in Appendix A to this paper.

3. This paper continues that discussion. It reviews matters raised in the December 2005 Boards' discussions and proposes further improvements to the working definition to deal with certain issues raised. In that regard it reviews the following key components of the working definition:
  - (a) Associating assets with a particular entity (paragraphs 8-13);
  - (b) Present right or other access (paragraphs 14-30);
  - (c) An existing economic resource (paragraphs 31-42); and
  - (d) The ability to generate economic benefits (paragraphs 43-53).

This paper also provides a refresher about the reasons for rejecting certain other characteristics of existing definitions of assets (paragraphs 54-57) and considers how the proposed working definition would apply in certain situations—proposing modifications to the definition to deal with cash, accounts receivable and prepayments (paragraphs 58-63) and considering application to stand-ready assets (paragraphs 64-74) and to renewal and cancellation options (paragraphs 75-79).

4. This paper does not consider options over assets or the effects of uncertainty, each of which are scheduled for discussion later in 2006. Also, the paper assumes that we know what item we are evaluating to assess whether it is an asset—i.e., that we can identify what the boundaries of the item are—that is, that we know the unit of account. (This is, of course, a broad assumption, given the issues that need to be addressed in considering what is the unit of account, later in 2006.<sup>1</sup>) In addition, this paper does not consider when an asset should be recognized. Therefore, conclusions reached as to what meets the definition of an asset do not necessarily mean that all assets (as defined) will be recognized in financial statements.<sup>2</sup>

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<sup>1</sup> We plan to start considering these issues soon, as they are becoming more important not only to this project, but also to other standards level projects, such as business combinations.

<sup>2</sup> Recognition is scheduled for discussion later in 2006.

5. A summary of the cross-cutting issues identified for the definition of an asset and their current status is in Appendix A. For reference purposes, existing asset definitions of the IASB, FASB, national standard setters, and proposed by the CFA Institute are in Appendix B.
6. A summary of the issues and staff recommendations is at the end of this paper, together with the proposed working definition of an asset and items to be included in amplifying text, as proposed to be amended by this paper.

### **The Working Definition of an Asset**

7. We developed our working definition of an asset in stages in the December 2005 paper. The following paragraphs of this paper consider, again, each of the key components of the working definition, evaluate them in light of the December 2005 discussions, and consider how to improve further that working definition.

### **Associating Assets with a Particular Entity**

8. The proposed working definition of an asset developed in December 2005 was as follows:

An asset *of an entity* is a present right, or other access, to an existing economic resource with the ability to generate economic benefits *to the entity*.

[December 2005, Emphasis added.]

### **Background**

9. We proposed in December 2005 that, if we are to determine what assets a particular entity must include in its financial reporting, we must consider what an asset of an entity is.
10. This resulted in a range of views in December. Some thought that to include “of an entity” in the definition was starting to address recognition and that we should define an asset independently from an entity. Others thought that it is important to include “of an entity,” to limit the items we need to think about in identifying assets to those that are relevant to the entity—and hence relevant to the users of its financial reporting.

## Analysis

11. [Paragraph omitted from Observer Notes]

12. [Paragraph omitted from Observer Notes]

## Recommendation

13. *We propose to continue to refer to an asset “of an entity” and to the ability to generate economic benefits “to the entity”. Do Board members agree?*

## Present Right or Other Access

14. Next, we would like to consider the clause “present right or other access” in the proposed working definition developed in December 2005, as follows:

An asset of an entity is a *present right, or other access*, to an existing economic resource with the ability to generate economic benefits to the entity.

[December 2005, Emphasis added.]

## Background

15. We proposed in December 2005 that “rights or other access” is a more useful notion than control to associate an asset with an entity. This seems to be a more useful notion in a world where access rights can increasingly be carved up and distributed between individuals (leases, securitization transactions, etc.). Rights also seem to work better when one cannot control the actions of another party, but there is some right to a benefit if the other party takes particular actions, such as in the case of renewal options.<sup>3</sup>

16. We also proposed that one needs more than just a right or entitlement. One also needs to include “other access.” For example, an entity may have no legal rights to secret know-how, or an unpatented invention, but can use or sell the knowledge or invention (to generate economic benefits) and restrict, or otherwise discourage, others’ access. Therefore, the ability to restrict others’ access also creates an asset of an entity. It was

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<sup>3</sup> See further discussion of renewal options in paragraphs 75–79 of this paper.

noted that this would need to be explained in amplifying text.<sup>4</sup> Shared rights or shared access would also give rise to an asset.

17. In addition, we proposed that we need to refer to rights or other access present at the balance sheet date to avoid one regarding as assets rights or other access that do not yet exist, but will, or are expected to, arise in the future.
18. In December 2005, there was little, if any, disagreement with the notion of a present right, with acknowledgment that a present right might often be demonstrated by having control.
19. Most of the December 2005 discussions focussed on the term *other access*. Board members acknowledged that “present rights” is an insufficient criterion for there to be an asset—that there are other circumstances that will give rise to assets. However, some thought that *other access* might be too broad a notion and that some aspect of control might need to be maintained in the definition. Some suggested that it might be clearer to refer to “restricting others’ access.” Others suggested that we return to the notion of control and refer to “control others’ access.”

## Analysis

20. [Paragraph omitted from Observer Notes]
21. However, we propose a different way of achieving this. We think that the notion that we are trying to capture here is that the entity has some advantage or right that others do not have—a privilege. The dictionary definition of a privilege is:

A right, advantage or immunity granted to or enjoyed by a person, or a body or a class of persons, beyond the common advantages of others; an exemption in a particular case from certain burdens or liabilities... or... the possession of special advantages or rights.<sup>5</sup>

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<sup>4</sup> It was noted that it might be unnecessary to include the words “or other access” in the definition. The amplifying text could explain that “rights” do not only constitute legal rights, but also encompass other access. However, on balance we proposed that it was clearer to include the words “other access” directly in the definition, with “rights” focussing on those rights that would stand up in a court of law (legal rights).

<sup>5</sup> Oxford Dictionary Online

[Sentence omitted from Observer Notes]

22. [Paragraph omitted from Observer Notes]

23. [Paragraph omitted from Observer Notes]

24. [Paragraph omitted from Observer Notes]

25. [Paragraph omitted from Observer Notes]

26. [Paragraph omitted from Observer Notes]

27. [Paragraph omitted from Observer Notes]

28. [Paragraph omitted from Observer Notes]

29. *Drafting:* We propose to clarify that each of a right and an other privilege must be present at the financial statement date, by including the word “present” before each phrase.

#### **Recommendation**

30. *We propose to:*

- (a) *replace “other access” in the December working definition of an asset with “other present privilege, of the entity”;*
- (b) *explain, in amplifying text, that a privilege may arise from a restriction on others;  
and*
- (c) *explain, in amplifying text, that rights and restrictions may be single (held or imposed solely by the entity) or shared (held or imposed in conjunction with others).*

*Do Board members agree?*

## An Existing Economic Resource

31. Our working definition, as amended, is:

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| An asset of an entity is a present right, or other <u>present privilege</u> , of the entity <del>access</del> , to <i>an existing economic resource</i> with the ability to generate economic benefits to the entity.<br>[December 2005, Emphasis added.] |
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## Background

32. We proposed in December 2005 that all assets for financial reporting purposes are economic resources, and proposed to explain that economic resources are those that are scarce and useful for carrying out economic activities, such as consumption, production, and exchange. Furthermore, we proposed that we should refer to an “existing economic resource,” to preclude the possibility that an asset might include future economic resources,<sup>6</sup> including those that might arise from future transactions (such as cash from future sales).

## Existing

33. The word *existing* in the December 2005 proposed working definition of an asset seems to preclude a forward contract to purchase something that does not yet exist (such as a futures contract on the September 2006 corn crop) from being an asset. In the example, the futures contract does not create a right or privilege to an existing economic resource, because the September 2006 corn crop does not yet exist.
34. The word *existing* also seems to preclude a prepayment from qualifying as an asset, since the goods or services for which the prepayment is made will often not be an “existing economic resource”. For example, prepaid rent gives an entity the right to future use of the item rented. One might take the view that the entity has an alternative right—a right to repayment of the amount prepaid. However, that right of return may not be available, or might not result in a return of the entire prepaid amount, depending on the terms of the

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<sup>6</sup> We focussed on future economic resources in December. However, the same might be said about past economic resources — once rights have expired, there is no longer an “existing” economic resource.

contract, and even if it is available, it is not clear that a return of cash has the ability to generate economic benefits to the entity (it just puts the entity back in the same position it was before the prepayment was made).<sup>7</sup>

- 35. [Paragraph omitted from Observer Notes]
- 36. On balance, we propose that we delete the word *existing* from the definition, but include amplifying text to make it clear that future transactions or other events do not give rise to assets.

### **Economic Resource**

- 37. Some have suggested that clarification is necessary to the proposed supporting explanation that economic resources include only those that are scarce and useful for carrying out economic activities, such as consumption, production, and exchange. The proposed supporting explanation was considered necessary in December 2005 to ensure that items such as water in oceans, rivers and lakes, rain, and other commonly available things are not considered assets of an entity.
- 38. [Paragraph omitted from Observer Notes]
- 39. [Paragraph omitted from Observer Notes]
- 40. [Paragraph omitted from Observer Notes]
- 41. [Paragraph omitted from Observer Notes]

### **Recommendations**

- 42. *We propose to:*
  - (a) *delete the word existing from “existing economic resource” in the proposed working definition of an asset;*
  - (b) *include amplifying text to make it clear that future and past transactions or other events do not give rise to assets if there is no present right or privilege; and*

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<sup>7</sup> See also paragraph 61 of this paper for further discussion of prepayments.



- (c) *delete the word “economic” from “economic resource” in the proposed working definition of an asset.*

*Do Board members agree?*

## **The Ability to Generate Economic Benefits**

43. Our working definition, as amended, is now:

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|---|
| An asset of an entity is a present right, or other <u>present privilege, of the entity</u><br><del>access, to an existing economic</del> resource <i>with the ability to generate economic</i><br><i>benefits</i> to the entity. <div style="text-align: right;">[December 2005, Emphasis added.]</div> |
|---|

## **Background**

44. We proposed in December 2005 that it follows from the objective of financial reporting that the kinds of things that should be reported in the financial statements would be those things that are capable of generating economic benefits (material supporting the definition of an asset should explain that, for business entities, economic benefits are equivalent to favourable cash flows).
45. There was little discussion about this aspect of the definition in December.

## **Analysis**

46. [Paragraph omitted from Observer Notes]
47. [Paragraph omitted from Observer Notes]
48. [Paragraph omitted from Observer Notes]
49. A view was expressed in December that the ability to generate economic benefits is insufficiently restrictive—that an asset should only be one that is tradable or transferable. We are not convinced that this is a necessary restriction in the asset definition. Such a restriction would, for example, seem to exclude resources that are only capable of being used within the business. CON 6 reached a similar conclusion, stating,

Assets commonly have other features that help identify them—for example, assets may be ... exchangeable .... However, [that] feature...[is] not [an] essential characteristic... of [an] asset....[Its] absence, by itself, is not sufficient to preclude an item's qualifying as an asset.<sup>8</sup>

[Paragraph omitted from Observer Notes]

50. We noted in December that a further issue needs to be considered regarding economic benefits. That is identified in cross-cutting issue EL5: “*Which future economic benefits are included—where does the asset end?*” This is, essentially, a unit of account issue that will be considered later in 2006—i.e., when we are trying to identify a particular asset, what related things do we also include in that asset?
51. *Drafting*: It was suggested during the December discussions that it would be preferable to refer to a resource “that is capable of generating” or “that has the ability to generate” economic benefits instead of “with the ability to generate”. We think that this is a useful clarification that makes it clearer that it is the resource from which the economic benefits must come.<sup>9</sup>

## Recommendations

52. *We propose*:
- (a) *to explain in amplifying text that any ability to generate economic benefits is sufficient to satisfy this part of the definition of an asset and that there is no need for any assessment as to the likelihood of the ability to generate economic benefits;*
  - (b) *to modify amplifying text explaining that, for business entities, economic benefits are cash inflows, and remove the reference to “favourable” cash flows;*
  - (c) *to clarify that economic benefits may be direct or indirect by adding the words “either directly or indirectly” at the end of the definition;<sup>10</sup>*

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<sup>8</sup> CON 6, paragraph 26.

<sup>9</sup> We have set aside for now another drafting suggestion that the word *provide* works better than *generate* for not-for-profit organizations and the like, until we consider the implications of the definition for such organizations.

<sup>10</sup> This removes the need to explain that the ability to generate economic benefits might operate “singly or in combination with other assets.” (December 2005 - see paragraph 31)

- (d) *not to limit the ability to generate economic benefits to circumstances where something is tradable or transferable; and*
- (e) *to clarify that it is the resource from which the economic benefits must come by changing the wording of the definition to replace “with the ability to generate” by “that is capable of generating”.*

*Do Board members agree?*

### **Amended Working Definition of an Asset**

53. The proposed working definition of an asset, as amended, is now:

An asset of an entity is a present right, or other present privilege, of the entity ~~access, to an existing economic resource~~ that is capable of ~~with the ability to~~ generating economic benefits to the entity, either directly or indirectly.

[December 2005]

### **Other Characteristics of Existing Definitions of Assets**

54. We also proposed in December 2005 that is unnecessary to include in the definition of an asset reference to the likelihood of there being future economic benefits or to past events.
55. Board members agreed that the removal of any notion of likelihood from the definition is the most significant change, but there was general agreement that this was the right thing to do.
56. Board members also agreed with the proposal not to refer to the need for a past event. There must have been a past event to create a present right or other present privilege.
57. We did not explicitly get a view from the FASB as to whether to define an asset (singular) or assets (plural). However, there seemed to be a general view of the IASB that we should use the singular, as in the IASB Framework. Accordingly, we have done so for purposes of this paper.

## **Application of the Proposed Working Definition**

58. The following parts of this paper apply the working definition of an asset to certain specific fact situations to consider some of the implications of the definition and to determine whether any further improvements to the working definition are necessary.

### **Cash**

59. [Portion omitted from Observer Notes] Given possible ambiguity as to whether cash meets the definition of an asset, and accepting that we would all agree that cash is an asset, we propose to explicitly state in the definition that cash held by the entity is an asset of the entity.<sup>11</sup>

### **Accounts Receivable**

60. Accounts receivable represent a contractual right of an entity to receive cash. The same difficulty discussed in the previous paragraph regarding cash arises in this situation [Portion omitted from Observer Notes] we propose to also specify separately that an asset of an entity is “a present right of the entity to cash”.

### **Prepayment**

61. A prepayment represents a contractual right to receive a resource in the form of goods or a service, each of which is capable of generating economic benefits to the entity. However, in some cases, the entity also might have the right to receive a cash refund of the amount prepaid. By introducing the statement that an asset is “a present right of the entity to cash” (see previous paragraph) we avoid any ambiguity as to whether a prepayment might fail the definition because of the possibility of a cash refund.

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<sup>11</sup> This is the same approach as has been taken by the IASB, FASB, and several other accounting standard setters in defining a financial asset. Cash is explicitly listed as a financial asset.

## Recommendations

62. *We propose to:*

- (a) *specify separately in the definition that cash held by the entity is an asset of the entity; and*
- (b) *specify separately in the definition that “a present right of the entity to cash” is an asset of an entity.*

63. Our working definition has, thus, become (as amended):

An asset of an entity is:

- (a) cash held by the entity;
  - (b) a present right of the entity to cash; or
  - (c) a present right, or other present privilege access, of the entity to an existing economic resource with the ability to that is capable of generating economic benefits to the entity, either directly or indirectly.
- [December 2005]

*Do Board members agree?*

## Application to Other Common Situations

### Stand-ready Assets

64. Cross-cutting issue EL9 states, “*What about “stand-ready” assets—opposite of “stand-ready” liabilities?*”
65. Stand-ready liabilities are an accepted way to describe certain types of liabilities. Cross-cutting issue EL9 questions whether the inverse is true. Does the counterparty of a stand-ready liability have a stand-ready asset?
66. Unlike the IASB *Framework*, CON 6 acknowledges stand-ready obligations by explaining that “...liabilities may not require an entity to pay cash but to convey other assets, to provide or stand ready to provide services, or to use assets” (emphasis added).<sup>12</sup>

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<sup>12</sup> CON 6, paragraph 36.

67. Since the issuance of the frameworks, the Boards' work in other projects<sup>13</sup> has noted that "...contractual rights and obligations can be divided into two types: conditional (i.e., performance is subject to the occurrence of an event that is not certain to occur) and unconditional (i.e., nothing other than the passage of time is required to make its performance due)."<sup>14</sup>
68. In the current IASB Exposure Draft of IAS 37, a stand-ready liability is defined as an "unconditional obligation to stand ready to fulfill the conditional obligation if an uncertain future event occurs (or fails to occur)."<sup>15,16</sup> Stand-ready obligations include product warranties where the entity providing the warranty has an obligation to repair or replace products sold, and loan guarantees where the guarantor is obligated to pay the debt of another entity if that entity defaults.
69. In the IASB ED, the IASB proposes to eliminate the term *contingent asset*. It proposes that items previously considered as contingent assets be analyzed based on the types of rights they contain—conditional or unconditional. Accordingly, the IASB is proposing that items that arise from unconditional rights be considered intangible assets. The FASB ITC invites comment on the IASB proposals.
70. What are stand-ready assets? A guarantee on an amount receivable provides an entity with an unconditional right to receive a cash payment of the amount receivable from the guarantor, if the original debtor is unable to pay. The guarantee reduces the risk that the entity will incur losses as a result of non-payment of the debt by the debtor. The lender (holder of the guarantee) has a *conditional* right to be paid by the guarantor (writer of the guarantee) if and when default occurs. The lender also has an *unconditional* right throughout the term of the debt for the guarantor to stand ready to pay the lender if the borrower fails to pay when the debt comes due. The lender would not relieve the guarantor of that obligation before the debt's term expires without being paid an acceptable amount

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<sup>13</sup> Including the joint IASB/FASB revenue recognition project and the IASB's work on amending IAS 37.

<sup>14</sup> IASB Exposure Draft of Proposed Amendments to IAS 37: *Provisions, Contingent Liabilities and Contingent Assets and IAS 19 Employee Benefits*, (June 2005) (ED) paragraph BC11.

<sup>15</sup> Ibid, paragraph 24.

<sup>16</sup> Stand ready is similarly described in the FASB Invitation to Comment, *Selected Issues Relating to Assets and Liabilities with Uncertainties*, (September 2005) (ITC) paragraph 40.

(presumably an amount something less than the receivable balance assuming that default is not imminent).

71. Similarly, a warranty on an asset provides an entity with the ability to have the asset repaired or replaced by the entity providing the warranty if the asset becomes defective. The warranty provides the holder with an unconditional right to have its asset restored to a functioning state during a specified period and reduces the risk and potential costs of repairing the asset if the asset becomes defective.
72. [Paragraph omitted from Observer Notes]
73. Are these assets under the proposed asset definition?<sup>17</sup> [Paragraph and Table omitted from Observer Notes]

#### **Recommendation**

74. *We propose that stand-ready assets are assets under the proposed asset definition. Do Board members agree?*

#### **Renewal and Cancellation Options**

75. Renewal and cancellation options frequently arise in conjunction with contractual relationships. Such options might be explicitly stated in the contract. For example, a sports players' contract might contain clauses specifying options on behalf of the player or the team for an additional period of service. An insurance policy might offer the policyholder renewal rights on specified terms. Similarly, contracts might provide for cancellation options, such as the right to prepay a mortgage or the right to cancel insurance. [Sentence omitted from Observer Notes]
76. [Paragraph omitted from Observer Notes]
77. [Paragraph omitted from Observer Notes]

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<sup>17</sup> This analysis assumes that a stand ready asset is separately identifiable, either individually or in combination with another asset. For example, a warranty or a guarantee is a component of an asset or an amount receivable, respectively. The implications of assessing assets individually, in combination or as a group (for example, business unit or portfolio) will be considered later in this phase when we consider issues associated with the unit of account.

78. [Paragraph omitted from Observer Notes]

79. [Paragraph omitted from Observer Notes]

## SUMMARY OF STAFF RECOMMENDATIONS

78. The following was the proposed working definition from December 2005:

An asset of an entity is a present right, or other access, to an existing economic resource with the ability to generate economic benefits to the entity.

[December 2005]

79. Proposals in this paper modify the working definition:

- (a) To replace “other access” with “other present privilege, of the entity” (paragraph 30)
- (b) To delete the word *existing* from “existing economic resource” (paragraph 42)
- (c) To delete the word *economic* from “economic resource” (paragraph 42)
- (d) To clarify that economic benefits may be direct or indirect by adding the words “either directly or indirectly” at the end of the definition<sup>18</sup> (paragraph 52)
- (e) To clarify that it is the resource from which the economic benefits must come by replacing “with the ability to generate” with “that is capable of generating” (paragraph 52)
- (f) To specify separately that cash held by the entity is an asset of the entity (paragraph 62)
- (g) To specify separately that “a present right of the entity to cash” is an asset of an entity. (paragraph 62)

80. The revised working definition of an asset is, therefore, as follows:

An asset of an entity is:

- (a) cash held by the entity;

<sup>18</sup> This removes the need to explain that the ability to generate economic benefits might operate “singly or in combination with other assets.” (December 2005 - see paragraph 31)



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| <ul style="list-style-type: none"><li>(b) a present right of the entity to cash; or</li><li>(c) a present right, or other present privilege, of the entity to a resource that is capable of generating economic benefits to the entity, either directly or indirectly.</li></ul> |
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[February 2006]

81. Proposals in this paper not to modify the working definition:

- (a) To continue to refer to an asset “of an entity” and to the ability to generate economic benefits “to the entity” (paragraph 13)
- (b) Not to limit the ability to generate economic benefits to circumstances where something is tradable or transferable (paragraph 52)

82. Proposals in this paper modify the amplifying text:

- (a) To explain that a privilege may arise from a restriction on others (paragraph 30)
- (b) To explain that rights and restrictions may be single (held or imposed solely by the entity) or shared (held or imposed in conjunction with others) (paragraph 30)
- (c) To make it clear that future and past transactions or other events do not give rise to assets if there is no present right or privilege (paragraph 42)
- (f) To explain that any ability to generate economic benefits is sufficient and that there is no need for any assessment as to the likelihood of the ability to generate economic benefits (paragraph 52)
- (d) To explain that, for business entities, economic benefits are cash inflows, and remove the reference to “favourable” cash flows (paragraph 52).

83. The revised amplifying text, therefore, would deal with the following:

- (a) Explain that a privilege may arise from either a right or a restriction on others (February 2006 – see paragraph 30)
- (b) Explain that rights and restrictions may be single (held or imposed solely by the entity) or shared (held or imposed in conjunction with others) (February 2006 – see paragraph 30)

- (c) Make it clear that future and past transactions or other events do not give rise to assets (February 2006 – see paragraph 42)
  - (g) Explain that any ability to generate economic benefits is sufficient and that there is no need for any assessment as to the likelihood of the ability to generate economic benefits (February 2006 – see paragraph 52)
  - (d) Explain that, for business entities, “the ability to generate economic benefits” is the same as “the ability to generate cash inflows”. (December 2005 – see paragraph 28, as modified by February 2006 – see paragraph 52)
  - (e) Explain that control is unnecessary when one has a present right, or other access. (December 2005 – see paragraph 49)
  - (f) Explain that there is no necessity for a past event. (December 2005 – see paragraph 57)
84. We propose that stand-ready assets are assets under the proposed asset definition (February 2006 – see paragraph 74).

## **APPENDIX A**

### **Tentative Conclusions – December 2005**

The following was reported in IASB Update and the FASB's Action Alert following the December Board meetings:

#### **Definition of an Asset**

The Board commenced deliberations of Phase B, Elements, Recognition and Measurement Attributes, by discussing the following proposed working definition of an asset:

*An asset of an entity is a present right, or other access, to an existing economic resource with the ability to generate economic benefits to the entity.*

This proposed working definition was developed by the staff, taking into account existing definitions of an asset in the current frameworks of the IASB and FASB as well as more recently developed definitions in frameworks of national accounting standard setters. The proposed definition is intended to make clearer what an asset is in today's environment.

The Board agreed that staff should continue to develop the proposed working definition, refining it to deal with certain possible ambiguities, for example, what is meant by "other access". The Board also noted that the definition of an asset will need to be considered together with recognition criteria to determine what assets are recognized in financial statements.

In early 2006, the staff expects to refine the proposed working definition and to test it by applying it to certain accounting issues that have been difficult to resolve in the past.

#### **Status of cross-cutting issues – February 2006**

The following lists the cross-cutting issues identified regarding the definition of an asset and the current status of their resolution.

EL1: Should assets be defined in terms of rights or resources? E.g., securitisation—selling rights to future revenues, but those rights are not recognised.

We think that "rights or other privilege" is a more useful notion and recommend that it be introduced. (December 2005 - see paragraph 45, as amended by February 2006 – paragraph 30)

EL2: What does control mean, e.g., insurance renewals—don't control person paying premium but can restrict others access to it.

Preliminary view is that renewal rights can create privileges and, hence, the possibility of an asset existing (February 2006 – see paragraph 75-79). Further analysis and discussion is expected later in 2006.

EL3: What is controlled—the resource/right that gives rise to future economic benefits or the future economic benefits themselves?

We think that what is controlled is the resource that gives rise to economic benefits, rather than the economic benefits, themselves. (December 2005 - see paragraph 38)

EL4: Are above questions related to a difference between control and compel? E.g., loans—can compel repayments; other assets—cannot compel but if counterparty chooses to pay then those payments are made to the entity. [Scheduled for later in 2006]

Outstanding.

EL5: Which future economic benefits are included—where does asset end? [Scheduled for later in 2006 in conjunction with unit of account issues – also February 2006 – see paragraph 49]

Outstanding.

EL6(a): Does control belong in the asset definition or should it be part of the recognition criteria?

We think that it is preferable to include an aspect of associating an asset with the entity in the asset definition. (December 2005 - see paragraph 53)

EL6(b): Is it preferable to have a broad set of assets at the elements level that is refined at the recognition level?

We think it preferable to reserve the right to conclude that certain things that meet the definition of an asset for accounting purposes might, nonetheless, not be recognized for practical reasons. (December 2005 - see paragraph 21)

EL7: What is the event that results in an asset being “obtained or controlled” by an entity?

In the proposed working definition, this question becomes less significant. If the essential criterion is whether an entity has a “present right or other present privilege,” then consideration as to what the event is that gave rise to that present right or other present privilege is not essential to the definition of an asset. (December 2005 - see paragraph 59)

EL8: Are accounting assets different from economic assets? If so, why?

We think that accounting assets include all economic resources, but only if economic resources are defined in a manner to restrict them to those that are scarce and useful for carrying out economic activities, such as consumption, production, and exchange. (December 2005 - see paragraph 14)

EL9: What about “stand-ready” assets—opposite of “stand-ready” liabilities?

We think that stand-ready assets are assets under the proposed asset definition (February 2006 – see paragraph 72)

EL10: Why is internally generated goodwill not recognised—does this relate to the asset definition or recognition criteria? [Scheduled for later in 2006 in conjunction with unit of account issues]

Outstanding.

## APPENDIX B

### Existing Asset Definitions

|  |   |
|--|---|
| IASB   | An <b>asset</b> 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. (paragraph 49)  |
| FASB   | <b>Assets</b> are probable future economic benefits obtained or controlled by a particular entity as a result of past transactions or events. (paragraph 25)  |
| Australia  | " <b>Assets</b> " are future economic benefits controlled by the entity as a result of past transactions or other past events; and "control of an asset" means the capacity of the entity to benefit from the asset in the pursuit of the entity's objectives and to deny or regulate the access of others to that benefit. (paragraph 14)  |
| Canada   | <b>Assets</b> are economic resources controlled by an entity as a result of past transactions or events and from which future economic benefits may be obtained. (paragraph 29)   |
| Germany  | An <b>asset</b> is a resource controlled by an enterprise as a result of past events. (paragraph 66)  |
| Japan  | <b>Assets</b> are economic resources or their equivalents that the reporting entity controls as a result of past transactions or events. (paragraph 4)  |
| New Zealand  | <b>Assets</b> are service potential or future economic benefits controlled by the entity as a result of past transactions or other past events. (paragraph 7.7)   |
| United Kingdom   | <b>Assets</b> are rights or other access to future economic benefits controlled by an entity as a result of past transactions or events. (paragraph 4.6)  |
| CFA Institute – Comprehensive Business Reporting Model (page 19) <sup>19</sup> | An enterprise must recognize an economic resource as an asset in the financial statements when all of the following conditions are met: <ul style="list-style-type: none"> <li>a. The resource is a present right or other access to a future benefit that will flow to the company and will contribute directly or indirectly to future net cash inflows;</li> <li>b. The right to the future benefit is controlled by the company;</li> <li>c. There is a nonzero probability that the benefit will occur;</li> <li>d. The right to the future benefit is separable from the company; that is, it can be transferred to an external party;</li> <li>e. The right to the future benefit is the result of past events; and</li> <li>f. The fair value of the right to future benefits can be measured.</li> </ul> |

<sup>19</sup> A Comprehensive Business Reporting Model: Financial Reporting for Investors, CFA Centre for Financial Market Integrity, September 2005. Note that this definition mixes both the definition of an asset and recognition criteria.